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PHILADELPHIA PUBLIC SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2016

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Philadelphia Public School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Philadelphia Public School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District, as of June 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 5-13, 42-43, 44 and 45, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Philadelphia Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of the Philadelphia Public School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Philadelphia Public School District's internal control over financial reporting and compliance.

Philadelphia, Mississippi
November 28, 2016

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The following discussion and analysis of Philadelphia Public School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2016. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2016 decreased \$189,016, which represents a 3.9% decrease from fiscal year 2015. Total net position for 2015 decreased \$11,126,236, including a prior period adjustment of (\$11,221,609), which represents a 175.7% decrease from fiscal year 2014.
- General revenues amounted to \$8,456,421 and \$8,476,047, or 80% and 80% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,050,708, or 20% of total revenues for 2016, and \$2,075,847, or 20% of total revenues for 2015.
- The District had \$10,696,145 and \$10,456,521 in expenses for fiscal years 2016 and 2015; only \$2,050,708 for 2016 and \$2,075,847 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$8,456,421 for 2016 were not adequate to provide for these programs. General revenues of \$8,476,047 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$7,781,127 in revenues and \$7,816,034 in expenditures for 2016, and \$7,845,607 in revenues and \$8,220,486 in expenditures in 2015. The General Fund's fund balance increased by \$14,412 from 2015 to 2016, and decreased by \$320,110 from 2014 to 2015.
- Capital assets, net of accumulated depreciation, decreased by \$279,545 for 2016 and decreased by \$292,727 for 2015. The decrease for 2016 was due to the increase in accumulated depreciation.
- Long-term debt decreased by \$1,781,782 for 2016 and decreased by \$439,414 for 2015. This decrease for 2016 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$641 for 2016 and increased by \$4,393 for 2015.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Position and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between them reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section, pension expense, and interest on long-term liabilities.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules, Schedule of the District's Proportionate Share of the Net Pension Liability, and Schedule of District Contributions as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$4,981,078 as of June 30, 2016.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

Table 1 presents a summary of the District's net position at June 30, 2016 and June 30, 2015.

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Table 1
Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 1,159,780	\$ 739,586	56.81 %
Restricted assets	87,137	1,271,617	-93.15 %
Capital assets, net	7,286,738	7,566,283	-3.69 %
Total assets	8,533,655	9,577,486	-10.90 %
 Deferred outflows of resources	 3,157,822	 1,134,560	 178.33 %
Current liabilities	500,093	120,885	313.69 %
Long-term debt outstanding	1,353,550	3,135,332	-56.83 %
Net pension liability	13,655,929	10,697,247	27.66 %
Total liabilities	15,509,572	13,953,464	11.15 %
 Deferred inflows of resources	 1,162,983	 1,550,644	 -25.00 %
 Net position:			
Net investment in capital assets	5,966,748	4,463,870	33.67 %
Restricted	263,925	1,440,133	-81.67 %
Unrestricted	(11,211,751)	(10,696,065)	-4.82 %
Total net position	\$ (4,981,078)	\$ (4,792,062)	-3.94 %

Additional information on unrestricted net position:

In connection with the application of standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position (deficit)	\$ (11,211,751)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	11,661,090
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 449,339</u>

The following are significant current year transactions that have had an impact on the Statement of Net Position.

- Decrease in net capital assets in the amount of \$279,545.
- The principal retirement of \$1,782,423 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$10,507,129 and \$10,551,894, respectively. The total cost of all programs and services was \$10,696,145 for 2016 and \$10,456,521 for 2015.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 168,087	\$ 201,108	(16.42) %
Operating grants and contributions	1,882,621	1,874,739	0.42 %
General revenues:			
Property taxes	3,202,373	3,157,972	1.41 %
Grants and contributions not restricted	5,148,870	5,014,619	2.68 %
Investment earnings	12,627	58,341	(78.36) %
Sixteenth section sources	76,370	208,066	(63.30) %
Other	16,181	37,049	(56.33) %
Total revenues	<u>10,507,129</u>	<u>10,551,894</u>	<u>(0.42) %</u>
Expenses:			
Instruction	5,201,287	5,305,696	(1.97) %
Support services	3,466,662	3,643,004	(4.84) %
Non-instructional	620,006	662,308	(6.39) %
Pension expense	1,342,420	760,178	76.59 %
Interest on long-term liabilities	65,770	85,335	(22.93) %
Total expenses	<u>10,696,145</u>	<u>10,456,521</u>	<u>2.29 %</u>
Increase (Decrease) in net position	<u>(189,016)</u>	<u>95,373</u>	<u>(298.19) %</u>
Net Position, July 1, as previously reported	<u>(4,792,062)</u>	<u>6,334,174</u>	<u>(175.65) %</u>
Prior Period Adjustment		<u>(11,221,609)</u>	<u>100.00 %</u>
Net Position, July 1, as restated	<u>(4,792,062)</u>	<u>(4,887,435)</u>	<u>1.95 %</u>
Net Position, June 30	<u>\$ (4,981,078)</u>	<u>\$ (4,792,062)</u>	<u>(3.94) %</u>

