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**Smith County School District**

Audited Financial Statements  
For the Year Ended June 30, 2016

**Fortenberry & Ballard, PC**  
Certified Public Accountants

**Smith County School District  
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## FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL  
STATEMENTS AND SUPPLEMENTARY INFORMATION

Superintendent and School Board  
Smith 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 Smith County School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Smith 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.

**Auditor's 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 auditor's 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 auditor considers 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 District'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 Smith 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 and the Schedules of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 8 to 15 and 50 to 54, 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 Smith 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 Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were

derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2017, on our consideration of the Smith 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 Smith County School District's internal control over financial reporting and compliance.

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC  
January 24, 2017

Certified Public Accountants



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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

The following discussion and analysis of Smith 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 \$890,438, which represents a 147% decrease from fiscal year 2015. Total net position for 2015 decreased \$29,609,488, including a prior period adjustment of (\$28,557,656) related to the net pension liability, which represents a 98% decrease from fiscal year 2014.
- General revenues amounted to \$19,802,070 and \$18,695,569, or 80% and 80% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,878,508, or 20% of total revenues for 2016, and \$4,795,587, or 20% of total revenues for 2015.
- The District had \$25,571,016 and \$24,542,988 in expenses for fiscal years 2016 and 2015; only \$4,878,508 for 2016 and \$4,795,587 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$19,802,070 for 2016 and \$18,695,569 for 2015 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$19,959,938 in revenues and \$18,851,176 in expenditures for 2016, and \$18,904,305 in revenues and \$19,617,102 in expenditures in 2015. The General Fund's fund balance decreased by \$194,562 from 2015 to 2016, and increased by \$2,946,810 from 2014 to 2015, including a fund reclassification of \$4,840,525.
- Capital assets, net of accumulated depreciation, decreased by \$351,788 for 2016 and decreased by \$570,145 for 2015. The decrease for 2016 was due to the disposal of various items of mobile equipment and furniture and equipment coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$95,011 for 2016 and decreased by \$218,423 for 2015. The decrease for 2016 was due to the principal payment on outstanding long-term debt. The liability for compensated absences decreased by \$1,519 for 2016 and increased by \$9,169 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.

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

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

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.

SMITH 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.

**Supplementary Information**

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

**Other Information**

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net position**

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and

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

deferred inflows of resources exceeded assets and deferred outflows of resources by \$283,377 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	\$ 8,244,858	\$ 8,700,767	(5.24) %
Restricted assets	7,821,400	7,338,512	6.58 %
Capital assets, net	15,451,900	15,803,688	(2.23) %
<b>Total assets</b>	<b>31,518,158</b>	<b>31,842,967</b>	<b>(1.02) %</b>
 <b>Deferred outflows of resources</b>	 <b>5,853,849</b>	 <b>2,460,840</b>	 <b>137.88 %</b>
 Current liabilities	 210,030	 156,363	 34.32 %
Long-term debt outstanding	3,267,119	3,363,649	(2.87) %
Net pension liability	32,485,973	25,190,828	28.96 %
<b>Total liabilities</b>	<b>35,963,122</b>	<b>28,710,840</b>	<b>25.26 %</b>
 <b>Deferred inflows of resources</b>	 <b>1,692,262</b>	 <b>4,985,906</b>	 <b>(66.06) %</b>
 <b>Net position:</b>			
Net investment in capital assets	12,451,900	12,803,688	(2.75) %
Restricted	9,416,518	9,248,644	1.82 %
Unrestricted	(22,151,795)	(21,445,271)	3.29 %
<b>Total net position</b>	<b>\$ (283,377)</b>	<b>\$ 607,061</b>	<b>(146.68) %</b>

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)	\$ (22,151,795)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	28,324,386
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 6,172,591</u>

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

- Decrease in net capital assets in the amount of \$351,788.
- The principal retirement of \$95,011 of long-term debt.
- Recognition of the net pension liability in the amount of \$32,485,973.

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

**Changes in net position**

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$24,680,578 and \$23,491,156, respectively. The total cost of all programs and services was \$25,571,016 for 2016 and \$24,542,988 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
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 1,143,385	\$ 1,064,328	7.43 %
Operating grants and contributions	3,735,123	3,731,259	0.10 %
General revenues:			
Property taxes	4,808,152	4,631,871	3.81 %
Grants and contributions not restricted	13,830,077	13,210,303	4.69 %
Investment earnings	136,216	146,036	(6.72) %
Sixteenth section sources	957,524	647,714	47.83 %
Other	70,101	59,645	17.53 %
<b>Total revenues</b>	<b>24,680,578</b>	<b>23,491,156</b>	<b>5.06 %</b>
<b>Expenses:</b>			
Instruction	12,927,407	12,910,009	0.13 %
Support services	8,062,902	8,546,037	(5.65) %
Non-instructional	1,624,998	1,635,087	(0.62) %
Sixteenth section	64,545	25,340	154.72 %
Pension expense	2,698,743	1,226,109	120.11 %
Interest on long-term liabilities	192,421	200,406	(3.98) %
<b>Total expenses</b>	<b>25,571,016</b>	<b>24,542,988</b>	<b>4.19 %</b>
<b>Increase (Decrease) in net position</b>	<b>(890,438)</b>	<b>(1,051,832)</b>	<b>(15.34) %</b>
<b>Net Position, July 1, as previously reported</b>	<b>607,061</b>	<b>30,216,549</b>	(97.99) %
<b>Prior Period Adjustment</b>	<b>-</b>	<b>(28,557,656)</b>	100.00 %
<b>Net Position, July 1, as restated</b>	<b>607,061</b>	<b>1,658,893</b>	<b>(63.41) %</b>
<b>Net Position, June 30</b>	<b>\$ (283,377)</b>	<b>\$ 607,061</b>	<b>(146.68) %</b>

