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SCOTT COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2016**

**SCOTT COUNTY SCHOOL DISTRICT
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INDEPENDENT AUDITORS' REPORT



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

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
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Michael W. McCully, CPA	John N. Russell, CPA
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Robin Y. McCormick, CPA/PFS	Robert E. Cordle, Jr., CPA
J. Randy Scrivner, CPA	Perry C. Rackley, Jr., CPA

INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Scott County 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 Scott County School District as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Scott County 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 Scott County 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, 41-43, 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 Scott County 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* (CFR) 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* (CFR) 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 March 29, 2017 on our consideration of the Scott County 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 Scott County School District's internal control over financial reporting and compliance.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

The following discussion and analysis of Scott County 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 the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2016 decreased \$2,433,618, which represents a 17% decrease from fiscal year 2015. Total net position for 2015 decreased \$33,561,009, including a prior period adjustment of \$(32,701,126), which represents a 176% decrease from fiscal year 2014.
- General revenues amounted to \$25,339,721 and \$23,274,017, or 79% and 76% 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 \$6,692,499, or 21% of total revenues for 2016, and \$7,184,814, or 24% of total revenues for 2015.
- The District had \$34,465,838 and \$31,318,714 in expenses for fiscal years 2016 and 2015; only \$6,692,499 for 2016 and \$7,184,814 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$25,339,721 for 2016 and \$23,274,017 for 2015 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$25,289,118 in revenues and \$25,326,122 in expenditures for 2016, and \$23,305,971 in revenues and \$24,198,510 in expenditures in 2015. The General Fund's fund balance decreased by \$61,065 from 2015 to 2016, and increased by \$1,722,962 from 2014 to 2015, which included a prior period adjustment of (\$16,126) and a fund reclassification of \$2,294,749.
- Capital assets, net of accumulated depreciation, decreased by \$581,292 for 2016 and decreased by \$251,966 for 2015. The increase/decrease for 2016 was due to the addition of a school bus and deletion of copiers, coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$72,863 for 2016 and increased by \$408,015 for 2015. This increase/decrease for 2016 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$4,073 for 2016 and increased by \$5,155 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 the 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.

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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.

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.

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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:

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 the 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 the 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. Additionally, the schedule of the district's proportionate share of the net position liability and the schedule of the district's contributions are presented in this section.

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.

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 \$16,957,170 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.

Table 1
Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change	
Current assets	\$ 4,865,792	\$ 4,977,996	-2.25	%
Restricted assets	83,408	83,241	0.20	%
Capital assets, net	13,117,359	13,698,651	-4.24	%
Total assets	18,066,559	18,759,888	-3.70	%
 Deferred outflows of resources	 10,946,578	 3,722,749	 194.05	 %
 Current liabilities	 301,966	 298,736	 1.08	 %
Long-term debt outstanding	500,607	573,470	-12.71	%
Net pension liability	41,736,676	31,559,239	32.25	%
Total liabilities	42,539,249	32,431,445	31.17	%
 Deferred inflows of resources	 3,431,058	 4,574,744	 -25.00	 %
 Net position:				
Net investment in capital assets	12,791,395	13,295,751	-3.79	%
Restricted	1,107,926	1,163,479	-4.77	%
Unrestricted	(30,856,491)	(28,982,782)	-6.46	%
Total net position	\$ (16,957,170)	\$ (14,523,552)	-16.76	%

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)	\$(30,856,491)
Less unrestricted deficit in net position resulting from recognition of the net pension liability,	34,221,156

Unrestricted net position, exclusive of the net pension liability effect	<u>\$3,364,665</u>
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SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 \$581,292.
- The principal retirement of \$76,936 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 \$32,032,220 and \$30,458,831, respectively. The total cost of all programs and services was \$34,465,838 for 2016 and \$31,318,714 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.

Table 2			
Changes in Net Position			
	Year Ended June 30, 2016	Year Ended June 30, 2015	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 749,421	\$ 1,008,553	(25.69) %
Operating grants and contributions	5,831,070	6,162,538	(5.38) %
Capital Grants and Contributions	112,008	13,723	716.21 %
General revenues:			
Property taxes	3,121,825	2,889,507	8.04 %
Grants and contributions not restricted	21,526,425	19,820,322	8.61 %
Investment earnings	11,051	11,781	(6.20) %
Sixteenth section sources	543,051	496,120	9.46 %
Other	137,369	56,287	144.05 %
Total revenues	32,032,220	30,458,831	5.17 %
Expenses:			
Instruction	17,138,205	16,785,605	2.10 %
Support services	10,157,769	9,598,870	5.82 %
Non-instructional	2,453,121	2,472,094	(0.77) %
Sixteenth section	89,078	102,722	(13.28) %
Pension expense	4,619,692	2,352,347	96.39 %
Interest on long-term liabilities	7,973	7,076	12.68 %
Total expenses	34,465,838	31,318,714	10.05 %
Increase (Decrease) in net position	(2,433,618)	(859,883)	(183.02) %
Net Position, July 1, as previously reported	(14,523,552)	19,037,457	(176.29) %
Prior Period Adjustment	-	(32,701,126)	100.00 %
Net Position, July 1, as restated	(14,523,552)	(13,663,669)	(6.29) %
Net Position, June 30	\$ (16,957,170)	\$ (14,523,552)	(16.76) %

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Governmental activities

The following table presents the cost of six major District functional activities: instruction, support services, non-instructional, sixteenth section, 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.