Governmental activities

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, pension expense, and interest on long-term liabilities. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage
	2016	2015	Change
Instruction	\$ 5,201,287	\$ 5,305,696	(1.97) %
Support services	3,466,662	3,643,004	(4.84) %
Non-instructional	620,006	662,308	(6.39) %
Pension Expense	1,342,420	760,178	76.59 %
Interest on long-term liabilities	65,770	85,335	(22.93) %
Total expenses	\$ 10,696,145	\$ 10,456,521	2.29 %

	Net (Expense) Revenue		Percentage
	2016	2015	Change
Instruction	\$ (4,306,868)	\$ (4,425,216)	(2.67) %
Support services	(2,985,903)	(3,136,979)	(4.82) %
Non-instructional	55,524	27,034	105.39 %
Pension Expense	(1,342,420)	(760,178)	76.59 %
Interest on long-term liabilities	(65,770)	(85,335)	(22.93) %
Total net (expense) revenue	\$ (8,645,437)	\$ (8,380,674)	3.16 %

- Net cost of governmental activities (\$8,645,437 for 2016 and \$8,380,674 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$3,202,373 for 2016 and \$3,157,972 for 2015) and state and federal revenues (\$5,148,870 for 2016 and \$5,014,619 for 2015). In addition, there was \$76,370 and \$208,066 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$12,627 for 2016 and \$58,341 for 2015.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$757,414, a decrease of \$1,148,072, which includes a decrease in inventory of \$15,999. \$482,899 or 64% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$274,515 or 36% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$14,412. The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,164,868, which includes a decrease in reserve for inventory of \$15,999. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
Title I Fund	\$	59
MAEP Revenue Fund	\$	2,325

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and major special revenue fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$13,237,440, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents a decrease of \$1,850 from 2015. Total accumulated depreciation as of June 30, 2016, was \$5,950,702, and total depreciation expense for the year was \$288,885, resulting in total net capital assets of \$7,286,738.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 178,943	\$ 178,943	0.00 %
Buildings	6,433,466	6,630,263	(2.97) %
Improvements other than buildings	331,355	343,272	(3.47) %
Mobile equipment	281,801	332,106	(15.15) %
Furniture and equipment	61,173	81,699	(25.12) %
Total	\$ 7,286,738	\$ 7,566,283	(3.69) %

Additional information on the District's capital assets can be found in Note 5 included in this report.

PHILADELPHIA PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Debt Administration. At June 30, 2016, the District had \$1,353,550 in outstanding long-term debt, of which \$562,990 is due within one year. The liability for compensated absences increased \$641 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 390,000	\$ 605,000	(35.54) %
Limited obligation bonds payable	490,000	645,000	(24.03) %
Certificates of participation payable		37,000	(100.00) %
Three mill notes payable	417,000	570,000	(26.84) %
Shortfall notes payable	22,990	45,413	(49.38) %
Qualified zone academy bonds payable		1,200,000	(100.00) %
Compensated absences payable	33,560	32,919	1.95 %
Total	<u>\$ 1,353,550</u>	<u>\$ 3,135,332</u>	(56.83) %

Additional information on the District's long-term debt can be found in Note 6 included in this report.

CURRENT ISSUES

The Philadelphia Public School District is financially stable. The District is proud of its community support of its public schools.

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound financial management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Philadelphia Public School District, 248 Byrd Avenue, Philadelphia, MS 39350.

FINANCIAL STATEMENTS

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Statement of Net Position
June 30, 2016

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 734,401
Due from other governments	418,154
Other receivables, net	99
Inventories	7,126
Restricted assets	87,137
Capital assets, non-depreciable:	
Land	178,943
Capital assets, net of accumulated depreciation:	
Buildings	6,433,466
Improvements other than buildings	331,355
Mobile equipment	281,801
Furniture and equipment	61,173
Total Assets	<u>8,533,655</u>
Deferred Outflows of Resources	
Deferred outflows - Pensions	<u>3,157,822</u>
Total deferred outflows of resources	<u>3,157,822</u>
Liabilities	
Accounts payable and accrued liabilities	79,582
Other payables, net	409,921
Interest payable on long-term liabilities	10,590
Long-term liabilities, due within one year:	
Capital related liabilities	562,990
Long-term liabilities, due beyond one year:	
Capital related liabilities	757,000
Non-capital related liabilities	33,560
Net pension liability	13,655,929
Total Liabilities	<u>15,509,572</u>
Deferred Inflows of Resources	
Deferred inflows - Pensions	<u>1,162,983</u>
Total deferred inflows of resources	<u>1,162,983</u>
Net Position	
Invested in capital assets, net of related debt	5,966,748
Restricted for:	
Expendable:	
School-based activities	37,695
Debt service	201,828
Unemployment benefits	24,402
Unrestricted	(11,211,751)
Total Net Position	<u>\$ (4,981,078)</u>