**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.

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

**Table 3**  
**Net Cost of Governmental Activities**

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2016</b>	<b>2015</b>	
Instruction	\$ 12,927,407	\$ 12,910,009	0.13 %
Support services	8,062,902	8,546,037	(5.65) %
Non-instructional	1,624,998	1,635,087	(0.62) %
Sixteenth section	64,545	25,340	154.72 %
Pension Expense	2,698,743	1,226,109	120.11 %
Interest on long-term liabilities	192,421	200,406	(3.98) %
<b>Total expenses</b>	<b>\$ 25,571,016</b>	<b>\$ 24,542,988</b>	<b>4.19 %</b>

  

	<b>Net (Expense) Revenue</b>		<b>Percentage Change</b>
	<b>2016</b>	<b>2015</b>	
Instruction	\$ (10,661,641)	\$ (10,630,757)	(0.29) %
Support services	(7,262,663)	(7,785,173)	6.71 %
Non-instructional	76,138	97,070	(21.56) %
Sixteenth section	46,822	(2,026)	2411.06 %
Pension Expense	(2,698,743)	(1,226,109)	(120.11) %
Interest on long-term liabilities	(192,421)	(200,406)	3.98 %
<b>Total net (expense) revenue</b>	<b>\$ (20,692,508)</b>	<b>\$ (19,747,401)</b>	<b>(4.79) %</b>

- Net cost of governmental activities (\$20,692,508 for 2016 and \$19,747,401 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$4,808,152 for 2016 and \$4,631,871 for 2015) and state and federal revenues (\$13,830,077 for 2016 and \$13,210,303 for 2015). In addition, there was \$957,524 and \$647,714 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$136,216 for 2016 and \$146,036 for 2015.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$16,008,162, a decrease of \$28,064, which includes a decrease in inventory of \$6,871. \$5,297,323, or 33% 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 \$10,710,839, or 67% is either nonspendable, restricted, or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$194,562. The fund balance of Other Governmental Funds showed a decrease in the amount of \$49,848, which includes a decrease in inventory of \$6,871. The increase (decrease) in the fund balances for the other major funds were as follows:

Title I Fund	<u>Major Fund</u>	<u>Increase (Decrease)</u>
		no increase or decrease
Sixteenth Section Principal Fund	\$	216,346

## 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. Budget revisions during the year were routine in nature and were insignificant when compared to the total revenues and expenditures of the 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 are 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 \$27,808,877, including land, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$264,284 from 2015 due primarily to the purchase of land, six school buses, and various other items of mobile equipment and furniture and equipment. Total accumulated depreciation as of June 30, 2016, was \$12,356,977, and total depreciation expense for the year was \$823,181, resulting in total net capital assets of \$15,451,900.

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 276,690	\$ 266,690	3.75 %
Buildings	12,838,174	13,241,026	(3.04) %
Building improvements	105,676	117,728	(10.24) %
Improvements other than buildings	610,936	655,179	(6.75) %
Mobile equipment	1,525,065	1,360,025	12.14 %
Furniture and equipment	95,359	163,040	(41.51) %
<b>Total</b>	<b>\$ 15,451,900</b>	<b>\$ 15,803,688</b>	<b>(2.23) %</b>

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



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

**Debt Administration.** At June 30, 2016, the District had \$3,267,119 in outstanding long-term debt, of which \$105,152 is due within one year. During the fiscal year, the District made a principal payment in the amount of \$95,011 on outstanding long-term debt. The liability for compensated absences decreased \$1,519 from the prior year.

**Table 5**  
**Outstanding Long-Term Debt**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
Shortfall notes payable	\$ 96,627	\$ 191,638	(49.58) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	170,492	172,011	(0.88) %
<b>Total</b>	<b><u>\$ 3,267,119</u></b>	<b><u>\$ 3,363,649</u></b>	<b>(2.87) %</b>

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

## **CURRENT ISSUES**

The Smith 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 plans to continue its sound fiscal 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 Smith County School District, P.O. Box 308, Raleigh, MS 39153.

## FINANCIAL STATEMENTS

**SMITH COUNTY SCHOOL DISTRICT**

**Statement of Net Position  
June 30, 2016**

**Exhibit A**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 4,167,732
Cash with fiscal agents	16,624
Investments	3,266,321
Due from other governments	717,847
Accrued interest receivable	3,812
Other receivables, net	40,000
Inventories	32,522
Restricted assets	7,821,400
Capital assets, non-depreciable:	
Land	276,690
Capital assets, net of accumulated depreciation:	
Buildings	12,838,174
Building improvements	105,676
Improvements other than buildings	610,936
Mobile equipment	1,525,065
Furniture and equipment	95,359
Total Assets	<u>31,518,158</u>
 <b>Deferred Outflows of Resources</b>	
Deferred outflow related to pensions	<u>5,853,849</u>
Total Deferred Outflows of Resources	<u>5,853,849</u>
 <b>Liabilities</b>	
Accounts payable and accrued liabilities	20,932
Unearned revenue	37,164
Interest payable on long-term liabilities	151,934
Long-term liabilities, due within one year:	
Non-capital related liabilities	105,152
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,000,000
Non-capital related liabilities	161,967
Net pension liability	<u>32,485,973</u>
Total Liabilities	<u>35,963,122</u>
 <b>Deferred Inflows of Resources</b>	
Deferred inflow related to pensions	<u>1,692,262</u>
Total Deferred Inflows of Resources	<u>1,692,262</u>
 <b>Net Position</b>	
Net investment in capital assets	12,451,900
Restricted for:	
Expendable:	
School-based activities	710,420
Debt service	506,122
Forestry improvements	64,909
Unemployment benefits	52,685
Non-expendable:	
Sixteenth section	8,082,382
Unrestricted	<u>(22,151,795)</u>
Total Net Position (deficit)	<u><u>\$ (283,377)</u></u>

The notes to the financial statements are an integral part of this statement.

