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DESOTO COUNTY SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2017**

**Charles L. Shivers, CPA, LLC
Ridgeland, MS**

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
DeSoto County School District

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the DeSoto 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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 DeSoto County School District, as of June 30, 2017, 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, schedule of the district's proportionate share of the net pension liability and schedule of district contributions 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the DeSoto 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 my 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, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated May 18, 2018, on my consideration of the DeSoto County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the DeSoto County School District's 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 DeSoto County School District's internal control over financial reporting and compliance.

Charles L Shivers

Charles L. Shivers, CPA, LLC
Ridgeland, MS
May 18, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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DESOTO COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017

The following discussion and analysis of DeSoto County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2017. 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 2017 decreased \$29,233,648, including a prior period adjustment of (\$75,666), which represents a 60.9% decrease from fiscal year 2016. Total net position for 2016 decreased \$15,474,839, including a prior period adjustment of (\$712,889), which represents a 24.4% decrease from fiscal year 2015.
- General revenues amounted to \$241,080,323 and \$239,173,960, or 86% and 86.8% of all revenues for fiscal years 2017 and 2016, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$39,312,485, or 14% of total revenues for 2017, and \$36,339,458, or 13.2% of total revenues for 2016.
- The District had \$309,550,790 and \$290,275,368 in expenses for fiscal years 2017 and 2016; only \$39,312,485 for 2017 and \$36,339,458 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$241,080,323 for 2017 and \$239,173,960 for 2016 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$227,411,378 in revenues and \$216,112,337 in expenditures for 2017, and \$226,859,947 in revenues and \$218,462,626 in expenditures in 2016. The General Fund's fund balance decreased by \$3,617,146, including a prior period adjustment of \$97,522 from 2016 to 2017, and increased by \$1,331,981, including a prior period adjustment of (\$69,849) from 2015 to 2016.
- Capital assets, net of accumulated depreciation, decreased by \$2,660,745 for 2017 and decreased by \$2,718,337 for 2016. The decrease for 2017 was due primarily to the increase in accumulated depreciation.
- Long-term debt decreased by \$19,714,679 for 2017 and decreased by \$7,100,542 for 2016. This decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$49,679 for 2017 and decreased by \$50,542 for 2016.

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 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, pension expense, and interest on long-term liabilities.

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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.

A net pension liability results in a liability on the government-wide financial statements but is not reported on 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 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. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$18,771,190 as of June 30, 2017.

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, 2017 and June 30, 2016.

Table 1
Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	Percentage Change
Current assets	\$ 102,939,069	\$ 78,397,060	31.30 %
Restricted assets	25,879,914	50,479,023	(48.73) %
Capital assets, net	340,506,465	343,167,210	(0.78) %
Total assets	469,325,448	472,043,293	(0.58) %
Deferred outflows of resources	84,191,601	72,836,047	15.59 %
Current liabilities	6,523,658	6,420,264	1.61 %
Long-term debt outstanding	111,458,887	132,382,439	(15.81) %
Net pension liability	415,975,578	350,539,846	18.67 %
Total liabilities	533,958,123	489,342,549	9.12 %
Deferred inflows of resources	787,736	7,531,953	(89.54) %
Net position:			
Net investment in capital assets	239,981,469	224,317,571	6.98 %
Restricted	15,931,313	18,092,467	(11.95) %
Unrestricted	(237,141,592)	(194,405,200)	(21.98) %
Total net position	\$ 18,771,190	\$ 48,004,838	(60.90) %

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)	\$ (237,141,592)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	334,341,694
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 97,200,102</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 \$2,660,745.
- The principal retirement of \$23,370,000 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were \$280,392,808 and \$275,513,418, respectively. The total cost of all programs and services was \$309,550,790 for 2017 and \$290,275,368 for 2016.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2017</u>	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 12,811,214	\$ 11,335,598	13.02 %
Operating grants and contributions	26,501,271	24,809,073	6.82 %
Capital Grants and Contributions	0	194,787	(100.00) %
General revenues:			
Property taxes	85,913,050	83,109,586	3.37 %
Grants and contributions not restricted	154,933,465	154,213,739	0.47 %
Investment earnings	231,208	641,762	(63.97) %
Other	2,600	1,208,873	(99.78) %
Total revenues	280,392,808	275,513,418	1.77 %
Expenses:			
Instruction	133,418,847	139,401,871	(4.29) %
Support services	90,313,923	83,982,163	7.54 %
Non-instructional	11,916,907	13,360,937	(10.81) %
Pension expense	70,521,297	48,651,186	44.95 %
Interest on long-term liabilities	3,379,816	4,879,211	(30.73) %
Total expenses	309,550,790	290,275,368	6.64 %
Increase (Decrease) in net position	(29,157,982)	(14,761,950)	(97.52) %
Net Position, July 1, as previously reported	48,004,838	63,479,677	(24.38) %
Prior Period Adjustment	(75,666)	(712,889)	89.39 %
Net Position, July 1, as restated	47,929,172	62,766,788	(23.64) %
Net Position, June 30	\$ 18,771,190	\$ 48,004,838	(60.90) %

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage</u> <u>Change</u>
	<u>2017</u>	<u>2016</u>	
Instruction	\$ 133,418,847	\$ 139,401,871	(4.29) %
Support services	90,313,923	83,982,163	7.54 %
Non-instructional	11,916,907	13,360,937	(10.81) %
Pension Expense	70,521,297	48,651,186	44.95 %
Interest on long-term liabilities	3,379,816	4,879,211	(30.73) %
Total expenses	\$ 309,550,790	\$ 290,275,368	6.64 %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2017</u>	<u>2016</u>	
Instruction	\$ (116,975,722)	\$ (123,378,535)	(5.19) %
Support services	(82,652,278)	(78,345,417)	5.50 %
Non-instructional	3,290,808	1,318,439	149.60 %
Pension Expense	(70,521,297)	(48,651,186)	44.95 %
Interest on long-term liabilities	(3,379,816)	(4,879,211)	(30.73) %
Total net (expense) revenue	<u>\$ (270,238,305)</u>	<u>\$ (253,935,910)</u>	6.42 %

- Net cost of governmental activities (\$270,238,305 for 2017 and \$253,935,910 for 2016) was financed by general revenue, which is primarily made up of property taxes (\$85,913,050 for 2017 and \$83,109,586 for 2016) and state and federal revenues (\$154,933,465 for 2017 and \$154,213,739 for 2016). Investment earnings amounted to \$231,208 for 2017 and \$641,762 for 2016.