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change	
	2016	2015		
Instruction	\$ 17,138,205	\$ 16,785,605	2.10	%
Support services	10,157,769	9,598,870	5.82	%
Non-instructional	2,453,121	2,472,094	(0.77)	%
Sixteenth section	89,078	102,722	(13.28)	%
Pension Expense	4,619,692	2,352,347	96.39	%
Interest on long-term liabilities	7,973	7,076	12.68	%
Total expenses	\$ 34,465,838	\$ 31,318,714	10.05	%

	Net (Expense) Revenue		Percentage Change	
	2016	2015		
Instruction	\$ (14,309,139)	\$ (13,556,250)	5.55	%
Support services	(8,812,348)	(8,275,550)	6.49	%
Non-instructional	5,854	116,488	(94.97)	%
Sixteenth section	(30,041)	(59,165)	(49.23)	%
Pension Expense	(4,619,692)	(2,352,347)	96.39	%
Interest on long-term liabilities	(7,973)	(7,076)	12.68	%
Total net (expense) revenue	\$ (27,773,339)	\$ (24,133,900)	15.08	%

- Net cost of governmental activities (\$27,773,339 for 2016 and \$24,133,900 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$3,121,825 for 2016 and \$2,889,507 for 2015) and state and federal revenues (\$21,526,425 for 2016 and \$19,820,322 for 2015). In addition, there was \$543,051 and \$496,120 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$11,051 for 2016 and \$11,781 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.

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

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 \$4,652,959, a decrease of \$116,618, which includes an increase in inventory reserve of \$24,496. \$3,376,432 or 72.6% 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 \$1,276,527 or 27.4% is either non-spendable, 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.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$61,065. The fund balance of Other Governmental Funds showed a decrease in the amount of \$76,692, which includes an increase in reserve for inventory of \$24,496. 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	no increase or decrease
Vocational	\$ 21,139

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 \$27,639,482, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents a decrease of \$144,617 from 2015. Total accumulated depreciation as of June 30, 2016, was \$14,522,123, and total depreciation expense for the year was \$672,202, resulting in total net capital assets of \$13,117,359.

SCOTT COUNTY SCHOOL DISTRICT
Management's Discussion and Analysis
For the Year Ended June 30, 2016

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Land	\$ 127,250	\$ 127,250	0.00 %
Buildings	10,797,211	11,127,809	(2.97) %
Building improvements	448,767	473,504	(5.22) %
Improvements other than buildings	230,711	239,142	(3.53) %
Mobile equipment	1,008,473	1,140,387	(11.57) %
Furniture and equipment	178,259	228,015	(21.82) %
Leased property under capital leases	326,688	362,544	(9.89) %
Total	<u>\$ 13,117,359</u>	<u>\$ 13,698,651</u>	<u>(4.24) %</u>

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

Debt Administration. At June 30, 2016, the District had \$500,607 in outstanding long-term debt, of which \$78,716 is due within one year. The liability for compensated absences increased \$4,073 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Obligations under capital leases	325,964	402,900	(19.10) %
Compensated absences payable	174,643	170,570	2.39 %
Total	<u>\$ 500,607</u>	<u>\$ 573,470</u>	<u>(12.71) %</u>

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

CURRENT ISSUES

The Scott County School District is financially stable. The District is proud of its community support of the 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's plans to continue its sound financial management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state, and federal revenues.

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 Scott County School District, 100 East First Street, Forest, MS 39074.

FINANCIAL STATEMENTS

SCOTT COUNTY SCHOOL DISTRICT
Statement of Net Position
June 30, 2016

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,073,488
Due from other governments	737,947
Other receivables, net	2,936
Inventories	51,421
Restricted assets	83,408
Capital assets, non-depreciable:	
Land	127,250
Capital assets, net of accumulated depreciation:	
Buildings	10,797,211
Building improvements	448,767
Improvements other than buildings	230,711
Mobile equipment	1,008,473
Furniture and equipment	178,259
Leased property under capital leases	326,688
Total Assets	<u>18,066,559</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	10,946,578
Total deferred outflows of resources	<u>10,946,578</u>
Liabilities	
Accounts payable and accrued liabilities	291,726
Unearned revenue - grant funds	4,515
Interest payable on long-term liabilities	5,725
Long-term liabilities, due within one year:	
Capital related liabilities	78,716
Long-term liabilities, due beyond one year:	
Capital related liabilities	247,248
Non-capital related liabilities	174,643
Net pension liability	41,736,676
Total Liabilities	<u>42,539,249</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	3,431,058
Total deferred inflows of resources	<u>3,431,058</u>
Net Position	
Net investment in capital assets	12,791,395
Restricted for:	
Expendable:	
School-based activities	787,506
Forestry improvements	158,378
Unemployment benefits	78,634
Non-expendable:	
Sixteenth section	83,408
Unrestricted	(30,856,491)
Total Net Position	<u>\$ (16,957,170)</u>

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

SCOTT COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2016

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental Activities:					
Instruction	\$ 17,138,205	\$ 557,033	\$ 2,272,033	\$ -	\$ (14,309,139)
Support services	10,157,769	-	1,275,521	69,900	(8,812,348)
Non-instructional	2,453,121	133,351	2,283,516	42,108	5,854
Sixteenth section	89,078	59,037	-	-	(30,041)
Pension expense	4,619,692	-	-	-	(4,619,692)
Interest on long-term liabilities	7,973	-	-	-	(7,973)
Total Governmental Activities	\$ 34,465,838	\$ 749,421	\$ 5,831,070	\$ 112,008	\$ (27,773,339)

General Revenues:

Taxes:

General purpose levies

3,121,825

Unrestricted grants and contributions:

State

20,896,548

Federal

629,877

Unrestricted investment earnings

11,051

Sixteenth section sources

543,051

Other

137,369

Total General Revenues

25,339,721

Change in Net Position

(2,433,618)

Net Position - Beginning,

(14,523,552)

Net Position - Ending

\$ (16,957,170)