**SMITH COUNTY SCHOOL DISTRICT**

**Statement of Activities**

**Exhibit B**

**For the Year Ended June 30, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 12,927,407	\$ 625,840	\$ 1,639,926	\$ (10,661,641)
Support services	8,062,902	-	800,239	(7,262,663)
Non-instructional	1,624,998	406,178	1,294,958	76,138
Sixteenth section	64,545	111,367	-	46,822
Pension expense	2,698,743	-	-	(2,698,743)
Interest on long-term liabilities	192,421	-	-	(192,421)
Total Governmental Activities	\$ 25,571,016	\$ 1,143,385	\$ 3,735,123	\$ (20,692,508)

General Revenues:

Taxes:

    General purpose levies 4,676,717

    Debt purpose levies 131,435

Unrestricted grants and contributions:

    State 13,532,576

    Federal 297,501

Unrestricted investment earnings 136,216

Sixteenth section sources 957,524

Other 70,101

Total General Revenues 19,802,070

Change in Net Position (890,438)

Net Position - Beginning 607,061

Net Position (deficit) - Ending \$ (283,377)

The notes to the financial statements are an integral part of this statement.

**SMITH COUNTY SCHOOL DISTRICT**

**Governmental Funds**

**Balance Sheet  
June 30, 2016**

**Exhibit C**

	Major Funds					Total
	General	Title I	Sixteenth	Other		Total
	Fund	Fund	Section Principal	Governmental		Governmental
			Fund	Funds		Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 2,995,116	\$ 13,500	\$ 1,496,812	\$ 1,159,116	\$	5,664,544
Cash with fiscal agents	16,624	-	32,031	4,069		52,724
Investments	3,266,321	-	5,910,988	377,500		9,554,809
Due from other governments	461,738	110,815	-	145,294		717,847
Accrued interest receivable	-	-	-	3,812		3,812
Other receivables, net	40,000	-	-	-		40,000
Due from other funds	354,485	-	-	-		354,485
Advance to other funds	-	-	673,943	-		673,943
Inventories	-	-	-	32,522		32,522
Total assets	\$ 7,134,284	\$ 124,315	\$ 8,113,774	\$ 1,722,313	\$	17,094,686
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 20,631	\$ -	\$ -	\$ 301	\$	20,932
Due to other funds	-	124,315	31,392	198,778		354,485
Advances from other funds	673,943	-	-	-		673,943
Unavailable revenue - federal programs	-	-	-	37,164		37,164
Total Liabilities	694,574	124,315	31,392	236,243		1,086,524
<b>Fund Balances:</b>						
<b>Nonspendable:</b>						
Inventory	-	-	-	32,522		32,522
Permanent fund principal	-	-	7,408,439	-		7,408,439
Advances	-	-	673,943	-		673,943
<b>Restricted:</b>						
Debt service	-	-	-	658,056		658,056
Forestry improvement purposes	-	-	-	64,909		64,909
Grant activities	-	-	-	118,489		118,489
Unemployment benefits	-	-	-	52,685		52,685
Food service	-	-	-	559,409		559,409
<b>Assigned:</b>						
School activities	261,309	-	-	-		261,309
Facility improvements	881,078	-	-	-		881,078
<b>Unassigned</b>	5,297,323	-	-	-		5,297,323
Total Fund Balances	6,439,710	-	8,082,382	1,486,070		16,008,162
Total Liabilities and Fund Balances	\$ 7,134,284	\$ 124,315	\$ 8,113,774	\$ 1,722,313	\$	17,094,686

The notes to the financial statements are an integral part of this statement.

**SMITH COUNTY SCHOOL DISTRICT**

**Governmental Funds**

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

**Exhibit C-1**

**Total fund balances for governmental funds** \$ 16,008,162

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	\$ 276,690	
Buildings	20,796,844	
Building improvements	301,302	
Improvements other than buildings	1,106,083	
Mobile equipment	4,128,309	
Furniture and equipment	1,199,649	
Accumulated depreciation	<u>(12,356,977)</u>	15,451,900

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

Net pension liability	(32,485,973)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	5,853,849	
Deferred inflows of resources related to pensions	<u>(1,692,262)</u>	(28,324,386)

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:

Other bonds payable	(3,000,000)	
Notes payable	(96,627)	
Compensated absences	(170,492)	
Accrued interest payable	<u>(151,934)</u>	(3,419,053)

<b>Net position of governmental activities</b>	<b>\$ <u>(283,377)</u></b>
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The notes to the financial statements are an integral part of this statement.