The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2016

Exhibit B

For the Year Ended June 30, 2010

					Net (Expense) Revenue and Changes in Net Position
		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 5,201,287	\$ 84,552	\$ 809,867		\$ (4,306,868)
Support services	3,466,662		480,759		(2,985,903)
Non-instructional	620,006	83,535	591,995		55,524
Pension expense	1,342,420				(1,342,420)
Interest on long-term liabilities	65,770				(65,770)
Total Governmental Activities	<u>\$ 10,696,145</u>	<u>\$ 168,087</u>	<u>\$ 1,882,621</u>		<u>\$ (8,645,437)</u>
General Revenues:					
Taxes:					
General purpose levies					2,764,265
Debt purpose levies					438,108
Unrestricted grants and contributions:					
State					5,102,242
Federal					46,628
Unrestricted investment earnings					12,627
Sixteenth section sources					76,370
Other					16,181
Total General Revenues					<u>8,456,421</u>
Change in Net Position					<u>(189,016)</u>
Net Position - Beginning					<u>(4,792,062)</u>
Net Position - Ending					<u>\$ (4,981,078)</u>

The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2016

Exhibit C

	Major Funds			Other	Total
	General	Title I	MAEP Revenue	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Assets					
Cash and cash equivalents	\$ 622,365	\$ 59		\$ 111,977	\$ 734,401
Cash with fiscal agents			87,137		87,137
Due from other governments	154,963	92,667	90,799	79,725	418,154
Other receivables, net	99				99
Due from other funds	124,270				124,270
Inventories				7,126	7,126
Total assets	901,697	92,726	177,936	198,828	1,371,187
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 52,927	\$ 19,156		\$ 7,499	\$ 79,582
Due to other funds	358,786	73,511		101,894	534,191
Total Liabilities	411,713	92,667		109,393	613,773
Fund Balances:					
Nonspendable:					
Inventory				7,126	7,126
Restricted:					
Debt service			177,936	34,482	212,418
Grant activities		59		23,425	23,484
Unemployment benefits				24,402	24,402
Assigned:					
Activity funds	7,085				7,085
Unassigned	482,899				482,899
Total Fund Balances	489,984	59	177,936	89,435	757,414
Total Liabilities and Fund Balances	\$ 901,697	\$ 92,726	\$ 177,936	\$ 198,828	\$ 1,371,187

The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016**

Exhibit C-1

Total fund balances for governmental funds \$ 757,414

Amounts reported for governmental activities in the statement of net position are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 178,943	
Buildings	10,633,001	
Improvements other than buildings	698,539	
Mobile equipment	1,138,999	
Furniture and equipment	587,958	
Accumulated depreciation	<u>(5,950,702)</u>	7,286,738

2. Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(13,655,929)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	3,157,822	
Deferred inflows of resources related to pensions	<u>(1,162,983)</u>	(11,661,090)

3. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(390,000)	
Limited obligation bonds	(490,000)	
Three mill notes payable	(417,000)	
Shortfall notes payable	(22,990)	
Compensated absences	(33,560)	
Accrued interest payable	<u>(10,590)</u>	(1,364,140)

Net position of governmental activities	<u><u>\$ (4,981,078)</u></u>
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The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016

Exhibit D

	Major Funds			Other	Total
	General	Title I	MAEP Revenue	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Revenues:					
Local sources	\$ 2,695,836		\$ 1	\$ 703,431	\$ 3,399,268
State sources	4,962,293		181,598	107,926	5,251,817
Federal sources	46,628	661,017		1,072,029	1,779,674
Sixteenth section sources	76,370				76,370
Total Revenues	<u>7,781,127</u>	<u>661,017</u>	<u>181,599</u>	<u>1,883,386</u>	<u>10,507,129</u>
Expenditures:					
Instruction	4,630,798	453,858		465,629	5,550,285
Support services	3,171,747	183,464		273,456	3,628,667
Noninstructional services	8,321	8,320		590,838	607,479
Debt service:					
Principal			155,000	1,627,423	1,782,423
Interest	738		19,650	42,769	63,157
Other	4,430		1,351	1,410	7,191
Total Expenditures	<u>7,816,034</u>	<u>645,642</u>	<u>176,001</u>	<u>3,001,525</u>	<u>11,639,202</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(34,907)</u>	<u>15,375</u>	<u>5,598</u>	<u>(1,118,139)</u>	<u>(1,132,073)</u>
Other Financing Sources (Uses):					
Operating transfers in	62,572			13,253	75,825
Operating transfers out	(13,253)	(15,316)	(3,273)	(43,983)	(75,825)
Total Other Financing Sources (Uses)	<u>49,319</u>	<u>(15,316)</u>	<u>(3,273)</u>	<u>(30,730)</u>	
Net Change in Fund Balances	<u>14,412</u>	<u>59</u>	<u>2,325</u>	<u>(1,148,869)</u>	<u>(1,132,073)</u>
Fund Balances:					
July 1, 2015	<u>475,572</u>		<u>175,611</u>	<u>1,254,303</u>	<u>1,905,486</u>
Increase (Decrease) in reserve for inventory				<u>(15,999)</u>	<u>(15,999)</u>
June 30, 2016	<u>\$ 489,984</u>	<u>\$ 59</u>	<u>\$ 177,936</u>	<u>\$ 89,435</u>	<u>\$ 757,414</u>

The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2016**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (1,132,073)

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 9,340	
Depreciation expense	<u>(288,885)</u>	(279,545)

2. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	1,782,423	
Accrued interest payable	<u>4,578</u>	1,787,001

3. The implementation of GASB 68 creates a change in the amount of pension expense that is reported on the statement of activities. A breakdown of these changes are listed below:

Pension contributions for the FYE 6/30/16 are reported as a deferred outflow	794,661	
Pension expense calculated during the implementation of GASB 68	<u>(1,342,420)</u>	(547,759)

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(641)	
Change in inventory reserve	<u>(15,999)</u>	(16,640)

Change in net position of governmental activities	<u><u>\$</u></u>	<u>(189,016)</u>
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The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2016

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 38,467
Due from other funds	412,421
Total Assets	<u>\$ 450,888</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 418,983
Due to other funds	2,500
Due to student clubs	29,405
Total Liabilities	<u>\$ 450,888</u>

The accompanying notes to financial statements are an integral part of these financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Philadelphia since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

For financial reporting purposes, Philadelphia Public School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. The effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Net position is reported in three categories:

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Title I Fund – This is a special revenue fund that accounts for the federal revenue received and expenditures incurred related to the Title I grants to local education agencies program.

MAEP Revenue Fund – This debt service fund accounts for revenue and expenditures related to the State Aid Capital Improvement Bonds, Series 2009.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

The District's fiduciary funds include the following:

Payroll Clearing Fund – This is the District's clearing fund used for payments of payroll and benefits.

Club Fund – This is a fund used to record assets and liabilities of the District's various student clubs.

Accounts Payable Clearing Fund – This is the District's clearing fund used to pay claims of the District.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Permanent Funds - Permanent Funds are used to account for and report resources that are restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

D. Encumbrances

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

E. Assets, liabilities, deferred outflows/inflows, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased. Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has a deferred outflow related to pensions in accordance with GASB 68.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has a deferred inflow related to pensions in accordance with GASB 68.

See Note 9 for further details.

8. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

9. Long-term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

11. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. Currently there is no committed fund balance for this school district.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and Business Manager pursuant to authorization established by the policy adopted by the school district.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 2 – Cash and Cash Equivalents and Cash with Fiscal Agents

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$734,401 and \$38,467, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2016, none of the district's bank balance was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$87,137.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 45,803
	Other governmental funds	75,967
	Fiduciary funds	2,500
Fiduciary funds	General Fund	358,786
	Title I Fund	27,708
	Other governmental funds	25,927
Total		<u>\$ 536,691</u>

The purpose of the inter-fund receivables and payables is to close out federal program funds at year end. All inter-fund receivables and payables are expected to be repaid within one year.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 13,253
Title I Fund	General Fund	15,316
MAEP Revenue	General Fund	3,273
Other governmental funds	General Fund	43,983
Total		<u>\$ 75,825</u>

The purpose of the inter-fund transfers is to transfer federal program indirect cost to the General Fund and to close out federal program funds at year end.

Note 4 – Restricted Assets

The restricted assets represent the cash with fiscal agents balance, totaling \$87,137, of the MAEP Limited Obligation Bond/Note Fund.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 5 – Capital Assets

The following is a summary of changes in capital assets for governmental activities:

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 178,943			\$ 178,943
Total non-depreciable capital assets	178,943			178,943
<u>Depreciable capital assets:</u>				
Buildings	10,633,001			10,633,001
Improvements other than buildings	698,539			698,539
Mobile equipment	1,138,999			1,138,999
Furniture and equipment	589,808	9,340	11,190	587,958
Total depreciable capital assets	13,060,347	9,340	11,190	13,058,497
<u>Less accumulated depreciation for:</u>				
Buildings	4,002,738	196,797		4,199,535
Improvements other than buildings	355,267	11,917		367,184
Mobile equipment	806,893	50,305		857,198
Furniture and equipment	508,109	29,866	11,190	526,785
Total accumulated depreciation	5,673,007	288,885	11,190	5,950,702
Total depreciable capital assets, net	7,387,340	(279,545)		7,107,795
Governmental activities capital assets, net	\$ 7,566,283	\$ (279,545)		\$ 7,286,738

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 183,902
Support services	83,140
Non-instructional	21,843
Total depreciation expense - Governmental activities	\$ 288,885

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 6 – Long-term Liabilities

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. General obligation bonds payable	\$ 605,000		\$ 215,000	\$ 390,000	\$ 225,000
B. Limited obligation bonds payable	645,000		155,000	490,000	160,000
C. Certificates of participation payable	37,000		37,000		
D. Three mill notes payable	570,000		153,000	417,000	155,000
E. Shortfall notes payable	45,413		22,423	22,990	22,990
F. Qualified zone academy bonds payable	1,200,000		1,200,000		
G. Compensated absences payable	32,919	641		33,560	
Total	<u>\$ 3,135,332</u>	<u>\$ 641</u>	<u>\$ 1,782,423</u>	<u>\$ 1,353,550</u>	<u>\$ 562,990</u>