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

SCOTT COUNTY SCHOOL DISTRICT
Governmental Funds
Balance Sheet
June 30, 2016

Exhibit C

	Major Funds			Other	Total
	General	Title I	Vocational	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Assets					
Cash and cash equivalents	\$ 3,111,544	\$ -	\$ -	\$ 1,045,352	\$ 4,156,896
Due from other governments	310,558	71,048	220,903	135,438	737,947
Other receivables, net	2,412	-	-	-	2,412
Due from other funds	305,207	-	-	-	305,207
Inventories	-	-	-	51,421	51,421
Total assets	\$ 3,729,721	\$ 71,048	\$ 220,903	\$ 1,232,211	\$ 5,253,883
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 182,134	\$ 38,279	\$ 7,701	\$ 63,612	\$ 291,726
Due to other funds	2,554	32,769	192,063	77,297	304,683
Unavailable revenue-grant funds	-	-	-	4,515	4,515
Total Liabilities	184,688	71,048	199,764	145,424	600,924
Fund Balances:					
Nonspendable:					
Inventory	-	-	-	51,421	51,421
Permanent fund principal	-	-	-	83,408	83,408
Restricted:					
Forestry improvement purposes	-	-	-	158,378	158,378
Grant activities	-	-	21,139	714,946	736,085
Unemployment benefits	-	-	-	78,634	78,634
Assigned:					
Capital improvements	23,203	-	-	-	23,203
Student activity	145,398	-	-	-	145,398
Unassigned	3,376,432	-	-	-	3,376,432
Total Fund Balances	3,545,033	-	21,139	1,086,787	4,652,959
Total Liabilities and Fund Balances	\$ 3,729,721	\$ 71,048	\$ 220,903	\$ 1,232,211	\$ 5,253,883

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

SCOTT COUNTY SCHOOL DISTRICT**Exhibit C-1****Governmental Funds****Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position****June 30, 2016**

Total fund balances for governmental funds	\$	4,652,959
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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	\$	127,250	
Buildings		20,073,919	
Building improvements		616,659	
Improvements other than buildings		814,763	
Mobile equipment		4,599,613	
Furniture and equipment		1,008,878	
Leased property under capital leases		398,400	
Accumulated depreciation		<u>(14,522,123)</u>	13,117,359

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

Net pension liability		(41,736,676)	
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Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions		10,946,578	
Deferred inflows of resources related to pensions		<u>(3,431,058)</u>	(34,221,156)

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:

Capital lease obligations		(325,964)	
Compensated absences		(174,643)	
Accrued interest payable		<u>(5,725)</u>	<u>(506,332)</u>

Net Position of governmental activities	\$	<u>(16,957,170)</u>
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The accompanying notes to financial statements are an integral part of these financial statements.

SCOTT COUNTY SCHOOL DISTRICT

Exhibit D

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

For the Year Ended June 30, 2016

	Major Funds			Other	Total
	General	Title I	Vocational	Governmental	Governmental
	Fund	Fund	Fund	Funds	Funds
Revenues:					
Local sources	\$ 3,410,782	\$ 244	\$ 403,779	\$ 139,886	\$ 3,954,691
State sources	20,703,426	-	673,219	279,314	21,655,959
Federal sources	629,877	1,527,444	72,196	3,584,028	5,813,545
Sixteenth section sources	545,033	-	-	62,992	608,025
Total Revenues	25,289,118	1,527,688	1,149,194	4,066,220	32,032,220
Expenditures:					
Instruction	16,000,890	1,185,982	936,680	563,612	18,687,164
Support services	9,202,499	320,677	313,196	899,178	10,735,550
Noninstructional services	-	11,029	-	2,564,253	2,575,282
Sixteenth section	36,473	-	-	52,605	89,078
Debt service:					
Principal	76,936	-	-	-	76,936
Interest	9,324	-	-	-	9,324
Total Expenditures	25,326,122	1,517,688	1,249,876	4,079,648	32,173,334
Excess (Deficiency) of Revenues over (under) Expenditures	(37,004)	10,000	(100,682)	(13,428)	(141,114)
Other Financing Sources (Uses):					
Operating transfers in	97,760	-	121,821	-	219,581
Operating transfers out	(121,821)	(10,000)	-	(87,760)	(219,581)
Total Other Financing Sources (Uses)	(24,061)	(10,000)	121,821	(87,760)	-
Net Change in Fund Balances	(61,065)	-	21,139	(101,188)	(141,114)
July 1, 2015,	3,606,098	-	-	1,163,479	4,769,577
Increase (Decrease) in reserve for inventory				24,496	24,496
June 30, 2016	\$ 3,545,033	\$ -	\$ 21,139	\$ 1,086,787	\$ 4,652,959

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

SCOTT COUNTY SCHOOL DISTRICT

Exhibit D-1

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**

Net change in fund balances - total governmental funds **\$ (141,114)**

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	\$ 144,143	
Depreciation expense	<u>(672,202)</u>	(528,059)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (53,233)

3. 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	76,936	
Accrued interest payable	<u>1,351</u>	78,287

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

Pension contributions for the FYE 6/30/16 are reported as a deferred outflow	2,809,770	
Pension expense calculated during the implementation of GASB 68	<u>(4,619,692)</u>	(1,809,922)

5. 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	(4,073)	
Change in inventory reserve	<u>24,496</u>	<u>20,423</u>

Change in Net Position of governmental activities **\$ (2,433,618)**

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

SCOTT COUNTY SCHOOL DISTRICT
Fiduciary Funds
Statement of Fiduciary Assets and Liabilities
June 30, 2016

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 1,222,764
Due from other funds	2,554
Total Assets	<u>\$ 1,225,318</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,007,370
Due to other funds	3,078
Due to student clubs	214,870
Total Liabilities	<u>\$ 1,225,318</u>

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

SCOTT COUNTY 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 a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

For financial reporting purposes, Scott County 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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.