**SMITH COUNTY SCHOOL DISTRICT**

**Governmental Funds**

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

**Exhibit D**

	Major Funds				
	General Fund	Title I Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Local sources	\$ 5,399,358	\$ -	\$ -	\$ 519,497	\$ 5,918,855
State sources	13,425,680	-	-	832,317	14,257,997
Federal sources	297,501	822,178	-	2,187,524	3,307,203
Sixteenth section sources	837,399	-	247,738	111,386	1,196,523
Total Revenues	19,959,938	822,178	247,738	3,650,724	24,680,578
<b>Expenditures:</b>					
Instruction	12,048,842	552,709	-	1,428,284	14,029,835
Support services	6,621,694	251,356	-	1,818,122	8,691,172
Noninstructional services	-	4,613	-	1,613,373	1,617,986
Sixteenth section	350	-	-	64,195	64,545
Facilities acquisition and construction	10,000	-	-	-	10,000
Debt service:					
Principal	-	-	-	95,011	95,011
Interest	169,694	-	-	23,507	193,201
Other	596	-	-	-	596
Total Expenditures	18,851,176	808,678	-	5,042,492	24,702,346
Excess (Deficiency) of Revenues over (under) Expenditures	1,108,762	13,500	247,738	(1,391,768)	(21,768)
<b>Other Financing Sources (Uses):</b>					
Payments held by escrow agent	-	-	-	142,500	142,500
Payment to QSCB debt escrow agent	-	-	-	(142,500)	(142,500)
Sale of transportation equipment	50	-	-	-	50
Sale of other property	525	-	-	-	525
Operating transfers in	144,892	-	-	1,453,686	1,598,578
Operating transfers out	(1,448,791)	(13,500)	(31,392)	(104,895)	(1,598,578)
Total Other Financing Sources (Uses)	(1,303,324)	(13,500)	(31,392)	1,348,791	575
Net Change in Fund Balances	(194,562)	-	216,346	(42,977)	(21,193)
<b>Fund Balances:</b>					
July 1, 2015	6,634,272	-	7,866,036	1,535,918	16,036,226
Increase (Decrease) in inventory	-	-	-	(6,871)	(6,871)
June 30, 2016	\$ 6,439,710	\$ -	\$ 8,082,382	\$ 1,486,070	\$ 16,008,162

The notes to the financial statements are an integral part of this statement.

**SMITH COUNTY SCHOOL DISTRICT**

**Governmental Funds**

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

**Exhibit D-1**

**Net change in fund balances - total governmental funds** \$ (21,193)

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	\$ 493,875	
Depreciation expense	<u>(823,181)</u>	(329,306)

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. (22,482)

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	95,011	
Accrued interest payable	<u>1,376</u>	96,387

4. Some items reported in the statement of activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:

Recording of pension expense for the current period	(2,698,743)	
Recording of contributions made subsequent to the measurement date	<u>2,090,251</u>	(608,492)

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	1,519	
Change in inventory	<u>(6,871)</u>	(5,352)

<b>Change in Net Position of governmental activities</b>	<b>\$ (890,438)</b>	
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The notes to the financial statements are an integral part of this statement.



**SMITH COUNTY SCHOOL DISTRICT**

**Fiduciary Funds**

**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2016**

**Exhibit E**

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 1,211,791
Total Assets	<u>\$ 1,211,791</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 1,086,076
Due to student clubs	125,715
Total Liabilities	<u>\$ 1,211,791</u>

The notes to the financial statements are an integral part of this statement.

**Smith County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2016

## **Smith County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2016

### **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, Smith 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. For the most part, 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.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

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

Sixteenth Section Principal Fund - This is a permanent fund used to account for the nonexpendable resources generated from the sale of non-renewable resources on sixteenth section lands.

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

The District's fiduciary funds include the following:

Student Club Funds - These funds are used to account for the transaction of

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

student clubs.

Payroll Clearing Fund - This fund is used as a clearing account for payroll and payroll related 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 Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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

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

#### FIDUCIARY FUNDS

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.

## **Smith County School District**

### **Notes to the Financial Statements For the Year Ended June 30, 2016**

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 are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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 maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

#### **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.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

Investments for the district are reported at fair market value.

#### 2. Receivables and payables

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

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

#### 3. Due from Other Governments

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

#### 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 School Construction Bonds sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.



## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

#### 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 governmental column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

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

The following schedule details the capitalization thresholds:

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

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

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

#### 7. Deferred outflows/inflows of resources

In addition to assets, the statement 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 a deferred outflow which is presented as a deferred outflow for pension.

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 and so will not be recognized as an inflow of resources (revenue) until then. The school district has a deferred inflow which is presented as a deferred inflow for pension.

See Note 13 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.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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. Currently there is no committed fund balance for this school district.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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

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

When an expenditure 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 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 policy of the District to maintain a minimum fund balance in the General Fund that is not less than 7% of total revenues in the General Fund.

#### **Note 2 - Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments**

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' 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

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

#### Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$5,664,544 and \$1,211,791, respectively.

*Custodial Credit Risk - Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2016, none of the district's bank balance of \$8,114,628 was exposed to custodial credit risk.

#### Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$52,724.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

#### Investments

As of June 30, 2016, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
U. S. Treasury Notes	AAA	1 to 5	\$ 1,361,175
Federal Farm Credit Bank Bond	AAA	1 to 5	870,410
Federal Home Loan Mortgage	AAA	1 to 5	610,388
Federal Home Loan Bank Bond	AAA	5 to 10	1,345,843
Certificates of Deposit	Not Rated	Less than one year	655,791
Certificates of Deposit	Not Rated	1 to 5	3,652,428
Certificates of Deposit	Not Rated	More than 5 years	1,058,774
			<u>\$ 9,554,809</u>

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The district has the following recurring fair value measurements as of June 30, 2016:

Level 1 type of investments of \$9,554,809 are valued using quoted market process (Level 1 inputs)

*Interest Rate Risk.* The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

credit risk.