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 \$123,071,870, a decrease of \$269,283, which includes a prior period adjustment of \$103,339 and an increase in inventory of \$140,842. \$88,001,551 or 71.5% 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 \$35,070,319 or 28.5% is either non-spendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$3,617,146, including a prior period adjustment of \$97,522. The fund balance of Other Governmental Funds showed an increase in the amount of \$5,454,598, which includes a prior period adjustment of \$5,817 and an increase in reserve for inventory of \$140,842. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
2016 Certificates of Participation	\$ (3,287,582)
2017 Limited Tax Notes	1,180,847

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2017, the District's total capital assets were \$484,681,866, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$8,157,319 from 2016. Total accumulated depreciation as of June 30, 2017, was \$144,175,401, and total depreciation expense for the year was \$11,761,601, resulting in total net capital assets of \$340,506,465.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Land	\$ 11,664,653	\$ 11,667,153	(0.02) %
Construction in Progress	5,030,019	690,860	628.08 %
Buildings	274,754,464	281,487,543	(2.39) %
Building improvements	22,175,159	22,324,413	(0.67) %
Improvements other than buildings	13,683,072	14,397,983	(4.97) %
Mobile equipment	10,677,524	9,770,393	9.28 %
Furniture and equipment	2,521,574	2,828,865	(10.86) %
Total	<u>\$ 340,506,465</u>	<u>\$ 343,167,210</u>	(0.78) %

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

Debt Administration. At June 30, 2017, the District had \$109,055,650 in outstanding long-term debt, of which \$21,823,533 is due within one year. The liability for compensated absences decreased \$49,679 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 63,630,000	\$ 80,130,000	(20.59) %
Certificates of participation payable	11,770,000	12,885,000	(8.65) %
Three mill notes payable	29,385,000	31,435,000	(6.52) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	1,270,650	1,320,329	(3.76) %
Total	<u>\$ 109,055,650</u>	<u>\$ 128,770,329</u>	(15.31) %

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

CURRENT ISSUES

The DeSoto 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.

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 DeSoto County School District, Five East South Street, Hernando, Mississippi 38632.

BASIC FINANCIAL STATEMENTS

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DESOTO COUNTY SCHOOL DISTRICT
Statement of Net Position
June 30, 2017

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 72,352,038
Cash with fiscal agent	459,499
Investments	25,279,936
Due from other governments	4,569,367
Other receivables, net	11,090
Inventories	267,139
Restricted assets (Note 4)	25,879,914
Non-depreciable capital assets (Note 5)	16,694,672
Depreciable capital assets, net (Note 5)	323,811,793
Total Assets	<u>469,325,448</u>
Deferred Outflows of Resources	
Deferred outflow - pensions (Note 7)	82,421,625
Deferred outflow - advance refunding on bonds	1,769,976
Total Deferred Outflows of Resources	<u>84,191,601</u>
Liabilities	
Accounts payable and accrued liabilities	5,540,174
Interest payable on long-term liabilities	776,545
Other payables	206,939
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	21,760,000
Non-capital related liabilities	63,533
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	86,025,000
Premium on bonds	2,424,997
Discount on bonds	(21,760)
Non-capital related liabilities	1,207,117
Net pension liability (Note 7)	415,975,578
Total Liabilities	<u>533,958,123</u>
Deferred Inflows of Resources	
Deferred inflows - pensions (Note 7)	787,736
Total Deferred Inflows of Resources	<u>787,736</u>
Net Position	
Net investment in capital assets	239,981,469
Restricted net position	
Expendable	
School-based activities	3,137,981
Debt service	11,576,658
Contractual commitments	625,281
Unemployment benefits	591,393
Unrestricted	<u>(237,141,592)</u>
Total Net Position	<u>\$ 18,771,190</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2017

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 133,418,847	8,440,478	8,002,647	(116,975,722)
Support services	90,313,923	339,521	7,322,124	(82,652,278)
Non-instructional	11,916,907	4,031,215	11,176,500	3,290,808
Pension expense	70,521,297			(70,521,297)
Interest on long-term liabilities	3,379,816			(3,379,816)
Total Governmental Activities	309,550,790	12,811,214	26,501,271	(270,238,305)
General Revenues				
Taxes				
General purpose levies				64,594,401
Debt purpose levies				21,318,649
Unrestricted grants and contributions				
State				153,580,932
Federal				1,352,533
Unrestricted investment earnings				231,208
Other				2,600
Total General Revenues				241,080,323
Changes in Net Position				(29,157,982)
Net Position - Beginning, as previously reported				48,004,838
Prior Period Adjustments (Note 8)				(75,666)
Net Position - Beginning - as restated				47,929,172
Net Position - Ending				\$ 18,771,190

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

DESOTO COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2017

Exhibit C

	Major Funds				
	General Fund	2016 Certificates of Participation	2017 Limited Tax Notes	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents (Note 2)	\$ 63,755,299	8,274,976	1,996,627	22,426,227	96,453,129
Cash with fiscal agent (Note 2)	459,499			350,397	809,896
Investments (Note 2)	25,279,936			1,428,426	26,708,362
Due from other governments	2,495,513			2,073,854	4,569,367
Other receivables, net	6,650			387	7,037
Due from other funds (Note 3)	1,585,238			140,261	1,725,499
Inventories				267,139	267,139
Total Assets	<u>93,582,135</u>	<u>8,274,976</u>	<u>1,996,627</u>	<u>26,686,691</u>	<u>130,540,429</u>
Liabilities and Fund Balances					
Liabilities					
Accounts payable & accrued liabilities	2,375,860	1,562,558	815,780	785,976	5,540,174
Due to other funds (Note 3)	141,173			1,580,273	1,721,446
Other payables				206,939	206,939
Total Liabilities	<u>2,517,033</u>	<u>1,562,558</u>	<u>815,780</u>	<u>2,573,188</u>	<u>7,468,559</u>
Fund Balances					
Nonspendable					
Inventory				267,139	267,139
Restricted					
Debt service				12,353,203	12,353,203
Capital projects		6,712,418	1,180,847		7,893,265
Unemployment benefits				591,393	591,393
Grant activities				2,870,842	2,870,842
Contractual commitments				625,281	625,281
Assigned					
School activities	2,960,311				2,960,311
Grant activities	103,240				103,240
Facility renovations and improvements				7,405,645	7,405,645
Unassigned	88,001,551				88,001,551
Total Fund Balances	<u>91,065,102</u>	<u>6,712,418</u>	<u>1,180,847</u>	<u>24,113,503</u>	<u>123,071,870</u>
Total Liabilities and Fund Balances	<u>\$ 93,582,135</u>	<u>8,274,976</u>	<u>1,996,627</u>	<u>26,686,691</u>	<u>130,540,429</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017