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 revenues received to operate the Title I grant the district receives to improve instructional efforts of the district.

Vocational Fund – This is a special revenue fund that accounts for the local, state, and federal revenue received and expenditures incurred related to the District's vocational education program.

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 school district also reports fiduciary funds which focus on assets and liabilities only.

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund is used as a clearing fund for payroll type transactions.

Student Club Funds – These various funds account for the monies raised through school club activities and fundraisers and club related expenditures approved by the individual clubs.

Accounts Payable Clearing Fund – This fund is used as a clearing fund for accounts payable type transactions.

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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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

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 county 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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.

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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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.

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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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.

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 a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow related to pensions. See Note 15 for further details.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The district has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 15 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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.

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. This formal action is the resolution approved by the Board. 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 the Business Manager pursuant to authorization established 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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.

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year-end of not less than 10% of general revenues. If the unassigned fund balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

Note 2 – Cash and Cash Equivalents

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,156,896 and \$ 1,222,764, respectively. The carrying amount of deposits reported in the government-wide financial statements was \$4,156,896. \$4,073,488 is reported as cash and cash equivalents and \$83,408 is reported as restricted assets.

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 of \$6,996,326 was exposed to custodial credit risk.

SCOTT COUNTY 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	\$ 32,769
	Vocational Fund	192,063
	Other Governmental Funds	77,297
	Agency Funds	3,078
Agency Funds	General Fund	2,554
Total		<u>\$ 307,761</u>

The primary purpose of the interfund receivables and payables is to close our federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

B. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Title I Fund	\$ 10,000
	Other Governmental Funds	87,760
Vocational Fund	General Fund	121,821
Total		<u>\$ 219,581</u>

The primary purpose of the interfund transfers was to transfer funds to various other governmental funds for operating purposes. These transfers were consistent with the activities of the fund making the transfer.

Note 4 – Restricted Assets

The restricted assets represent the cash totaling \$83,408 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 5 – Capital Assets

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

	<u>Balance</u> <u>7/1/2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2016</u>
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 127,250	\$	\$	\$ 127,250
Total non-depreciable capital assets	<u>127,250</u>	<u>-</u>	<u>-</u>	<u>127,250</u>
<u>Depreciable capital assets:</u>				
Buildings	20,073,919			20,073,919
Building improvements	616,659			616,659
Improvements other than buildings	814,763			814,763
Mobile equipment	4,538,397	69,900	(8,684)	4,599,613
Furniture and equipment	1,214,711	74,243	(280,076)	1,008,878
Leased property under capital leases	398,400			398,400
Total depreciable capital assets	<u>27,656,849</u>	<u>144,143</u>	<u>(288,760)</u>	<u>27,512,232</u>
<u>Less accumulated depreciation for:</u>				
Buildings	8,946,110	330,598		9,276,708
Building improvements	143,155	24,737		167,892
Improvements other than buildings	575,622	8,430		584,052
Mobile equipment	3,398,011	200,945	(7,816)	3,591,140
Furniture and equipment	986,695	71,635	(227,711)	830,619
Leased property under capital leases	35,855	35,857		71,712
Total accumulated depreciation	<u>14,085,448</u>	<u>672,202</u>	<u>(235,527)</u>	<u>14,522,123</u>
Total depreciable capital assets, net	<u>13,571,401</u>	<u>(528,059)</u>	<u>(53,233)</u>	<u>12,990,109</u>
Governmental activities capital assets, net	<u>\$ 13,698,651</u>	<u>\$ (528,059)</u>	<u>\$ (53,233)</u>	<u>\$ 13,117,359</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 380,400
Support Services	245,100
Noninstructional	46,702
Total Depreciation expense - Governmental activities	<u>\$ 672,202</u>

SCOTT COUNTY 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. Obligations under capital leases	402,900		(76,936)	325,964	78,716
B. Compensated absences payable	170,570	4,073		174,643	
Total	<u>\$ 573,470</u>	<u>\$ 4,073</u>	<u>\$ (76,936)</u>	<u>\$ 500,607</u>	<u>\$ 78,716</u>

A. Obligations under capital leases

The school district has entered into a lease agreement as lessee for financing the acquisition of school buses at a cost of \$402,900. This lease qualifies as a capital lease for accounting purposes.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
BancorpSouth Equipment Finance, Series 2014	2.29%	9/26/2014	9/26/2019	\$ 402,900	\$ 325,964

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

Year Ending June 30	Principal	Interest & Maintenance Charges	Total
2017	\$ 78,716	\$ 7,543	\$ 86,259
2018	80,538	5,722	86,260
2019	82,402	3,858	86,260
2020	84,308	1,951	86,259
Total	<u>\$ 325,964</u>	<u>\$ 19,074</u>	<u>\$ 345,038</u>

This debt will be retired from the District Maintenance Fund (General Fund).

B. 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 7 – 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.

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 \$2,809,770, \$2,632,839 and \$2,502,354, respectively, which equaled the required contributions for each year.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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 \$41,736,676 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 .27 percent, which was based on a measurement date of June 30, 2015. This was an increase of .01 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.