*Concentration of Credit Risk.* Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2016, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Trustmark National Bank - Certificates of Deposit	\$ 5,366,992	56.10%

### 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	\$ 124,315
	Sixteenth Section Principal Fund	31,392
	Other Governmental Funds	198,778
Total		\$ 354,485

The purpose of the more significant inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

#### B. Advances To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	\$ 673,943

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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

Year Ending June 30		Principal	Interest	Total
2017	\$	95,840	26,958	122,798
2018		99,674	23,124	122,798
2019		103,661	19,137	122,798
2020		107,807	14,991	122,798
2021		112,119	10,679	122,798
2022 - 2023		154,842	8,802	163,644
Total	\$	<u>673,943</u>	<u>103,691</u>	<u>777,634</u>

#### C. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Title I Fund	\$ 13,500
	Sixteenth Section Principal Funds	31,392
	Other Governmental Funds	100,000
Other Governmental Funds	General Funds	1,448,791
	Other Governmental Funds	4,895
Total		\$ <u>1,598,578</u>

The transfer out of the General Fund was for the purpose of funding the vocational program, debt funds and construction funds in the Other Governmental Funds. The transfer from other governmental funds to the general fund was for indirect cost. The transfer within the Other Governmental Funds was to fund a construction project.

#### Note 4 - Restricted Assets

The restricted assets represent the cash, cash with fiscal agents and investment balances, totaling \$1,496,812, \$32,031 and \$5,910,988, respectively, 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.

In addition, the restricted assets represent the cash with fiscal agents and investment balances, totaling \$4,069 and \$377,500, respectively, of the QSCB Debt Retirement Fund.



# Smith County School District

## Notes to the Financial Statements For the Year Ended June 30, 2016

### Note 5- Capital Assets

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

	Balance 7-1-2015	Additions	Retirements	Balance 6-30-2016
<u>Non-depreciable capital assets:</u>				
Land	\$ 266,690	10,000		276,690
Total non-depreciable capital assets	266,690	10,000	0	276,690
<u>Depreciable capital assets:</u>				
Buildings	20,796,844			20,796,844
Building improvements	301,302			301,302
Improvements other than buildings	1,106,083			1,106,083
Mobile equipment	3,877,227	475,375	224,293	4,128,309
Furniture and equipment	1,196,447	8,500	5,298	1,199,649
Total depreciable capital assets	27,277,903	483,875	229,591	27,532,187
<u>Less accumulated depreciation for:</u>				
Buildings	7,555,818	402,852		7,958,670
Building improvements	183,574	12,052		195,626
Improvements other than buildings	450,904	44,243		495,147
Mobile equipment	2,517,202	287,906	201,864	2,603,244
Furniture and equipment	1,033,407	76,128	5,245	1,104,290
Total accumulated depreciation	11,740,905	823,181	207,109	12,356,977
Total depreciable capital assets, net	15,536,998	(339,306)	22,482	15,175,210
Governmental activities capital assets, net	\$ 15,803,688	(329,306)	22,482	15,451,900

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 395,294
Support services	353,191
Non-instructional	74,696
Total depreciation expense	\$ 823,181

# Smith County School District

## Notes to the Financial Statements For the Year Ended June 30, 2016

### 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	Reductions	Balance 6-30-2016	Amounts due within one year
A. Shortfall notes payable	191,638	95,011	96,627	96,627
B. Qualified school construction bonds payable	3,000,000		3,000,000	
C. Compensated absences payable	172,011	1,519	170,492	8,525
Total	\$ 3,363,649	96,530	3,267,119	105,152

#### A. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes, Series 2013	1.7%	08-06-13	08-06-16	\$ <u>285,061</u>	<u>96,627</u>

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

Year Ending June 30	Principal	Interest	Total
2017	\$ <u>96,627</u>	<u>1,643</u>	<u>98,270</u>

This debt will be retired from the Shortfall Note Fund.

#### B. Qualified school construction bonds payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified School Construction Bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds, Series 2010A, 2010B and 2010C	5.5%	12-08-10	08-01-25	\$ <u>3,000,000</u>	<u>3,000,000</u>

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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

Year Ending June 30	Principal	Interest	Total
2017	\$	165,000	165,000
2018		165,000	165,000
2019		165,000	165,000
2020		165,000	165,000
2021		165,000	165,000
2022 -2026	3,000,000	825,000	3,825,000
Total	\$ 3,000,000	1,650,000	4,650,000

This debt will be retired from the QSCB Debt Retirement Fund (Debt Service Fund).

The district will make annual payments to a sinking fund maintained by the paying agent (see Note 11). At the end of the term the amount available in the sinking fund will be sufficient to make the balloon payment on the debt.

#### **C. Compensated absences payable**

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

## **Note 7 - 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

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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

*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 \$2,090,251, \$2,067,871, and \$1,997,318, respectively, which equaled the required contributions for each year.

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

At June 30, 2016, the school district reported a liability of \$32,485,973 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 .210156 percent, which was based on a measurement date of June 30, 2015. This was an increase of .002622 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 \$2,698,743. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

# Smith County School District

## Notes to the Financial Statements For the Year Ended June 30, 2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 892,911	\$
Net difference between projected and actual earnings on pension plan investments		1,750,819
Changes of assumptions	2,798,556	
Changes in proportion and differences between District contributions and proportionate share of contributions	72,131	(58,557)
District contributions subsequent to the measurement date	2,090,251	
Total	<u>\$ 5,853,849</u>	<u>\$ 1,692,262</u>

\$2,090,251 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	\$ 514,854
2018	589,349
2019	491,938
2020	475,194
Total	<u>\$ 2,071,335</u>

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

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

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

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

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

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	<u>100%</u>	

*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	\$ <u>42,819,489</u>	\$ <u>32,485,973</u>	\$ <u>23,911,087</u>

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

## Note 8 - 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

## **Smith County School District**

### **Notes to the Financial Statements For the Year Ended June 30, 2016**

risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### **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 up 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 9 - 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.

## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

Year Ending June 30		Amount
2017	\$	106,896
2018		101,278
2019		88,963
2020		88,963
2021		73,846
2022 - 2026		316,241
2027 - 2031		263,773
2032 - 2036		146,553
2037 - 2041		88,809
2042 - 2046		40,398
2047 - 2051		13,405
Total	\$	<u>1,329,125</u>

#### Note 10 - Contingencies

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

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

#### Note 11 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a



## Smith County School District

### Notes to the Financial Statements For the Year Ended June 30, 2016

borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2016, the subsidy payments amounted to \$139,050.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. Annual sinking fund deposit amounts are inclusive of any interest earnings for the prior 12 months. The indicated deposit amount will be reduced by the amount of the prior 12 months' interest earnings. The amount on deposit at June 30, 2016 was \$381,569. The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2017	\$	142,500
2018		142,500
2019		292,000
2020		292,000
2021		292,000
2022 - 2026		1,461,500
Total	\$	<u>2,622,500</u>

### Note 12 - Economic Dependency

The school district is significant economically dependent on an ad valorem tax payer which generates approximately 17% of the district's ad valorem taxes. In the event of a loss of ad valorem taxes, the district would encounter an economic hardship.

## **Smith County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2016

### **Note 13 - Effect of Deferred Amounts on Net Position**

The unrestricted net position amount of (\$22,151,795) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$5,853,849 balance of deferred outflow of resources, at June 30, 2016 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$22,151,795) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$1,692,262 balance of deferred inflow of resources, at June 30, 2016 will be recognized as a revenue and will increase the unrestricted net position over the next 4 years.

### **Note 14 - 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 Smith County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

In August 11, 2016, the school district approved a Shortfall Note with an interest rate of 2.5% for the amount of \$186,000.

## REQUIRED SUPPLEMENTARY INFORMATION

**SMITH 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 to Final	Final to Actual
	Original	Final			
<b>Revenues:</b>					
Local sources	\$ 4,885,155	\$ 5,399,358	\$ 5,399,358	\$ 514,203	\$ -
State sources	13,223,027	13,425,680	13,425,680	202,653	-
Federal sources	349,117	297,501	297,501	(51,616)	-
Sixteenth section sources	215,000	837,399	837,399	622,399	-
Total Revenues	18,672,299	19,959,938	19,959,938	1,287,639	-
<b>Expenditures:</b>					
Instruction	12,041,245	12,048,842	12,048,842	(7,597)	-
Support services	7,018,558	6,631,694	6,621,694	386,864	10,000
Noninstructional services	35,351	-	-	35,351	-
Sixteenth section	13,000	350	350	12,650	-
Facilities acquisition and construction	-	-	10,000	-	(10,000)
Debt service:					
Principal	142,500	-	-	142,500	-
Interest	130,644	169,694	169,694	(39,050)	-
Other	1,400	596	596	804	-
Total Expenditures	19,382,698	18,851,176	18,851,176	531,522	-
Excess (Deficiency) of Revenues over (under) Expenditures	(710,399)	1,108,762	1,108,762	1,819,161	-
<b>Other Financing Sources (Uses):</b>					
Sale of transportation equipment	-	50	50	50	-
Sale of other property	-	525	525	525	-
Operating transfers in	4,934,071	3,058,509	144,892	(1,875,562)	(2,913,617)
Other financing sources	250	-	-	(250)	-
Operating transfers out	(5,916,853)	(4,275,562)	(1,448,791)	1,641,291	2,826,771
Total Other Financing Sources (Uses)	(982,532)	(1,216,478)	(1,303,324)	(233,946)	(86,846)
Net Change in Fund Balances	(1,692,931)	(107,716)	(194,562)	1,585,215	(86,846)
Fund Balances:					
July 1, 2015	6,547,426	6,547,426	6,634,272	-	86,846
June 30, 2016	\$ 4,854,495	\$ 6,439,710	\$ 6,439,710	\$ 1,585,215	\$ -

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

**SMITH 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
<b>Revenues:</b>					
Federal sources	\$ 719,365	\$ 719,365	\$ 822,178	\$ -	\$ 102,813
Total Revenues	719,365	719,365	822,178	-	102,813
<b>Expenditures:</b>					
Instruction	418,082	637,273	552,709	(219,191)	84,564
Support services	293,997	304,033	251,356	(10,036)	52,677
Noninstructional services	7,286	14,346	4,613	(7,060)	9,733
Total Expenditures	719,365	955,652	808,678	(236,287)	146,974
Excess (Deficiency) of Revenues over (under) Expenditures	-	(236,287)	13,500	(236,287)	249,787
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	-	(15,000)	(13,500)	(15,000)	1,500
Total Other Financing Sources (Uses)	-	(15,000)	(13,500)	(15,000)	1,500
Net Change in Fund Balances	-	(251,287)	-	(251,287)	251,287
Fund Balances:					
July 1, 2015	-	-	-	-	-
June 30, 2016	\$ -	\$ (251,287)	\$ -	\$ (251,287)	\$ 251,287

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

**Smith County School District**

## 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 (asset)	\$	32,485,973	25,190,828
District's proportionate share of the net pension liability (asset)		0.210156%	0.207534%
District's covered - employee payroll		13,129,340	12,681,384
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll		247.43%	198.64%
Plan fiduciary net position as a percentage of the total pension liability		61.70%	67.21%