Exhibit C-1

		<u>Amount</u>
Total Fund Balance - Governmental Funds		\$ 123,071,870
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Land	11,664,653	
Construction in progress	5,030,019	
Buildings	369,936,653	
Building improvements	30,072,494	
Improvement other than buildings	22,187,676	
Mobile equipment	30,899,040	
Furniture and equipment	14,891,331	
Accumulated depreciation	<u>(144,175,401)</u>	340,506,465
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		(415,975,578)
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	82,421,625	
Deferred inflows of resources related to pensions	<u>(787,736)</u>	81,633,889
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(63,630,000)	
Certificates of participation	(11,770,000)	
Limited tax notes	(29,385,000)	
Qualified school construction bonds	(3,000,000)	
Compensated absences	(1,270,650)	
Unamortized charges	1,769,976	
Unamortized premiums and discounts	(2,403,237)	
Accrued interest payable	<u>(776,545)</u>	<u>(110,465,456)</u>
Total Net Position - Governmental Activities		<u>\$ 18,771,190</u>

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

DESOTO COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2017

Exhibit D

	<u>Major Funds</u>				
	<u>General Fund</u>	<u>2016 Certificates of Participation</u>	<u>2017 Limited Tax Notes</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Local sources	\$ 72,477,912	5,184		25,821,567	98,304,663
State sources	153,580,933			3,130,656	156,711,589
Federal sources	1,352,533			23,370,619	24,723,152
Total Revenues	<u>227,411,378</u>	<u>5,184</u>	<u>0</u>	<u>52,322,842</u>	<u>279,739,404</u>
Expenditures					
Instruction	137,228,634			10,520,657	147,749,291
Support services	77,527,989	153,645	2,466,780	9,140,261	89,288,675
Noninstructional services	877,412			13,079,586	13,956,998
Facilities acquisition and construction	478,302	3,139,121		2,376,402	5,993,825
Debt service					
Principal (Note 6)				23,370,000	23,370,000
Interest				4,180,147	4,180,147
Other			57,373	17,463	74,836
Total Expenditures	<u>216,112,337</u>	<u>3,292,766</u>	<u>2,524,153</u>	<u>62,684,516</u>	<u>284,613,772</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,299,041</u>	<u>(3,287,582)</u>	<u>(2,524,153)</u>	<u>(10,361,674)</u>	<u>(4,874,368)</u>
Other Financing Sources (Uses)					
Proceeds of loans (Note 6)			3,705,000		3,705,000
Insurance loss recoveries (Note 13)	1,131,708				1,131,708
Sale of land	5,100				5,100
Operating transfers in (Note 3)	1,071,000			16,740,613	17,811,613
Operating transfers out (Note 3)	(16,740,613)			(1,071,000)	(17,811,613)
Other financing uses	(480,904)				(480,904)
Total Other Financing Sources (Uses)	<u>(15,013,709)</u>	<u>0</u>	<u>3,705,000</u>	<u>15,669,613</u>	<u>4,360,904</u>
Net Change in Fund Balances	<u>(3,714,668)</u>	<u>(3,287,582)</u>	<u>1,180,847</u>	<u>5,307,939</u>	<u>(513,464)</u>
Fund Balances					
July 1, 2016, as previously reported	94,682,248	10,000,000	0	18,658,905	123,341,153
Prior period adjustments (Note 8)	97,522			5,817	103,339
July 1, 2016, as restated	<u>94,779,770</u>	<u>10,000,000</u>	<u>0</u>	<u>18,664,722</u>	<u>123,444,492</u>
Increase in reserve for inventory				140,842	140,842
June 30, 2017	<u>\$ 91,065,102</u>	<u>6,712,418</u>	<u>1,180,847</u>	<u>24,113,503</u>	<u>123,071,870</u>

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

DESOTO COUNTY SCHOOL DISTRICT

Exhibit D-1

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, 2017

	<u>Amount</u>
Net Change in Fund Balance - Governmental Funds	\$ (513,464)

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

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, those amounts are:

Capital outlay	9,337,688	
Depreciation expense	<u>(11,761,601)</u>	(2,423,913)

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 asset sold.

(57,827)

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:

Bonds and notes issued	(3,705,000)	
Payments of debt principal	23,370,000	
Accrued interest payable	<u>108,789</u>	19,773,789

Reconciling items applicable to pension liability and related accounts:

Pension contributions made subsequent to the measurement date	23,627,831	
Pension expense for the current year	<u>(70,521,297)</u>	(46,893,466)

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 the governmental funds. These activities include:

Change in compensated absences	49,679	
Change in inventory reserve	140,842	
Amortization of deferred outflow - advance refunding of bonds	(442,495)	
Amortization of deferred charges, premiums and discounts	<u>1,208,873</u>	<u>956,899</u>

Changes in Net Position of Governmental Activities	<u><u>\$ (29,157,982)</u></u>
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The notes to the financial statements are an integral part of this statement.

DESOTO COUNTY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2017

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 13,044,364
Other receivables	657
Due from other funds (Note 3)	<u>912</u>
Total Assets	<u><u>13,045,933</u></u>
Liabilities	
Accounts payable and accrued liabilities	12,694,140
Due to other funds (Note 3)	4,965
Due to student clubs	<u>346,828</u>
Total Liabilities	<u><u>\$ 13,045,933</u></u>

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

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DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

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, the 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.

Blended component unit

The DeSoto County School's Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

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.
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.

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

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.

2016 Certificates of Participation Fund - This Capital Projects Fund is used to account for the proceeds of debt whose use is restricted for construction and renovation of school district facilities and the acquisition of mobile equipment and furniture and equipment.

2017 Limited Tax Notes Fund - This Capital Projects Fund is used to account for the proceeds of debt whose use is restricted for construction and renovation of school district facilities and the acquisition of mobile equipment and furniture and equipment.

The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing - This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts - These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay)

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

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

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

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

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2014*, 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

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

than three months when acquired.

Investments for the district, as well as for its component units, 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 Bond sinking funds. Also, the resources of certain federal programs are classified as restricted since their use is limited by federal statute, rule and or regulation.

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

	Capitalization Policy	Estimated Useful Life
Construction in progress	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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows are directly related to pension reporting and advance refunding of debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows are directly related to pension reporting.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

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.

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

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

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

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

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

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

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

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

The school board of the district has adopted a minimum fund balance policy for the General Fund that consists of 10% of General Fund revenues.

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 district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

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(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 \$96,453,129 and \$13,044,364, 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.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$809,896.

Investments

As of June 30, 2017, the district had the following investments.

Types of Investments	Rating	Maturities (in years)	Fair Value
Money Markey Funds	Aaa	<1	\$ 16,504
US Treasury SLGS	Aaa	5 to 10	1,399,900
US Treasury Guaranteed	Aaa	5 to 10	2,172,253
Government Agency Bonds - Callable	Aaa	1 to 5	2,249,146
Government Agency Bonds - Bullet	Aaa	1 to 5	1,961,983
Corporate Bonds - Fixed	A3 / Aaa	1 to 5	3,426,797
Taxable Municipal Bonds	Aa2	1 to 5	3,322,390
Mortgage Backed Securities - Floating	Aaa	> 10	129,307
Collateralized Mortgage Obligations - Fixed	Aaa	5 to 10	2,191,841
Collateralized Mortgage Obligations - Floater	Aaa	5 to 10	40,843
Mortgage Backed Securities - Pass Through	Aaa	5to 10	9,797,398
			<u>\$ 26,708,362</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, 2017:

All investments are valued using quoted market prices (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 credit risk. As of June 30, 2017, the district did not have any investments to which this would apply.