For the year ended June 30, 2016, the District recognized pension expense of \$4,619,692. 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	\$ 957,528	\$
Net difference between projected and actual earnings on pension plan investments	2,442,042	3,431,058
Changes of assumptions	3,595,471	
Changes in proportion and differences between District contributions and proportionate share of contributions	1,141,767	
District contributions subsequent to the measurement date	2,809,770	
Total	\$ <u>10,946,578</u>	\$ <u>3,431,058</u>

\$2,809,770 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	\$ 1,695,978
2018	1,609,727
2019	789,535
2020	610,510
2021	-
Thereafter	-

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

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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:

<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	\$ 55,012,762	\$ 41,736,676	\$ 30,720,006

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

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 8 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2017	\$ 144,229
2018	139,341
2019	133,017
2020	124,693
2021	116,016
2022 – 2026	578,879
2027 – 2031	471,342
2032 – 2036	312,151
2037 – 2041	148,868
Thereafter	139,481
Total	<u>\$ 2,308,017</u>

Note 9 – 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 10 – 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

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 11 – Alternative School Consortium

The school district entered into an Alternative School Agreement dated April 12, 1994, creating the consortium. 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 Union Public School District, Scott County School District, Newton Municipal School District, and Newton County 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 Union Public School District has been designated as the lead school district for the consortium and the operations of the consortium are included in its financial statements.

Note 12 - Vocational School Consortium

The school district entered into a Vocational Educational Agreement dated April 16, 1994, creating the Forest County Career and Technology 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 the Scott County School District and the Forest Municipal 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.

The Scott County School District has been designated as the fiscal agent for Forest County Career and Technology Center and the operations of the consortium are included in its financial statements.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Forest Scott County Career and Technology Center.

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2016

Revenues

Local sources:

Tuition from other LEA's within the state:

Forest Municipal School District	\$ 191,590
Total tuition from other LEA's within the state	191,590

Ad Valorem	201,146
Refund from prior year expenditure	11,043
Total local sources	403,779

State sources	673,219
Federal sources	72,196
Total Revenues	1,149,194

Expenditures

Salaries	782,938
Employee benefits	260,729
Purchased property services	46,148
Other purchased services	36,693
Supplies	47,889
Property	72,892
Other	2,587
Total Expenditures	1,249,876
Excess (Deficiency) of Revenues Over (Under) Expenditures	(100,682)

Other Financing Sources/Uses:

Transfers In	121,821
Total Other Financing Sources/Uses	121,821
Net Change in Fund Balance	21,139

Fund Balance:

July 1, 2015	-
June 30, 2016	\$ 21,139

SCOTT COUNTY SCHOOL DISTRICT
Notes to Financial Statements

Note 15 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of \$(30,856,491) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$10,946,578 balance of the deferred outflow of resources at June 30, 2016 will be recognized as expenses and decrease unrestricted net position over the next 3 years.

The unrestricted net position amount of \$(30,856,491) includes the effect of the recognition of revenue resulting from a deferred inflow from pensions. The \$3,431,058 balance of deferred inflow of resources at June 30, 2016 will be recognized as revenue and increase unrestricted net position over the next 4 years.

Note 16 - 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 Scott County School District evaluated the activity of the district through March 29, 2017, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

- On September 13, 2016 the district approved a resolution to borrow \$1,300,000 from Priority One Bank. The note is a 3 Mill Note and will accrue interest at an annual rate of 2.02%. The proceeds from the note will be used to finance the expansion of the cafeteria at the Morton school.
- On January 17, 2017 the district adopted a resolution to submit a Qualified Zone Academy Bond application. These funds would be used for energy efficiency improvements for various school buildings. The total estimated cost of the project approximates \$4,350,000. The district received approval from the Mississippi Department of Education for this application on February 2, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

Scott County 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	\$ 3,304,489	\$ 3,380,200	\$ 3,410,782	\$ 75,711	\$ 30,582
State sources	21,010,361	20,708,613	20,703,426	(301,748)	(5,187)
Federal sources	251,000	629,877	629,877	378,877	-
Sixteenth section sources	353,000	545,033	545,033	192,033	-
Total Revenues	24,918,850	25,263,723	25,289,118	344,873	25,395
Expenditures:					
Instruction	16,230,953	16,000,890	16,000,890	230,063	-
Support services	8,641,516	9,202,174	9,202,499	(560,658)	(325)
Sixteenth section	49,800	36,473	36,473	13,327	-
Facilities acquisition and construction	-	325	-	(325)	325
Debt service:					
Principal	76,936	76,936	76,936	-	-
Interest	9,324	9,324	9,324	-	-
Total Expenditures	25,008,529	25,326,122	25,326,122	(317,593)	-
Excess (Deficiency) of Revenues over (under) Expenditures	(89,679)	(62,399)	(37,004)	27,280	25,395
Other Financing Sources (Uses):					
Operating transfers in	3,129,767	3,150,469	97,760	20,702	(3,052,709)
Operating transfers out	(3,096,230)	(3,174,530)	(121,821)	(78,300)	3,052,709
Total Other Financing Sources (Uses)	33,537	(24,061)	(24,061)	(57,598)	-
Net Change in Fund Balances	(56,142)	(86,460)	(61,065)	(30,318)	25,395
Fund Balances:					
July 1, 2015, as previously reported	3,366,644	3,596,462	3,606,098	229,818	9,636
Prior period adjustments	-	19,731	-	19,731	(19,731)
July 1, 2015, as restated	3,366,644	3,616,193	3,606,098	249,549	(10,095)
June 30, 2016	\$ 3,310,502	\$ 3,529,733	\$ 3,545,033	\$ 219,231	\$ 15,300

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

Scott County School District
Required Supplementary Information
Budgetary Comparison Schedule
Title I 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	\$ -	\$ -	\$ 244	\$ -	\$ 244
Federal sources	1,674,733	1,674,733	1,527,444	-	(147,289)
Total Revenues	1,674,733	1,674,733	1,527,688	-	(147,045)
Expenditures:					
Instruction	1,186,047	1,353,536	1,185,982	(167,489)	167,554
Support services	459,097	385,155	320,677	73,942	64,478
Noninstructional services	22,713	21,524	11,029	1,189	10,495
Total Expenditures	1,667,857	1,760,215	1,517,688	(92,358)	242,527
Excess (Deficiency) of Revenues over (under) Expenditures	6,876	(85,482)	10,000	(92,358)	95,482
Other Financing Sources (Uses):					
Operating transfers out	(6,876)	(10,000)	(10,000)	(3,124)	-
Total Other Financing Sources (Uses)	(6,876)	(10,000)	(10,000)	(3,124)	-
Net Change in Fund Balances	-	(95,482)	-	(95,482)	95,482
Fund Balances:					
July 1, 2015,	(29,534)	-	-	29,534	-
June 30, 2016	\$ (29,534)	\$ (95,482)	\$ -	\$ (65,948)	\$ 95,482