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

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

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

**Smith County School District**  
Schedule of District Contributions  
PERS  
Last 10 Fiscal Years

	2016	2015
Contractually required contribution	\$ 2,090,251	2,067,871
Contributions in relation to the contractually required contribution	2,090,251	2,067,871
Contribution deficiency (excess)	\$ -	-
District's covered - employee payroll	13,271,435	13,129,340
Contributions as a percentage of covered - employee payroll	15.75%	15.75%

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

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

## Smith County School District

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

### Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

### Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual 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

**SMITH COUNTY SCHOOL DISTRICT**

## 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
<b><u>U. S. Department of Agriculture</u></b>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 339,285
National School Lunch Program	10.555	1,052,314
Total Child Nutrition Cluster		1,391,599
Total passed-through the Mississippi Department of Education		1,391,599
<b>Total U.S. Department of Agriculture</b>		<b>1,391,599</b>
<b><u>Department of the Interior Bureau of Land Management</u></b>		
Passed-through Smith County, Mississippi:		
Secure Rural Schools and Community Self-Determination	15.234	132,585
Total passed-through Smith County, Mississippi		132,585
<b>Total Department of the Interior Bureau of Land Management</b>		<b>132,585</b>
<b><u>U. S. Department of Education</u></b>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	822,178
Career and Technical Education - Basic Grants to States	84.048	24,003
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	1,036
Rural Education	84.358	45,224
Supporting Effective Instruction State Grant	84.367	195,276
Subtotal		1,087,717
Special Education Cluster:		
Special Education - Grants to States	84.027	515,224
Special Education - Preschool Grants	84.173	16,199
Total Special Education Cluster		531,423
Total passed-through the Mississippi Department of Education		1,619,140
<b>Total U.S. Department of Education</b>		<b>1,619,140</b>
<b><u>U. S. Department of Health and Human Services</u></b>		
Passed-through the Mississippi Department of Education:		
Medical Assistance Program	93.778	24,830
Total passed-through the Mississippi Department of Education		24,830
<b>Total U.S. Department of Health and Human Services</b>		<b>24,830</b>
Total for All Federal Awards		\$ <b>3,168,154</b>

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

**SMITH COUNTY SCHOOL DISTRICT**

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
For the Year Ended June 30, 2016

<b>Expenditures</b>	<b>Total</b>	<b>Instruction and Other Student Instructional Expenditures</b>	<b>General Administration</b>	<b>School Administration</b>	<b>Other</b>
Salaries and fringe benefits \$	18,255,829	14,398,112	797,325	1,407,636	1,652,756
Other	6,446,517	1,344,917	170,029	12,737	4,918,834
Total	\$ 24,702,346	15,743,029	967,354	1,420,373	6,571,590
Total number of students *	2,615				
Cost per student	\$ 9,446	6,020	370	543	2,513

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

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

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

School Administration - includes expenditures for the following functions: 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

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

## Smith County School District

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

### (1) Schedule of Expenditures of Federal Awards

- a. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the school district and is presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements; however, the expenditures include transfers out. 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). Such expenditures are recognized following, as applicable, either the cost principles 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 reimbursement. Because the schedule presents only a selected portion of the operations of the school district, it is not intended to and does not present the financial position, changes in net position, or cash flows of the school district.
- b. The pass-through entities did not assign identifying numbers to the school district.
- c. The school district did not elect to use the 10% de minimis indirect cost rate.
- d. Donated commodities of \$112,334 are included in the National School Lunch Program.

### (2) Schedule of Instructional Administrative and Other Expenditures - Governmental Funds

- a. This schedule is presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements.

## OTHER INFORMATION

**SMITH COUNTY SCHOOL DISTRICT**

## Statement of Revenues, Expenditures and Changes in Fund Balances

## General Fund

## Last Four Years

"UNAUDITED"

	2016	2015*	2014*	2013*
<b>Revenues:</b>				
Local sources	\$ 5,399,358	5,128,272	4,995,785	4,605,585
State sources	13,425,680	13,007,954	12,998,464	12,913,454
Federal sources	297,501	374,336	433,972	462,302
Sixteenth section sources	837,399	393,743	-	312,282
Total Revenues	<u>19,959,938</u>	<u>18,904,305</u>	<u>18,428,221</u>	<u>18,293,623</u>
<b>Expenditures:</b>				
Instruction	12,048,842	12,088,751	11,734,786	11,506,075
Support services	6,621,694	7,128,559	8,712,064	7,031,316
Noninstructional services	-	-	1,235	8,302
Sixteenth section	350	3,250	2,000	3,000
Facilities acquisition and construction	10,000	200,049	65,634	-
Debt service:				
Interest	169,694	195,993	101,685	181,396
Other	596	500	500	1,400
Total Expenditures	<u>18,851,176</u>	<u>19,617,102</u>	<u>20,617,904</u>	<u>18,731,489</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,108,762</u>	<u>(712,797)</u>	<u>(2,189,683)</u>	<u>(437,866)</u>
<b>Other Financing Sources (Uses):</b>				
Notes issued	-	-	270,500	-
Insurance recovery	-	-	1,010	202,522
Sales of transportation equipment	50	174,000	10,571	-
Sale of other property	525	200	200	855
Operating transfers in	144,892	235,675	1,149,656	30,000
Other financing sources	-	-	219	271
Operating transfers out	<u>(1,448,791)</u>	<u>(1,590,793)</u>	<u>(853,591)</u>	<u>(837,899)</u>
Total Other Financing Sources (Uses)	<u>(1,303,324)</u>	<u>(1,180,918)</u>	<u>578,565</u>	<u>(604,251)</u>
Extraordinary items	<u>-</u>	<u>-</u>	<u>1,639,559</u>	<u>-</u>
Net Change in Fund Balances	<u>(194,562)</u>	<u>(1,893,715)</u>	<u>28,441</u>	<u>(1,042,117)</u>
<b>Fund Balances:</b>				
July 1, as previously reported	6,634,272	3,687,462	8,879,162	9,907,227
Fund reclassification	-	4,840,525	-	-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>(5,220,141)</u>	<u>14,052</u>
July 1, as restated	<u>6,634,272</u>	<u>8,527,987</u>	<u>3,659,021</u>	<u>9,921,279</u>
June 30,	<u>\$ 6,439,710</u>	<u>6,634,272</u>	<u>3,687,462</u>	<u>8,879,162</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**SMITH COUNTY SCHOOL DISTRICT**