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Concentration of Credit Risk. Disclosure 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, 2017, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Corporate Bonds - Fixed	\$ 3,426,797	12.83%
Taxable Municipal Bonds	\$ 3,322,390	12.44%

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	Other governmental funds	\$ 1,580,273
	Fiduciary Funds	4,965
Other governmental funds	General Fund	140,261
Fiduciary funds	General Fund	912
Total		<u>\$ 1,726,411</u>

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. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 16,740,613
Other governmental funds	General Fund	1,071,000
Total		<u>\$ 17,811,613</u>

The transfer out of the General Fund was for the purpose of funding the vocational program, ROTC program, and debt service in the Other Governmental Funds. The transfers out of the Other Governmental Funds were to transfer indirect cost to the General Fund.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, cash with fiscal agent and investment balance, totaling \$24,101,091, \$350,397 and \$1,428,426, respectively, of restricted federal programs, investments, construction funds and debt service which are legally restricted and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

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

DESOTO COUNTY SCHOOL DISTRICT

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	<u>Balance 7/1/2016</u>	<u>Increases</u>	<u>Decreases</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6/30/2017</u>
Governmental Activities:						
<u>Non-depreciable capital assets:</u>						
Land	\$ 11,667,153		(2,500)			11,664,653
Construction-in-progress	690,860	5,993,825		(1,654,666)		5,030,019
Total non-depreciable capital assets	<u>12,358,013</u>	<u>5,993,825</u>	<u>(2,500)</u>	<u>(1,654,666)</u>	<u>0</u>	<u>16,694,672</u>
<u>Depreciable capital assets:</u>						
Buildings	369,488,808			447,845		369,936,653
Building improvements	29,018,848			1,206,821	(153,175)	30,072,494
Improvements other than buildings	22,034,501	153,175				22,187,676
Mobile equipment	28,711,580	2,723,355	(504,395)		(31,500)	30,899,040
Furniture and equipment	14,912,797	467,333	(488,799)			14,891,331
Total depreciable capital assets	<u>464,166,534</u>	<u>3,343,863</u>	<u>(993,194)</u>	<u>1,654,666</u>	<u>(184,675)</u>	<u>467,987,194</u>
<u>Less accumulated depreciation for:</u>						
Buildings	88,001,265	7,180,924				95,182,189
Building improvements	6,694,435	1,202,900				7,897,335
Improvements other than buildings	7,636,518	868,086				8,504,604
Mobile equipment	18,941,187	1,739,955	(453,956)		(5,670)	20,221,516
Furniture and equipment	12,083,932	769,736	(483,911)			12,369,757
Total accumulated depreciation	<u>133,357,337</u>	<u>11,761,601</u>	<u>(937,867)</u>	<u>0</u>	<u>(5,670)</u>	<u>144,175,401</u>
Total depreciable capital assets, net	<u>330,809,197</u>	<u>(8,417,738)</u>	<u>(55,327)</u>	<u>1,654,666</u>	<u>(179,005)</u>	<u>323,811,793</u>
Governmental activities capital assets, net	<u>\$ 343,167,210</u>	<u>(2,423,913)</u>	<u>(57,827)</u>	<u>0</u>	<u>(179,005)</u>	<u>340,506,465</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 72,530
Support services	10,991,865
Non-instructional	697,206
Total depreciation expense - Governmental activities	<u>\$ 11,761,601</u>

Construction in progress is composed of:

	<u>Spent to June 30, 2017</u>	<u>Remaining Commitment</u>
Governmental Activities:		
OGC Window Renovation	\$ 241,843	313,555
HLM HVAC Replacement	1,015,585	420,838
OBI Renovation Phase 1	819,072	1,003,814
SES HVAC	1,062,621	631,976
SES Classroom Addition	603,694	102,218
LES Classroom Addition	521,977	140,617
LPS Classroom Addition	765,227	382,446
Total governmental activities	<u>\$ 5,030,019</u>	<u>2,995,464</u>

Construction projects included in governmental activities are funded with local funds and funds on hand from loan proceeds.

Note 6 – Long-term Liabilities

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

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	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amounts due within one year
A. General obligation bonds payable	\$ 80,130,000		16,500,000	63,630,000	16,935,000
B. Certificates of participation payable	12,885,000		1,115,000	11,770,000	1,165,000
C. Three mill notes payable	31,435,000	3,705,000	5,755,000	29,385,000	3,660,000
D. Qualified school construction bonds payable	3,000,000			3,000,000	0
E. Compensated absences payable	1,320,329		49,679	1,270,650	63,533
Total	<u>\$ 128,770,329</u>	<u>3,705,000</u>	<u>\$ 23,419,679</u>	<u>109,055,650</u>	<u>21,823,533</u>

	Balance 7/1/2016	Changes	Balance 6/30/17
Bond premium	\$ 3,637,496	(1,212,499)	2,424,997
Bond discount	(25,386)	3,626	(21,760)
	<u>\$ 3,612,110</u>	<u>(1,208,873)</u>	<u>2,403,237</u>

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. General obligation bonds, series 2008	3.25-4.5	10/1/2008	4/1/2021	\$ 15,000,000	9,000,000
2. General obligation bonds, refunding series 2009A	3.0-3.5	4/1/2009	4/1/2021	25,000,000	15,625,000
3. General obligation bonds, series 2009B	2.5-2.9	12/15/2009	10/1/2020	5,000,000	3,000,000
4. General obligation bonds, series 2010	2.5-3.0	4/1/2010	4/1/2021	15,000,000	9,250,000
5. General obligation bonds, refunding series 2010	2.0-3.7	3/9/2010	12/1/2019	13,445,000	3,695,000
6. General obligation bonds, refunding series 2012	2.0-5.0	3/20/2012	5/1/2019	53,930,000	20,910,000
7. General obligation bonds, refunding series 2013A Tax Exempt	.75-2.5	10/10/2013	6/1/2020	3,610,000	2,150,000
Total				<u>\$ 130,985,000</u>	<u>63,630,000</u>

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

1. General obligation bonds, series 2008:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,400,000	337,250	1,737,250
2019	1,400,000	281,250	1,681,250
2020	2,000,000	213,250	2,213,250
2021	4,200,000	86,625	4,286,625
Total	<u>\$ 9,000,000</u>	<u>918,375</u>	<u>9,918,375</u>

This debt will be retired from the 2008 General Obligation Bond Series A Debt Retirement Fund.