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

Scott County School District
Required Supplementary Information
Budgetary Comparison Schedule
Vocational 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	\$ 449,822	\$ 403,779	\$ 403,779	\$ (46,043)	\$ -
State sources	619,930	673,219	673,219	53,289	-
Federal sources	65,455	72,196	72,196	6,741	-
Total Revenues	1,135,207	1,149,194	1,149,194	13,987	-
Expenditures:					
Instruction	873,793	936,680	936,680	(62,887)	-
Support services	351,436	313,196	313,196	38,240	-
Total Expenditures	1,225,229	1,249,876	1,249,876	(24,647)	-
Excess (Deficiency) of Revenues over (under) Expenditures	(90,022)	(100,682)	(100,682)	(10,660)	-
Other Financing Sources (Uses):					
Operating transfers in	90,022	121,821	121,821	31,799	-
Total Other Financing Sources (Uses)	90,022	121,821	121,821	31,799	-
Net Change in Fund Balances	-	21,139	21,139	21,139	-
Fund Balances:	-	-	-		
July 1, 2015,	-	-	-	-	-
June 30, 2016	\$ -	\$ 21,139	\$ 21,139	\$ 21,139	\$ -

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

SCOTT COUNTY SCHOOL DISTRICT
Required Supplementary Information
Schedule Of The District's Proportionate Share Of The Net Pension Liability
PERS
Last 10 Fiscal Years*

	2016	2015
District's proportion of the net pension liability	\$ 41,736,676	31,559,239
District's proportionate share of the net pension liability (asset)	0.27%	0.26%
District's covered-employee payroll	\$ 16,716,420	15,887,962
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	249.67%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	61.70%	67.21%

The notes to 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.

The 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.

SCOTT COUNTY SCHOOL DISTRICT
Required Supplementary Information
Schedule of District Contributions
PERS
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,809,770	2,632,839
Contribution in relation to the contractually required contribution	2,809,770	2,632,839
Contribution deficiency (excess)	<u>-</u>	<u>-</u>
District's covered-employee payroll	17,839,796	16,716,420
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

The 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.

SCOTT COUNTY SCHOOL DISTRICT
Notes to Required Supplementary Information

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

There were no changes of benefit terms for the FYE 6/30/2016.

(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

SCOTT COUNTY SCHOOL DISTRICT
Supplementary 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	\$ 666,452
National school lunch program	10.555	1,732,425
Total child nutrition cluster		2,398,877
Total passed-through Mississippi Department of Education		2,398,877
Passed-through Scott County Board Of Supervisors		
Schools and roads - grants to states	10.665	211,344
Total passed-through Scott County Board Of Supervisors		211,344
Total U.S. Department of Agriculture		2,610,221
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	403,514
Total Federal Communications Commission		403,514
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,527,444
Career and technical education - basic grants to states	84.048	72,196
Rural education	84.358	58,485
English language acquisition grants	84.365	28,328
Improving teacher quality-State Grants	84.367	266,767
Subtotal		1,953,220
Special education cluster:		
Special education - grants to states	84.027	811,379
Special education - preschool grants	84.173	22,759
Total special education cluster		834,138
Total passed-through Mississippi Department of Education		2,787,358
Total U.S. Department of Education		2,787,358
Total for All Federal Awards		\$ 5,801,093

The accompanying notes are an integral part of this schedule

SCOTT COUNTY SCHOOL DISTRICT
Notes to Schedule of Expenditures of Federal Awards

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the Scott County School District under programs of the federal and state governments for the year ended June 30, 2016. The information in this schedule is presented in accordance with the 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). Because the Schedule presents only a selected portion of the operations of the Scott County School District it is not intended to and does not present the financial position, changes in net position, or cash flows of the Scott County School District.

Note 2 – Basis of Accounting

This schedule is prepared on the same basis of accounting as the Scott County School District's financial statements. The District uses the current financial resources measurement focus and the modified accrual basis of accounting.

Note 3 – Program Costs

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Entire program costs, including the District's portion, are more than shown. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, or the cost principles contained in Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

Note 4 – Noncash Awards – Donated Commodities

The amount of donated commodities reported on the schedule is the value of donated commodities received by the school district and reported under the National School Lunch Program CFDA # 10.555. The value of the commodities received during the fiscal year was \$149,754.

Note 5 – Indirect Cost Rate

The district has not elected to use the 10-percent de minimum indirect cost rate allowed under the Uniform Guidance.