A. General obligation bonds payable

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 1998	4.375- 6.25%	6/1/1998	6/1/2018	\$ 3,000,000	\$ 390,000
Total				<u>\$ 3,000,000</u>	<u>\$ 390,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2017	\$ 225,000	\$ 18,165	\$ 243,165
2018	165,000	7,590	172,590
Total	<u>\$ 390,000</u>	<u>\$ 25,755</u>	<u>\$ 415,755</u>

This debt will be retired from the Debt Service General Obligation Bond Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2016, the amount of outstanding bonded indebtedness was equal to 0.7% of property assessments as of October 1, 2015.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

B. Limited obligation bonds payable

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement Bonds, Series 2009	1.0-3.8%	7/15/2009	2/1/2018	\$ 1,465,000	\$ 490,000
Total				<u>\$ 1,465,000</u>	<u>\$ 490,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2017	\$ 160,000	\$ 14,685	\$ 174,685
2018	330,000	9,157	339,157
Total	<u>\$ 490,000</u>	<u>\$ 23,842</u>	<u>\$ 513,842</u>

This debt will be retired from the MAEP Revenue Debt Service Fund.

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note	2.14%	5/1/2012	5/1/2019	\$ 600,000	\$ 417,000
Total				<u>\$ 600,000</u>	<u>\$ 417,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2017	\$ 155,000	\$ 8,924	\$ 163,924
2018	160,000	5,607	165,607
2019	102,000	2,183	104,183
Total	<u>\$ 417,000</u>	<u>\$ 16,714</u>	<u>\$ 433,714</u>

This debt will be retired from the 2012 3 Mill 10 Yr Loan Proceed Fund.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 6 – Long-term Liabilities (Continued)

D. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Cadence Bank	2.28%	9/25/2013	9/25/2016	\$ 67,332	\$ 22,990
Total				<u>\$ 67,332</u>	<u>\$ 22,990</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2017	\$ 22,990	\$ 485	\$ 23,475
Total	<u>\$ 22,990</u>	<u>\$ 485</u>	<u>\$ 23,475</u>

This debt will be retired from the Shortfall Notes Payable Fund.

E. Compensated absences payable

As more fully explained in Note 1(E)(8), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Short-Term Financing

During the fiscal year ended June 30, 2016, the school district participated in the following short-term financing for the purpose of easing cash flow restraints:

A. Bank-financed short term debt.

The school district issued a revenue anticipation note payable to The Citizens Bank, and the proceeds from such issuance are accounted for as a current liability in the General fund of the school district. Once the cash flow was available, the district made a payment consisting of principal and interest to the trustee.

All transactions related to participation in this program are accounted for as part of the school district's General Fund.

B. Changes in short-term debt activity recorded in the governmental activities during fiscal year 2016 are as follows:

Description	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016
Tax anticipation note	\$ -	\$ 457,000	\$ 457,000	\$ -
Total	<u>\$ -</u>	<u>\$ 457,000</u>	<u>\$ 457,000</u>	<u>\$ -</u>

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 8 – Other Commitments

Operating leases:

The school district has several operating leases for the following:

1. Postage Meter
2. Driver's Education Car
3. Savin Copiers
4. Kyocera
5. Digital Mobile Radios
6. Canon Copiers

Lease expenditures for the year ended June 30, 2016, amounted to \$32,958.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2017	\$ 16,276
2018	8,055
2019	287
Total	<u>\$ 24,618</u>

Note 9 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan (Continued)

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$794,661, \$868,456 and \$848,159, respectively, which equaled the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the school district reported a liability of \$13,655,929 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was 0.088342 percent, which was based on a measurement date of June 30, 2015. This was an increase of 0.000213 from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan (Continued)

For the year ended June 30, 2016, the District recognized pension expense of \$1,342,420. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 273,693	\$
Net difference between projected and actual earnings on pension plan investments	799,018	1,162,983
Changes of assumptions	1,176,412	
Changes in proportion and differences between District contributions and proportionate share of contributions	114,038	
District contributions subsequent to the measurement date	794,661	
Total	\$ <u>3,157,822</u>	\$ <u>1,162,983</u>

\$794,661 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$ 420,228
2018	399,166
2019	181,030
2020	199,753
Total	\$ <u>1,200,177</u>

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75-19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 9 – Defined Benefit Pension Plan (Continued)

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
U.S. Broad	34	%	5.20	%
International Equity	19		5.00	
Emerging Markets Equity	8		5.45	
Fixed Income	20		0.25	
Real Assets	10		4.00	
Private Equity	8		6.15	
Cash	1		(0.50)	
Total	100	%		

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 17,999,768	\$ 13,655,929	\$ 10,051,358

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 10 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 11 – Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 11 – Risk Management (Continued)

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 71 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 12 – Alternative School Consortium

The school district entered into an Alternative School Agreement dated March 26, 1996, creating the Alternative School Program. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Newton County School District, Newton Municipal School District, Scott County School District, Forest Municipal School District, Neshoba County School District, Union Public School District, Philadelphia Public School District and Enterprise School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Newton County School District has been designated as the lead school district for the Alternative School Program, and the operations of the consortium are included in its financial statements.