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2. General obligation bonds, refunding series 2009A:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,000,000	542,125	1,542,125
2019	1,800,000	509,625	2,309,625
2020	7,285,000	448,875	7,733,875
2021	<u>5,540,000</u>	<u>193,900</u>	<u>5,733,900</u>
Total	<u>\$ 15,625,000</u>	<u>1,694,525</u>	<u>17,319,525</u>

This debt will be retired from the 2009 General Obligation Bond Series B Debt Service Fund.

3. General obligation bonds, series 2009B:

Year Ending June 30	Principal	Interest	Total
2018	\$ 600,000	73,575	673,575
2019	700,000	56,975	756,975
2020	800,000	47,875	847,875
2021	<u>900,000</u>	<u>25,875</u>	<u>925,875</u>
Total	<u>\$ 3,000,000</u>	<u>204,300</u>	<u>3,204,300</u>

This debt will be retired from the 2009 GO Bond B1 Debt Service Fund.

4. General obligation bonds, series 2010:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,250,000	271,250	1,521,250
2019	1,000,000	240,000	1,240,000
2020	2,500,000	210,000	2,710,000
2021	<u>4,500,000</u>	<u>135,000</u>	<u>4,635,000</u>
Total	<u>\$ 9,250,000</u>	<u>856,250</u>	<u>10,106,250</u>

This debt will be retired from the 2010 GO Bond C Debt Service Fund.

5. General obligation bonds, refunding series 2010:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,440,000	115,522	1,555,522
2019	1,490,000	66,931	1,556,931
2020	<u>765,000</u>	<u>13,866</u>	<u>778,866</u>
Total	<u>\$ 3,695,000</u>	<u>196,319</u>	<u>3,891,319</u>

This debt will be retired from the 10 Refund Bond Debt Service Fund.

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6. General obligation bonds, refunding series 2012:

Year Ending June 30	Principal	Interest	Total
2018	\$ 10,540,000	1,045,500	11,585,500
2019	<u>10,370,000</u>	<u>518,500</u>	<u>10,888,500</u>
Total	<u>\$ 20,910,000</u>	<u>1,564,000</u>	<u>22,474,000</u>

This debt will be retired from the 2012 Refunding General Obligation Bond Debt Service Fund.

7. General obligation bonds, refunding series 2013A Tax Exempt:

Year Ending June 30	Principal	Interest	Total
2018	\$ 705,000	50,250	755,250
2019	715,000	36,125	751,125
2020	<u>730,000</u>	<u>18,250</u>	<u>748,250</u>
Total	<u>\$ 2,150,000</u>	<u>104,625</u>	<u>2,254,625</u>

This debt will be retired from the 2013A Refunding Bond Debt Service Fund.

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ 16,935,000	2,435,472	19,370,472
2019	17,475,000	1,709,406	19,184,406
2020	14,080,000	952,116	15,032,116
2021	<u>15,140,000</u>	<u>441,400</u>	<u>15,581,400</u>
Total	<u>\$ 63,630,000</u>	<u>5,538,394</u>	<u>69,168,394</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2017, the amount of outstanding bonded indebtedness was equal to 4.4% of property assessments as of October 1, 2016.

B. Certificates of participation payable

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Certificates of participation, 2008	4.0-4.6	12/3/2008	12/1/2018	\$ 10,000,000	1,770,000
2. Certificates of participation, 2016	1.665-1.725	6/1/2016	6/1/2022	<u>10,000,000</u>	<u>10,000,000</u>
Total				<u>\$ 20,000,000</u>	<u>11,770,000</u>

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

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1. Certificates of participation, 2008:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,165,000	73,406	1,238,406
2019	605,000	15,125	620,125
Total	<u>\$ 1,770,000</u>	<u>88,531</u>	<u>1,858,531</u>

This debt will be retired from the 2008 Certificate of Participation Debt Service Fund.

2. Certificates of participation, 2016:

Year Ending June 30	Principal	Interest	Total
2018	\$ 0	170,116	170,116
2019	645,000	170,116	815,116
2020	2,055,000	159,441	2,214,441
2021	3,620,000	125,020	3,745,020
2022	3,680,000	63,480	3,743,480
Total	<u>\$ 10,000,000</u>	<u>688,173</u>	<u>10,688,173</u>

This debt will be retired from the 2016 Certificate of Participation Debt Service Fund.

Total certificates of participation payments for all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,165,000	243,522	1,408,522
2019	1,250,000	185,241	1,435,241
2020	2,055,000	159,441	2,214,441
2021	3,620,000	125,020	3,745,020
2022	3,680,000	63,480	3,743,480
Total	<u>\$ 11,770,000</u>	<u>776,704</u>	<u>12,546,704</u>

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Three mill notes, 2008	2.75-4.7	7/8/2008	4/1/2018	\$ 8,470,000	460,000
2. Three mill notes, 2011	1.45-3.0	8/24/2011	4/1/2022	8,765,000	5,615,000
3. Limited tax refunding note, 2013	0.7-3.25	10/10/2013	6/30/2024	6,055,000	5,815,000
4. Limited tax refunding note, 2014	2.0-2.9	4/24/2014	6/30/2025	9,790,000	8,435,000
5. Limited tax refunding note, 2015	2.0-3.0	9/15/2015	6/30/2027	8,515,000	8,290,000
6. Three mill notes, 2017	1.27	3/31/2017	6/30/2018	3,705,000	770,000
Total				<u>\$ 45,300,000</u>	<u>29,385,000</u>

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

1. Three mill notes, 2008:

Year Ending June 30	Principal	Interest	Total
2018	<u>\$ 460,000</u>	<u>236,112</u>	<u>696,112</u>

This debt will be retired from the 2008 Limited Tax Notes Debt Service Fund.

2. Three mill notes, 2011:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,210,000	151,020	1,361,020
2019	1,240,000	120,770	1,360,770
2020	1,295,000	89,770	1,384,770
2021	1,320,000	56,100	1,376,100
2022	<u>550,000</u>	<u>16,500</u>	<u>566,500</u>
Total	<u>\$ 5,615,000</u>	<u>434,160</u>	<u>6,049,160</u>

This debt will be retired from the 2011 Limited Tax Notes Debt Service Fund.

3. Limited tax refunding notes, 2013:

Year Ending June 30	Principal	Interest	Total
2018	\$ 70,000	186,922	256,922
2019	75,000	185,418	260,418
2020	75,000	183,805	258,805
2021	80,000	181,518	261,518
2022	80,000	179,078	259,078
2023 - 2024	<u>5,435,000</u>	<u>266,337</u>	<u>5,701,337</u>
Total	<u>\$ 5,815,000</u>	<u>1,183,078</u>	<u>6,998,078</u>

This debt will be retired from the General Obligation Refunding Bonds Series 2013A Debt Service Fund.