Scott County School District
Supplementary Information
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2016

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 24,492,838	18,437,813	1,363,345	1,851,702	2,839,978
Other	7,680,496	2,755,846	927,735	28,406	3,968,509
Total	<u>\$ 32,173,334</u>	<u>21,193,659</u>	<u>2,291,080</u>	<u>1,880,108</u>	<u>6,808,487</u>
Total number of students *	<u>3,994</u>				
Cost per student	<u>\$ 8,056</u>	<u>5,306</u>	<u>574</u>	<u>471</u>	<u>1,705</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

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

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

Scott County 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	\$ 3,410,782	\$ 3,097,124	\$ 2,870,507	\$ 3,538,868
State sources	20,703,426	19,375,735	18,833,216	18,115,049
Federal sources	629,877	331,976	413,810	214,497
Sixteenth section sources	545,033	501,136	-	22,702
Total Revenues	25,289,118	23,305,971	22,117,533	21,891,116
Expenditures:				
Instruction	16,000,890	15,258,814	15,296,712	14,392,312
Support services	9,202,499	8,879,298	8,643,204	7,919,121
Noninstructional services	-	-	120	35,964
Sixteenth section	36,473	60,398	-	73,339
Debt service:				
Principal	76,936	-	-	-
Interest	9,324	-	-	-
Total Expenditures	25,326,122	24,198,510	23,940,036	22,420,736
Excess (Deficiency) of Revenues over (under) Expenditures	(37,004)	(892,539)	(1,822,503)	(529,620)
Other Financing Sources (Uses):				
Capital leases issued	-	402,900	-	-
Insurance recovery	-	-	-	12,805
Operating transfers in	97,760	112,907	820,962	128,098
Other financing sources	-	-	14,220	-
Operating transfers out	(121,821)	(178,929)	(64,451)	(683,481)
Other financing uses	-	-	(275,493)	-
Total Other Financing Sources (Uses)	(24,061)	336,878	495,238	(542,578)
Net Change in Fund Balances	(61,065)	(555,661)	(1,327,265)	(1,072,198)
Fund Balances:				
Beginning of period, as previously reported	3,606,098	1,883,136	3,189,147	4,259,068
Prior period adjustments	-	(16,126)	21,254	2,277
Fund balance reclassifications	-	2,294,749	-	-
Beginning of period, as restated	3,606,098	4,161,759	3,210,401	4,261,345
End of Period	\$ 3,545,033	\$ 3,606,098	\$ 1,883,136	\$ 3,189,147

*SOURCE - PRIOR YEAR AUDIT REPORTS

SCOTT COUNTY 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	\$ 3,954,691	\$ 3,916,955	\$ 3,667,435	\$ 3,931,173
State sources	21,655,959	20,231,378	19,693,036	18,566,210
Federal sources	5,813,545	5,765,205	4,588,070	4,591,532
Sixteenth section sources	608,025	545,293	391,317	538,178
Total Revenues	32,032,220	30,458,831	28,339,858	27,627,093
Expenditures:				
Instruction	18,687,164	18,255,998	17,445,031	16,995,725
Support services	10,735,550	10,439,776	9,891,233	8,715,274
Noninstructional services	2,575,282	2,516,238	2,298,541	2,339,780
Sixteenth section	89,078	102,722	30,599	49,310
Facilities acquisition and construction	-	-	-	73,339
Debt service:	76,936			
Principal	9,324	-	-	-
Interest		-	-	-
Total Expenditures	32,173,334	31,314,734	29,665,404	28,173,428
Excess (Deficiency) of Revenues over (under) Expenditures	(141,114)	(855,903)	(1,325,546)	(546,335)
Other Financing Sources (Uses):				
Capital leases issued	-	402,900	-	-
Insurance recovery	-	-	-	12,805
Operating transfers in	219,581	291,836	885,413	811,579
Other financing sources	-	-	14,220	-
Operating transfers out	(219,581)	(291,836)	(885,413)	(811,579)
Other financing uses	-	-	(293,160)	-
Total Other Financing Sources (Uses)	-	402,900	(278,940)	12,805
Net Change in Fund Balances	(141,114)	(453,003)	(1,604,486)	(533,530)
Fund Balances:				
Beginning of period, as previously reported	4,769,577	5,252,295	6,840,005	7,362,882
Prior period adjustments	-	(9,400)	11,506	2,277
Beginning of period, as restated	4,769,577	5,242,895	6,851,511	7,365,159
Increase (Decrease) in reserve for inventory	24,496	(20,315)	5,270	8,376
End of Period	\$ 4,652,959	\$ 4,769,577	\$ 5,252,295	\$ 6,840,005

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

James L. Stafford, CPA	Kimberly S. Caskey, CPA
Harry W. Stevens, CPA	Susan M. Lummus, CPA
S. Keith Winfield, CPA	Thomas J. Browder, CPA
William B. Stagers, CPA	Stephen D. Flake, CPA
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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
Scott County 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 Scott County School District as of and for the year ended June 30, 2016, and the related notes to financial statements, which collectively comprise the Scott County School District's basic financial statements and have issued our report thereon dated March 29, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Scott County 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 Scott County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Scott County 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 2016-1**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Scott County 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*.

Scott County School District's Response to Finding

Scott County School District's response to the finding identified in our audit is described in the accompanying Auditees' corrective action plan. Scott County 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

Watkins Ward and Stafford, PLLC



WATKINS, WARD and STAFFORD
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Certified Public Accountants

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**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
Scott County School District

Report on Compliance for Each Major Federal Program

We have audited the Scott County 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 Scott County School District's major federal programs for the year ended June 30, 2016. Scott County School District's major federal programs are identified in the summary of auditor's 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 Scott County 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 Scott County 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 Scott County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, the Scott County 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.

Report on Internal Control over Compliance

Management of the Scott County 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 Scott County 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 Scott County 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as **Findings 2016-2 and 2016-3**, we consider to be significant deficiencies.

Scott County School District's Responses to Findings

Scott County School District's responses to the findings identified in our audit are described in the accompanying auditee's corrective action plan. Scott County School District's responses were 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 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

Watkins Ward and Stafford, PLLC

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



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

To the Superintendent and School Board
Scott County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Scott County School District as of and for the year ended June 30, 2016, which collectively comprise Scott County School District's basic financial statements and have issued our report thereon dated March 29, 2017. 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 reported 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 did not disclose any instances of noncompliance with other state laws and regulations.