Note 13 – Vocational School Consortium

The school district entered into a Vocational Educational Agreement dated August 17, 1982, creating the Philadelphia-Neshoba County Vocational-Technical Center. This consortium was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes East Central Community College, Neshoba County School District and Philadelphia Public School District.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

East Central Community College has been designated as the fiscal agent for the Philadelphia-Neshoba County Vocational-Technical Center, and the operations of the consortium are included in its financial statements.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to Financial Statements

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$11,211,751) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$3,157,822 balance of the deferred outflow of resources at June 30, 2016 will be recognized as expenses and decrease unrestricted net position over the next 4 years.

The unrestricted net position amount of (\$11,211,751) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$1,162,983 balance of the deferred inflow of resources at June 30, 2016 will be recognized as revenue and increase unrestricted net position over the next 3 years.

Note 15 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Philadelphia Public School District evaluated the activity of the district through November 28, 2016, and determined that no subsequent event has occurred requiring disclosure in the notes to financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,711,002	\$ 2,718,230	\$ 2,695,836	\$ 7,228	\$ (22,394)
State sources	5,039,643	5,052,395	4,962,293	12,752	(90,102)
Federal sources	50,000	59,970	46,628	9,970	(13,342)
Sixteenth section sources	15,000	76,370	76,370	61,370	
Total Revenues	7,815,645	7,906,965	7,781,127	91,320	(125,838)
Expenditures:					
Instruction	4,540,196	4,642,909	4,630,798	(102,713)	12,111
Support services	3,304,698	3,213,691	3,171,747	91,007	41,944
Noninstructional services	8,100	8,376	8,321	(276)	55
Debt service:					
Principal		457,000		(457,000)	457,000
Interest		738	738	(738)	
Other		4,430	4,430	(4,430)	
Total Expenditures	7,852,994	8,327,144	7,816,034	(474,150)	511,110
Excess (Deficiency) of Revenues over (under) Expenditures	(37,349)	(420,179)	(34,907)	(382,830)	385,272
Other Financing Sources (Uses):					
Bonds and notes issued		457,000		457,000	(457,000)
Refunding bonds issued	500	500			(500)
Operating transfers in	100,683	167,204	62,572	66,521	(104,632)
Operating transfers out	(45,165)	(117,895)	(13,253)	(72,730)	104,642
Total Other Financing Sources (Uses)	56,018	506,809	49,319	450,791	(457,490)
Net Change in Fund Balances	18,669	86,630	14,412	67,961	(72,218)
Fund Balances:					
July 1, 2015		475,838	475,572	475,838	(266)
June 30, 2016	\$ 18,669	\$ 562,468	\$ 489,984	\$ 543,799	\$ (72,484)

The notes to the required supplementary information are an integral part of this schedule.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 759,335	\$ 822,866	\$ 661,017	\$ 63,531	\$ (161,849)
Total Revenues	759,335	822,866	661,017	63,531	(161,849)
Expenditures:					
Instruction	533,964	534,644	453,858	(680)	80,786
Support services	186,592	228,461	183,464	(41,869)	44,997
Noninstructional services	23,765	15,859	8,320	7,906	7,539
Total Expenditures	744,321	778,964	645,642	(34,643)	133,322
Excess (Deficiency) of Revenues over (under) Expenditures	15,014	43,902	15,375	28,888	(28,527)
Other Financing Sources (Uses):					
Operating transfers out	(15,014)	(20,304)	(15,316)	(5,290)	4,988
Total Other Financing Sources (Uses)	(15,014)	(20,304)	(15,316)	(5,290)	4,988
Net Change in Fund Balances		23,598	59	23,598	(23,539)
Fund Balances:					
July 1, 2015					
June 30, 2016	\$	23,598	\$	59	\$ (23,539)

The notes to the required supplementary information are an integral part of this schedule.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

PERS

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.088342%	0.088129%
District's proportionate share of the net pension liability (asset)	\$ 13,655,929	10,697,247
District's covered-employee payroll	5,514,006	5,385,137
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	248%	199%
Plan fiduciary net position as a percentage of the total pension liability	62%	67%

The notes to the required supplementary information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 794,661	868,456
Contributions in relation to the contractually required contribution	794,661	868,456
Contribution deficiency (excess)		
District's covered-employee payroll	5,045,467	5,514,006
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

The notes to the required supplementary information are an integral part of this schedule.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2016

Budgetary Comparison Schedule

(1) Basis of Presentation

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

SUPPLEMENTARY INFORMATION

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 135,968
National school lunch program	10.555	503,145
Total child nutrition cluster		<u>639,113</u>
Total passed-through Mississippi Department of Education		<u>639,113</u>
Total U.S. Department of Agriculture		<u>639,113</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	<u>29,970</u>
Total Federal Communications Commission		<u>29,970</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	670,592
Rural education	84.358	33,868
Improving teacher quality-State Grants	84.367	114,916
Subtotal		<u>819,376</u>
Special education cluster:		
Special education - grants to states	84.027	256,536
Special education - preschool grants	84.173	17,963
Total special education cluster		<u>274,499</u>
Total passed-through Mississippi Department of Education		<u>1,093,875</u>
Total U.S. Department of Education		<u>1,093,875</u>
Total for All Federal Awards		<u>\$ 1,762,958</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2016

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 7,439,201	5,443,022	446,315	620,997	928,867
Other	4,200,001	1,166,139	145,236	10,473	2,878,153
Total	<u>\$ 11,639,202</u>	<u>6,609,161</u>	<u>591,551</u>	<u>631,470</u>	<u>3,807,020</u>
Total number of students *	<u>989</u>				
Cost per student	<u>\$ 11,769</u>	<u>6,683</u>	<u>598</u>	<u>638</u>	<u>3,850</u>

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

Other - includes all expenditure functions not included in Instruction or Administration Categories.