4. Limited tax refunding notes, 2014:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,085,000	200,045	1,285,045
2019	1,105,000	178,345	1,283,345
2020	1,110,000	156,245	1,266,245
2021	1,140,000	134,045	1,274,045
2022	1,150,000	110,105	1,260,105
2023 - 2025	<u>2,845,000</u>	<u>247,515</u>	<u>3,092,515</u>
Total	<u>\$ 8,435,000</u>	<u>1,026,300</u>	<u>9,461,300</u>

DESOTO COUNTY SCHOOL DISTRICT
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This debt will be retired from the General Obligation Refunding Bonds Series 2013B Debt Service Fund.

5. Limited tax refunding notes, 2015:

Year Ending June 30	Principal	Interest	Total
2018	\$ 65,000	230,980	295,980
2019	540,000	230,200	770,200
2020	550,000	219,400	769,400
2021	565,000	208,400	773,400
2022	570,000	197,100	767,100
2023 – 2026	<u>6,000,000</u>	<u>627,900</u>	<u>6,627,900</u>
Total	<u>\$ 8,290,000</u>	<u>1,713,980</u>	<u>10,003,980</u>

This debt will be retired from the 2011 Limited Tax Refunding Notes Debt Service Fund.

6. Three mill notes, 2017:

Year Ending June 30	Principal	Interest	Total
2018	<u>\$ 770,000</u>	<u>9,779</u>	<u>779,779</u>

This debt will be retired from the 2017 Limited Tax Refunding Notes Debt Service Fund.

Total three mill notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ 3,660,000	1,014,858	4,674,858
2019	2,960,000	714,733	3,674,733
2020	3,030,000	649,220	3,679,220
2021	3,105,000	580,063	3,685,063
2022	2,350,000	502,783	2,852,783
2023 – 2026	<u>14,280,000</u>	<u>1,141,752</u>	<u>15,421,752</u>
Total	<u>\$ 29,385,000</u>	<u>4,603,409</u>	<u>33,988,409</u>

D. Qualified school construction bonds payable

As more fully explained in Note 12, 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	0.44	12/22/2009	9/15/2024	<u>\$ 3,000,000</u>	<u>3,000,000</u>

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

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For the Year June 30, 2017

Year Ending June 30	Principal	Interest	Total
2018	\$	13,200	13,200
2019		13,200	13,200
2020		13,200	13,200
2021		13,200	13,200
2022		13,200	13,200
2023 – 2025	<u>3,000,000</u>	<u>26,400</u>	<u>3,026,400</u>
Total	<u>\$ 3,000,000</u>	<u>92,400</u>	<u>3,092,400</u>

This debt will be retired from the Qualified School Construction Debt Service Fund.

E. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

General Information about the Pension Plan

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

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2017 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, 2017, 2016 and 2015 were \$23,627,831, \$23,463,829 and \$22,313,369, respectively, which equaled the required contributions for each year.

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

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

At June 30, 2017, the school district reported a liability of \$415,975,578 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2017 net pension liability was 2.328765 percent, which was based on a measurement date of June 30, 2016. This was an increase of .061077 percent from its proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$70,521,297. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 8,268,573	0
Net difference between projected and actual earnings on pension plan investments	22,544,234	0
Changes of assumptions	13,974,922	787,736
Changes in proportion and differences between District contributions and proportionate share of contributions	14,006,065	0
District contributions subsequent to the measurement date	23,627,831	0
Total	<u>\$ 82,421,625</u>	<u>787,736</u>

\$23,627,831 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, 2018. 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 Ending June 30:	
2018	\$ 19,325,727
2019	19,325,727
2020	13,718,547
2021	5,636,058

Actuarial assumptions. The total pension liability in the June 30, 2016 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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

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

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. 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 the current employer contribution 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 members. 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 533,373,955	415,975,578	318,572,979

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 – Prior Period Adjustments

A summary of significant Net Position/Fund Balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. Correction of error - capital assets	\$ (179,005)
2. Correction of error - prior year payable / current year expenditure	103,339
Total	<u>\$ (75,666)</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
General Fund	Correction of error - prior year payable / current year expenditure	\$ 97,522
Other governmental funds	Correction of error - prior year payable / current year expenditure	5,817
Total		<u>\$ 103,339</u>

Note 9 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

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.

Note 10 – Risk Management

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

Participation in Self-insurance Trust

The school district established a self-insurance trust in July 2004 which pays the first \$50,000 of property and liability claims against the school district. An initial \$150,000 was deposited into the trust account and is evaluated each year for the proper amount to be replenished. An additional \$149,306 was transferred to the fund during the fiscal year ended June 30, 2017. The district had no year-end liabilities and cash on hand in the trust account amounted to \$150,000. The trust is reported in the Other Governmental Funds.

Note 11 – Trust Certificates

A trust agreement dated December 3, 2008, was executed by and between the school district and US Bank, as trustees. The trust agreement authorized the issuance of trust certificates in the principal amount of \$10,000,000. Approximately \$9,858,000 was used to provide financing for the acquisition, construction and installation of energy efficiency improvements (the "Improvements"). The remainder of approximately \$142,000 was used to pay the cost of issuance.

Another trust agreement dated June 29, 2016, was executed by and between the school district and Whitney Bank, as trustees. The trust agreement authorized the issuance of trust certificates in the principal amount of \$10,000,000. Approximately \$9,850,000 will be used to provide financing for the renovation and improvement of school buildings and facilities (the "Project"). The remainder of approximately \$150,000 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, fund balances, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

Note 12 – 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 borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

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. The amount on deposit at June 30, 2017 was \$1,428,426. The amount

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year June 30, 2017

accumulated in the sinking fund at the end of the seventeen-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
2018	\$ 200,000
2019	200,000
2020	200,000
2021	200,000
2022	200,000
2023 – 2025	600,000
Total	<u>\$ 1,600,000</u>

Note 13 - Insurance loss recoveries

The School District received \$1,131,708 in insurance loss recoveries related to property and vehicle damage during the fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

Insurance Loss Recoveries	Percentage	Expense Function
\$ 1,075,273	95%	Instruction
56,435	5%	Support services
0	0%	Non-instructional
<u>\$ 1,131,708</u>	<u>100%</u>	

Note 14 – Effect of Deferred Amounts on Net Position

The net investment in capital assets of \$239,981,469 includes the effects of deferring the expenses associated with the advance refunding of bonds. The unrestricted net position amount of (\$237,141,592) includes the effect of deferring the recognition of expenses and revenue associated with the net pension liability and related account balances.