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
March 29, 2017

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SCOTT COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30,2016

Section I: Summary of Auditors' Results

Financial Statements:

- | | |
|---|------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 3. Noncompliance material to financial statements noted? (Yes/No) | No |

Federal Awards:

- | | |
|--|------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| b. Significant deficiency(ies) identified? (Yes/None reported) | 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/No) | 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
84.027/84.173	Special Education Cluster

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. Auditee qualified as low-risk auditee? (yes/no) | No |

Section II: Financial Statement Findings

Significant Deficiency

Finding 2016-1 Internal Controls Over Activity Fund Receipts Should Be Strengthened

As noted in the prior year controls over activity fund receipts should be strengthened. During our testing of activity fund receipts we noted the following deficiencies:

Sebastopol Attendance Center

- We noted four instances where no gate worker or only one gate workers' signature was obtained verifying cash collected with tickets sold at an athletic event.

Scott Central Attendance Center

- We noted two instances where an athletic event form was only signed by one gate worker.
- We noted four occasions where the athletic event form was not approved by the principal.

Lake High School

- We noted two occasions where the athletic event form was not signed by the school principal to document approval of the gate receipt.
- We noted there was a significant delay between the date the funds were received until the date they were deposited into the bank account on seven occasions.
- We noted personnel were not writing checks for change prior to athletic events and redepositing the funds after each game therefore maintaining cash at the school with no accounting for the funds held.

Proper internal controls were not in place to ensure deposits were made timely, revenue was coded to proper accounts and that documentation was retained to provide assurances that the proper amount of revenue was recorded.

Without proper internal controls being in place to account for all monetary transactions, the district increases the risk of misappropriation of assets and inaccurate recording of revenue.

Recommendation

We recommend the district implement internal controls to ensure that all deposits are made daily, revenue is properly reported and documentation is maintained to substantiate all receipts. We also recommend that all school event forms contain the correct information regarding beginning and ending ticket numbers for the applicable event, that tickets be issued sequentially with the gate workers and principal at the individual school verifying and signing the applicable event form.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiency

Finding 2016-2 Internal Controls Surrounding Child Nutrition Expenditures Should Be Strengthened

Program:Child Nutrition Cluster, Passed-through the Mississippi Department of Education- CFDA 10.553 and 10.555

Compliance requirement: Allowable costs/ cost principles

Management is responsible for establishing internal controls to provide reasonable assurance that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

During our test of general disbursements charged to the Child Nutrition Cluster, we noted the following deficiency:

- Noted two instances where a purchase order was prepared after the actual purchase occurred.

During our testing of payroll disbursements charged to the Child Nutrition Cluster, we noted the following deficiencies:

- Noted food service secretary has the ability to change time entered into the payroll system manually. Also noted the secretary had added time on a consistent basis during the year with no evidence of the food service supervisors' approval.
- Noted one food service employee was not using the fingerprint scanner for time keeping. Noted food service administrative personnel were manually entering in time for this employee.

Recommendation

We recommend the district implement controls and procedures to ensure that all expenditures are properly authorized and not paid until adequate supporting documentation documenting that the purchase has been properly authorized has been obtained.

Significant Deficiency

Finding 2016-3 Internal Controls Surrounding Verification Procedures Should Be Strengthened

Program: Child Nutrition Cluster, Passed-through the Mississippi Department of Education- CFDA 10.553 and 10.555

Compliance requirement: Special Tests and Provisions - Verification

Management is responsible for complying with the requirements of the National School Lunch Program and complete applicable verification of student paying status procedures. Each school year by November 15th the local education agency must verify the current free and reduced price eligibility of households selected from a sample of applications that it has approved for free and reduced price meals.

During our test work on the district's verification process we noted that the district tested the appropriate number of applications. However we noted one instance where a student status (free, reduced or paying) should have been changed after verification procedures but was not changed properly.

Inadequate software design and lack of supervisory review of verification results resulted in an improper determination of student eligibility after verification procedures.

Recommendation

We recommend that the district personnel review verification results after verification procedures are completed and determined that the applicable student status is properly changed if verification procedures determine it should be.

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

SCOTT COUNTY SCHOOLS

Dr. Tony McGee, Superintendent
Chad Harrison, Assistant Superintendent

100 East First Street, Suite B
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Finance & Compliance Audit Division

As required by Section_2 CFR 200.516(a) of the Uniform Circular, the Scott County 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:</p> <p>Al Ladner, Business Manager, 601-469-3861</p> <p>b. Corrective Action Planned:</p> <p>The District will make sure internal controls for activity funds are strengthened to ensure all funds are accounted for and deposited in a timely manner. Also we will implement procedures for documentation so all revenue is properly recorded.</p> <p>c. Anticipated Completion Date:</p> <p>June 30, 2017</p>
2016-02	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Vivian McGarrity, Food Service Director, 601-469-7986</p> <p>b. Corrective Action Planned:</p> <p>The District will implement internal controls and procedures to ensure that all expenditures of federal funds are properly authorized and that all supporting documentation is present so goods and services are received before they are paid.</p> <p>c. Anticipated Completion Date:</p> <p>The District will implement these controls and procedures immediately.</p>
2016-03	<p>a. Name of Contact Person Responsible for Corrective Action:</p> <p>Vivian McGarrity, Food Service Director, 601-469-7986</p>

b. Corrective Action Planned:

The Food Service personnel will review verification results to ensure applicable student status has properly changed and is correct.

c. Anticipated Completion Date:

June 30, 2017

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SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Financial and Compliance Audit Division

As required by Section ____2 CFR 200.516(a) of the Uniform Guidance, Scott County 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>
2015-1	Corrected
2015-2	Not Corrected
2015-3	Corrected
2015-4	Not Corrected
2015-5	Corrected

Sincerely,

Dr. Tony McGee, Superintendent