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

OTHER INFORMATION

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 2,695,836	\$ 2,727,374	\$ 2,815,465	\$ 2,695,976
State sources	4,962,293	4,858,324	4,748,562	4,917,634
Federal sources	46,628	51,843	62,370	96,251
Sixteenth section sources	76,370	208,066		
Total Revenues	7,781,127	7,845,607	7,626,397	7,709,861
Expenditures:				
Instruction	4,630,798	4,835,788	4,841,726	4,671,277
Support services	3,171,747	3,348,579	3,424,055	3,501,176
Noninstructional services	8,321	8,567	8,866	237
Facilities acquisition and construction				151,403
Debt service:				
Principal		21,888	20,920	20,081
Interest	738	2,781	1,870	2,709
Other	4,430	2,883		
Total Expenditures	7,816,034	8,220,486	8,297,437	8,346,883
Excess (Deficiency) of Revenues over (under) Expenditures	(34,907)	(374,879)	(671,040)	(637,022)
Other Financing Sources (Uses):				
Insurance recovery			35,102	
Operating transfers in	62,572	70,362	145,158	75,817
Operating transfers out	(13,253)	(15,593)	(1,948)	(83,939)
Total Other Financing Sources (Uses)	49,319	54,769	178,312	(8,122)
Net Change in Fund Balances	14,412	(320,110)	(492,728)	(645,144)
Fund Balances:				
Beginning of period, as previously reported	475,572	795,682	1,368,387	2,013,531
Prior period adjustments			(79,977)	
Beginning of period, as restated	475,572	795,682	1,288,410	2,013,531
End of Period	\$ 489,984	\$ 475,572	\$ 795,682	\$ 1,368,387

*SOURCE - PRIOR YEAR AUDIT REPORTS

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 3,399,268	\$ 3,454,469	\$ 3,639,732	\$ 3,355,708
State sources	5,251,817	5,139,531	5,032,141	5,195,869
Federal sources	1,779,674	1,749,828	1,798,098	1,859,718
Sixteenth section sources	76,370	208,066	14,461	12,635
Total Revenues	10,507,129	10,551,894	10,484,432	10,423,930
Expenditures:				
Instruction	5,550,285	5,674,786	5,781,681	5,559,160
Support services	3,628,667	3,832,741	3,815,133	3,966,145
Noninstructional services	607,479	680,397	759,600	704,941
Facilities acquisition and construction			15,538	151,403
Debt service:				
Principal	1,782,423	443,807	469,587	448,117
Interest	63,157	83,031	98,004	115,698
Other	7,191	4,984	2,730	2,547
Total Expenditures	11,639,202	10,719,746	10,942,273	10,948,011
Excess (Deficiency) of Revenues over (under) Expenditures	(1,132,073)	(167,852)	(457,841)	(524,081)
Other Financing Sources (Uses):				
Bonds and notes issued			67,332	
Insurance recovery			35,102	
Operating transfers in	75,825	192,589	257,854	272,575
Payment held by QZAB debt escrow agent		106,321	106,321	106,321
Operating transfers out	(75,825)	(192,589)	(257,854)	(272,575)
Payment to QZAB debt escrow agent		(106,321)	(107,101)	(107,101)
Total Other Financing Sources (Uses)		0	101,654	(780)
Net Change in Fund Balances	(1,132,073)	(167,852)	(356,187)	(524,861)
Fund Balances:				
Beginning of period, as previously reported	1,905,486	2,067,757	2,498,022	3,023,028
Prior period adjustments			(79,977)	
Beginning of period, as restated	1,905,486	2,067,757	2,418,045	3,023,028
Increase (Decrease) in reserve for inventory	(15,999)	5,581	5,899	(145)
End of Period	\$ 757,414	\$ 1,905,486	\$ 2,067,757	\$ 2,498,022

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Superintendent and School Board
Philadelphia Public School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Philadelphia Public School District's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Philadelphia Public School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Philadelphia Public School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Philadelphia Public School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (Finding **2016-01**).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Philadelphia Public School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Philadelphia Public School District's Response to Findings

Philadelphia Public School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. Philadelphia Public School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Philadelphia, Mississippi
November 28, 2016

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Superintendent and School Board
Philadelphia Public School District

Report on Compliance for Each Major Federal Program

We have audited the Philadelphia Public School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Philadelphia Public School District's major federal programs for the year ended June 30, 2016. Philadelphia Public School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Philadelphia Public School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Philadelphia Public School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Philadelphia Public School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Philadelphia Public School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding **2016-02**. Our opinion on each major federal program is not modified with respect to this matter.