Note 15 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through May 18, 2018, the date the financial statements were available to be issued, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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DESOTO COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 72,731,811	72,844,713	72,477,912	112,902	(366,801)
State sources	154,272,324	153,553,623	153,580,933	(718,701)	27,310
Federal sources	390,000	490,000	1,352,533	100,000	862,533
Total Revenues	<u>227,394,135</u>	<u>226,888,336</u>	<u>227,411,378</u>	<u>(505,799)</u>	<u>523,042</u>
Expenditures					
Instruction	143,526,520	142,788,926	137,228,634	737,594	5,560,292
Support services	87,116,539	88,376,856	77,527,989	(1,260,317)	10,848,867
Noninstructional services	868,041	862,825	877,412	5,216	(14,587)
Facilities acquisition and construction	600,000	278,411	478,302	321,589	(199,891)
Total Expenditures	<u>232,111,100</u>	<u>232,307,018</u>	<u>216,112,337</u>	<u>(195,918)</u>	<u>16,194,681</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(4,716,965)</u>	<u>(5,418,682)</u>	<u>11,299,041</u>	<u>(701,717)</u>	<u>16,717,723</u>
Other Financing Sources (Uses)					
Insurance loss recoveries	0	0	1,131,708	0	1,131,708
Sale of other property	0	0	5,100	0	5,100
Operating transfers in	35,406,518	35,171,816	1,071,000	(234,702)	(34,100,816)
Operating transfers out	(41,709,329)	(51,667,549)	(16,740,613)	(9,958,220)	34,926,936
Other financing uses	0	0	(480,904)	0	(480,904)
Total Other Financing Sources (Uses)	<u>(6,302,811)</u>	<u>(16,495,733)</u>	<u>(15,013,709)</u>	<u>(10,192,922)</u>	<u>1,482,024</u>
Net Change in Fund Balances			<u>(3,714,668)</u>		
Fund Balances					
July 1, 2016, as previously reported			94,682,248		
Prior period adjustments			97,522		
July 1, 2016, as restated			<u>94,779,770</u>		
June 30, 2017			<u>\$ 91,065,102</u>		

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

DESOTO COUNTY SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years

	2017	2016	2015
District's proportion of the net pension liability (asset)	2.328765%	2.267688%	2.132761%
District's proportionate share of the net pension liability (asset)	\$ 415,975,578	350,539,846	258,878,135
District's covered payroll	\$ 148,976,692	141,672,184	130,322,705
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	279.22%	247.43%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	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 the 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.

DESOTO COUNTY SCHOOL DISTRICT
Schedule of District Contributions
PERS
Last 10 Fiscal Years

	2017	2016	2015
Contractually required contribution	\$ 23,627,831	23,463,829	22,313,369
Contributions in relation to the contractually required contribution	23,627,831	23,463,829	22,313,369
Contribution deficiency (excess)	0	0	0
District's covered payroll	150,017,975	148,976,692	141,672,184
Contributions as a percentage of covered payroll	15.75%	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 the 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.

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2017

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of assumptions

2015:

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.

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.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

(2) Changes in benefit provisions

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

SUPPLEMENTARY INFORMATION

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DESOTO COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 2,440,771
National school lunch program	10.555	12,614,473
Summer food service program for children	10.559	7,171
Total child nutrition cluster		<u>15,062,415</u>
Total U.S. Department of Agriculture		<u>15,062,415</u>
U.S. Department of Defense		
Direct program:		
Reserve officers' training corps	12.xxx	88,165
Total U.S. Department of Defense		<u>88,165</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	4,579,644
Title I - program for neglected and delinquent children	84.013	91,798
Career and technical education - basic grants to states	84.048	154,390
English language acquisition grants	84.365	326,364
Supporting effective instruction - state grants	84.367	703,840
Total		<u>5,856,036</u>
Special education cluster:		
Special education - grants to states	84.027	6,274,569
Special education - preschool grants	84.173	170,657
Total special education cluster		<u>6,445,226</u>
Total passed-through Mississippi Department of Education		<u>12,301,262</u>
Total U.S. Department of Education		<u>12,301,262</u>
U.S. Department of Health and Human Services		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	160,201
Total passed-through Mississippi Department of Education		<u>160,201</u>
Total U.S. Department of Health and Human Services		<u>160,201</u>
Total for All Federal Awards		<u>\$ 27,612,043</u>

The notes to the Supplementary Information are an integral part of this schedule.

DESOTO COUNTY SCHOOL DISTRICT
Notes to the Supplementary Information
For the Year Ended June 30, 2017

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost Rate

The School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

DESOTO COUNTY SCHOOL DISTRICT

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2017

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 199,584,396	154,459,101	9,317,799	12,602,155	23,205,341
Other	85,029,376	15,755,450	1,704,970	321,234	67,247,722
Total	<u>284,613,772</u>	<u>170,214,551</u>	<u>11,022,769</u>	<u>12,923,389</u>	<u>90,453,063</u>
Total number of students	<u>33,602</u>				
Cost per student	<u>\$ 8,471</u>	<u>5,066</u>	<u>328</u>	<u>385</u>	<u>2,692</u>

Notes to the schedule.

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

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

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

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

Total number of students - the ADA report submission for month 9, which is the final submission for the fiscal year.

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OTHER INFORMATION

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DESOTO COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

UNAUDITED

	2017	2016*	2015*	2014*
Revenues				
Local sources	\$ 72,477,912	72,646,208	67,477,084	65,807,948
State sources	153,580,933	153,548,211	146,294,598	140,741,042
Federal sources	1,352,533	665,528	1,276,082	1,047,142
Total Revenues	<u>227,411,378</u>	<u>226,859,947</u>	<u>215,047,764</u>	<u>207,596,132</u>
Expenditures				
Instruction	137,228,634	135,640,234	130,201,285	119,544,097
Support services	77,527,989	80,315,830	77,664,593	75,733,596
Noninstructional services	877,412	874,021	903,760	863,845
Facilities acquisition and construction	478,302	1,632,541	2,165,276	178,455
Total Expenditures	<u>216,112,337</u>	<u>218,462,626</u>	<u>210,934,914</u>	<u>196,319,993</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>11,299,041</u>	<u>8,397,321</u>	<u>4,112,850</u>	<u>11,276,139</u>
Other Financing Sources (Uses)				
Insurance loss recoveries	1,131,708	114,314	156,472	51,590
Sale of other property	5,100	0	0	20,000
Operating transfers in	1,071,000	363,208	1,288,208	133,886
Other financing sources	0	0	535,578	450,269
Operating transfers out	(16,740,613)	(7,469,023)	(6,676,382)	(6,249,947)
Other financing uses	(480,904)	(3,990)	(535,578)	(450,269)
Total Other Financing Sources (Uses)	<u>(15,013,709)</u>	<u>(6,995,491)</u>	<u>(5,231,702)</u>	<u>(6,044,471)</u>
Net Change in Fund Balances	<u>(3,714,668)</u>	<u>1,401,830</u>	<u>(1,118,852)</u>	<u>5,231,668</u>
Fund Balances				
Beginning of period, as previously reported	94,682,248	93,350,267	94,469,119	89,237,451
Prior period adjustments	97,522	(69,849)	0	0
Beginning of period, as restated	<u>94,779,770</u>	<u>93,280,418</u>	<u>94,469,119</u>	<u>89,237,451</u>
End of period	<u>\$ 91,065,102</u>	<u>94,682,248</u>	<u>93,350,267</u>	<u>94,469,119</u>

* Source - Prior year audit reports.