## Statement of Revenues, Expenditures and Changes in Fund Balances

## All Governmental Funds

## Last Four Years

"UNAUDITED"

	2016	2015*	2014*	2013*
<b>Revenues:</b>				
Local sources	\$ 5,918,855	5,741,383	5,633,675	5,243,881
State sources	14,257,997	13,666,859	13,778,524	13,724,435
Federal sources	3,307,203	3,274,701	3,322,335	3,361,664
Sixteenth section sources	1,196,523	808,013	749,598	712,801
Total Revenues	<u>24,680,578</u>	<u>23,490,956</u>	<u>23,484,132</u>	<u>23,042,781</u>
<b>Expenditures:</b>				
Instruction	14,029,835	13,979,429	13,667,956	13,438,203
Support services	8,691,172	8,940,927	9,928,079	8,365,358
Noninstructional services	1,617,986	1,637,751	1,629,375	1,656,621
Sixteenth section	64,545	25,340	90,498	64,880
Facilities acquisition and construction	10,000	200,049	65,634	-
Debt service:				
Principal	95,011	218,423	135,000	130,000
Interest	193,201	203,277	209,106	194,071
Other	596	500	500	1,400
Total Expenditures	<u>24,702,346</u>	<u>25,205,696</u>	<u>25,726,148</u>	<u>23,850,533</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(21,768)</u>	<u>(1,714,740)</u>	<u>(2,242,016)</u>	<u>(807,752)</u>
<b>Other Financing Sources (Uses):</b>				
Notes issued	-	-	285,061	-
Insurance recovery	-	-	1,010	202,522
Payment to escrow agent	142,500	76,000	61,000	-
Payment to QSCB debt escrow agent	(142,500)	(76,000)	(61,000)	-
Sale of transportation equipment	50	174,000	10,571	-
Sale of other property	525	200	200	855
Operating transfers in	1,598,578	1,831,436	2,019,905	929,899
Other financing sources	-	-	219	271
Operating transfers out	(1,598,578)	(1,831,436)	(2,019,905)	(929,899)
Total Other Financing Sources (Uses)	<u>575</u>	<u>174,200</u>	<u>297,061</u>	<u>203,648</u>
Extraordinary items	<u>-</u>	<u>-</u>	<u>1,639,559</u>	<u>-</u>
Net Change in Fund Balances	<u>(21,193)</u>	<u>(1,540,540)</u>	<u>(305,396)</u>	<u>(604,104)</u>
<b>Fund Balances:</b>				
July 1, as previously reported	16,036,226	17,572,300	17,587,151	18,180,258
Prior period adjustment	-	-	285,061	14,052
July 1, as restated	<u>16,036,226</u>	<u>17,572,300</u>	<u>17,872,212</u>	<u>18,194,310</u>
Increase (decrease) in inventory	(6,871)	4,466	5,484	(3,055)
June 30,	<u>\$ 16,008,162</u>	<u>16,036,226</u>	<u>17,572,300</u>	<u>17,587,151</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

## REPORTS ON INTERNAL CONTROL AND COMPLIANCE



FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

Superintendent and School Board  
Smith 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 Smith County School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Smith County School District's basic financial statements, and have issued our report thereon dated January 24, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the 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 school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Smith 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*.

## **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.

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC  
January 24, 2017

Certified Public Accountants

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board  
Smith County School District

**Report on Compliance for Each Major Federal Program**

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

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for Smith County School District's major federal program 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 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 on the school district's compliance.

## Opinion on Each Major Federal Program

In our opinion, the Smith 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 its major federal programs for the year ended June 30, 2016.

## Report on Internal Control Over Compliance

Management of the Smith County School District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Smith 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 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 the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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.

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC  
January 24, 2017

Certified Public Accountants

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

**FORTENBERRY & BALLARD, PC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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

Superintendent and School Board  
Smith County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2016, which collectively comprise Smith County School District's basic financial statements and have issued our report thereon dated January 24, 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 ensure 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 \$0 of 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 ensure 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.

1929 SPILLWAY ROAD, SUITE B  
BRANDON, MISSISSIPPI 39047  
TELEPHONE 601-992-5292 FAX 601-992-2033

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.

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
January 24, 2017

Certified Public Accountants

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS



## Smith County School District

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

#### Section I: Summary of Auditor's Results

##### Financial Statements:

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

##### Federal Awards:

4. Internal control over major programs:
  - a. Material weakness(es) identified? No.
  - b. Significant deficiency(ies) identified? None reported.
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)? No.
7. Identification of major programs:

CFDA Numbers:	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.367	Supporting Effective Instruction State Grant

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
9. Auditee qualified as low-risk auditee? Yes.

#### Section II: Financial Statements Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

#### Section III: Federal Awards Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to the federal awards.