Philadelphia Public School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Philadelphia Public School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the Philadelphia Public School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Philadelphia Public School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Philadelphia Public School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding **2016-02**, which we consider to be a significant deficiency.

Philadelphia Public School District's response to the internal control over compliance findings and questioned costs as items identified in our audit are described in the accompanying Auditee's Corrective Action Plan. Philadelphia Public School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Philadelphia, Mississippi
November 28, 2016

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



WATKINS, WARD and STAFFORD
Professional Limited Liability Company
Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Superintendent and School Board
Philadelphia Public School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2016, which collectively comprise Philadelphia Public School District's basic financial statements and have issued our report thereon dated November 28, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district had no classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

1. Proper form should be filed for all retirees

The Mississippi Public Employees Retirement System (PERS) requires, under the re-employment provisions of Section 25-11-27, Miss Code Ann. (1972), school districts hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgment of Re-employment of Retiree" with the PERS office within five days from the date of employment of the retiree.

During our testing state legal compliance, we noted two instances where Form 4B's were not on file for a rehired retiree.

Recommendation

We recommend the District implement procedures to ensure that the District follows the provisions of Section 25-11-27, Miss. Code Ann. (1972).

School District Response

The District concurs with the recommendation and no retiree will be rehired until a Form 4B has been completed.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

The Philadelphia Public School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Philadelphia, Mississippi
November 28, 2016

Watkins Ward and Stafford, P.C.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified? | Yes |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---|
| 4. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Significant deficiency(ies) identified? | Yes |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 7. | Identification of major programs: | |
| | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| | 10.553, 10.555 | Child Nutrition cluster |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. | Auditee qualified as low-risk auditee? | Yes |

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section II: Financial Statement Findings

Significant Deficiency Not Considered to be a Material Weakness

Finding 2016-01: Internal Controls Surrounding Payroll Expenditures and Related Liabilities Should Be Strengthened

Finding: The school district is charged with developing a control system that will provide safeguards over district assets that will ensure all transactions are properly authorized and that will ensure all transactions are properly classified and accounted for in the appropriate accounting period. Out of a sample size of 43 payroll transactions tested, the following deviations from identified controls were noted:

- We noted 1 instance where an employee was paid more than the board approved contract amount.

Recommendation: We recommend that all personnel be paid according to the board approved contract amount.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiency Not Considered to be a Material Weakness

Finding 2016-02: Controls Surrounding Federal Purchases Should Be Strengthened

Program: Title I Cluster, CFDA #84.010

Compliance Requirement: Procurement, Suspension and Debarment

The federal Office of Management and Budget sets forth uniform guidance for the administration of federal grant awards. Management is charged with the responsibility of designing and implementing a set of internal controls to ensure compliance with competitive purchasing requirements of the grant award. For all purchases of goods and services exceeding the micro-purchase threshold amount of \$3,000, the District must show that competitiveness was introduced into the purchasing process through quotes or formal bid process. For purchases between \$3,000 and \$150,000, the District is required to obtain quotations from qualified sources. Purchases over \$150,000 required a sealed bid process. Currently, our state purchasing laws are not aligned directly with federal guidance. However, recipients of federal grants are expected to meet the requirements of federal guidance.

During our test of general expenditures, we noted one instance where the District only received one quote for a purchase that was between \$3,000 and \$150,000.

Adequate controls were not in place to ensure that the District complied with federal competitive purchasing requirements.

Recommendation: We recommend that the District comply with federal competitive purchasing requirements for purchases of goods and services that exceed \$3,000.

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR FEDERAL AUDIT FINDINGS



Philadelphia Public School District
248 Byrd Avenue, Philadelphia, MS 39350
Phone: 601•656•2955 Fax: 601•656•3141
Lisa Hull, Superintendent

Auditee's Corrective Action Plan

As required by Section .315 (c) of OMB Circular A-133, the Philadelphia Public School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2016.

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2016-01	<p>a. Name of Contact Person Responsible for Corrective Action: Lisa Hull, Superintendent, Philadelphia Public School District</p> <p>b. Corrective Action Planned: The Philadelphia Public School District will put procedures in place to ensure that all personnel are paid according to the board's approved contract amount.</p> <p>c. Anticipated Completion Date: Immediately</p>
2016-02	<p>a. Name of Contact Person Responsible for Corrective Action: Lisa Hull, Superintendent, Philadelphia Public School District</p> <p>b. Corrective Action Planned: The Philadelphia Public School District will make sure adequate controls are in place to comply with federal competitive purchasing requirements for purchases of goods and services that exceed \$3,000.</p> <p>c. Anticipated Completion Date: Immediately</p>



Philadelphia Public School District
248 Byrd Avenue, Philadelphia, MS 39350
Phone: 601•656•2955 Fax: 601•656•3141
Lisa Hull, Superintendent

November 28, 2016

Summary Schedule of Prior Audit Findings

Financial and Compliance Audit Division

As required by Section____.315(b) of OMB Circular A-133, the Philadelphia Public School District has prepared and hereby submits the following Summary Schedule of Prior Audit Findings as of June 30, 2016.

<u>Finding</u>	<u>Status</u>
2015-01	Corrected