DESOTO COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

	UNAUDITED			
	2017	2016*	2015*	2014*
Revenues				
Local sources	\$ 98,304,663	95,087,217	91,623,550	90,228,461
Intermediate sources	0	0	0	35,647
State sources	156,711,589	156,240,137	149,610,386	143,755,961
Federal sources	24,723,152	22,782,404	26,891,848	22,085,017
Total Revenues	279,739,404	274,109,758	268,125,784	256,105,086
Expenditures				
Instruction	147,749,291	146,155,009	139,894,804	128,751,231
Support services	89,288,675	89,700,394	88,188,133	85,164,456
Noninstructional services	13,956,998	14,843,397	14,145,079	14,370,572
Facilities acquisition and construction	5,993,825	6,575,351	21,048,821	14,555,731
Debt service				
Principal	23,370,000	17,610,000	16,630,000	17,105,000
Interest	4,180,147	4,518,668	5,244,547	6,006,637
Other	74,836	97,590	16,522	64,192
Total Expenditures	284,613,772	279,500,409	285,167,906	266,017,819
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,874,368)	(5,390,651)	(17,042,122)	(9,912,733)
Other Financing Sources (Uses)				
Refunding bond issue	0	0	0	20,720,000
Proceeds of refunding bonds	0	8,515,000	0	0
Proceeds of loans	3,705,000	10,000,000	0	0
Insurance loss recoveries	1,131,708	114,593	156,472	51,975
Payment to QSCB escrow agent	0	0	180,158	184,783
Payment to QSCB debt escrow agent	0	0	(180,158)	(184,783)
Premium on bonds and refunding bonds	0	0	0	189,459
Sale of land	5,100	0	0	0
Sale of other property	0	0	0	20,000
Operating transfers in	17,811,613	9,340,907	9,055,355	7,919,468
Other financing sources	0	261,914	535,578	450,269
Operating transfers out	(17,811,613)	(9,340,907)	(9,055,355)	(7,919,468)
Payment to refunded bond escrow agent	0	(8,679,960)	0	(20,724,056)
Other financing uses	(480,904)	(70,824)	(536,476)	(450,269)
Total Other Financing Sources (Uses)	4,360,904	10,140,723	155,574	257,378
Net Change in Fund Balances	(513,464)	4,750,072	(16,886,548)	(9,655,355)
Fund Balances				
Beginning of period, as previously reported	123,341,153	118,956,751	135,874,883	145,533,131
Prior period adjustments	103,339	(289,864)	5,312	0
Beginning of period, as restated	123,444,492	118,666,887	135,880,195	145,533,131
Increase (Decrease) in reserve for inventory	140,842	(75,806)	(36,896)	(2,893)
End of period	\$ 123,071,870	123,341,153	118,956,751	135,874,883

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

CHARLES L. SHIVERS, CPA, LLC

Certified Public Accountant

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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*

Independent Auditor's Report

Superintendent and School Board
DeSoto County School District

I 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 DeSoto County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise DeSoto County School District's basic financial statements, and have issued my report thereon dated May 18, 2018.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be a significant deficiency [2017-001].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DeSoto County School District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

DeSoto County School District's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Charles L Shivers

Charles L. Shivers, CPA, LLC
Ridgeland, MS
May 18, 2018

CHARLES L. SHIVERS, CPA, LLC

Certified Public Accountant

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

Independent Auditor's Report

Superintendent and School Board
DeSoto County School District

Report on Compliance for Each Major Federal Program

I have audited DeSoto County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of DeSoto County School District's major federal programs for the year ended June 30, 2017. DeSoto County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of DeSoto County School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 DeSoto County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of DeSoto County School District's compliance.

Opinion on Each Major Federal Program

In my opinion, DeSoto County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of DeSoto County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of

compliance, I considered DeSoto 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, I do not express an opinion on the effectiveness of DeSoto County School District's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. I did not identify any deficiencies in internal control over compliance that I 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 my 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.

Charles L Shivers

Charles L. Shivers, CPA, LLC
Ridgeland, MS
May 18, 2018

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

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CHARLES L. SHIVERS, CPA, LLC

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

Superintendent and School Board
DeSoto County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the DeSoto County School District as of and for the year ended June 30, 2017, which collectively comprise DeSoto County School District's basic financial statements and have issued my report thereon dated May 18, 2018. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, I 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 my audit and, accordingly, I do not express such an opinion.

The results of my 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.

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

The results of my 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, I 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 my audit and, accordingly, I do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and my audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

Charles L Shivers

Charles L. Shivers, CPA, LLC
Ridgeland, MS
May 18, 2018

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditor's report issued on the basic financial statements: | Unmodified |
| 2. | Noncompliance material to the basic financial statements noted? | No |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 7. | Federal program identified as major program: | |
| | Child nutrition cluster | |
| | CFDA #: 10.553 | |
| | CFDA #: 10.555 | |
| | CFDA #: 10.559 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$828,361 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

Section II: Financial Statement Findings

Significant deficiency identified that is not considered to be material weakness.

Finding 2017-001

CONDITION: The inspection of band receipts for five of the high schools indicated that, in some instances, significant amounts of band fees were not being collected by the high school and were in all likelihood being collected by the booster club as was reported in the prior year. An inspection of band receipts as of the date of the audit indicated that the deficiency was being corrected at one high school and management had indicated that procedures were in place to correct the matter at all high schools. Due to the timing of the audit engagement, this is a repeat finding from the prior year.

CRITERIA: Section 37-7-301 and 37-7-335, Mississippi Code of 1972, authorizes the school board to charge reasonable fees to students for participating in extracurricular activities of the school. The collection of student fees as assessed by the school board must be paid to and collected by the local school in accordance with school board policy and procedures for the receipting of activity funds.

CAUSE OF CONDITION: The cause of the condition is a failure of the school district to comply with state law and school board policy.

EFFECT OF CONDITION: The effect of this condition resulted in public funds not being collected by the school district and accounted for in accordance with school board policy.

DESOTO COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

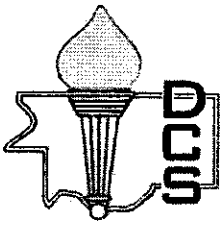
RECOMMENDATION: It is recommended that student fees, as assessed by the school board, be paid to and collected by the local school in accordance with school board policy and procedures for the receipting of activity funds.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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DESOTO COUNTY SCHOOLS

5 East South Street • Hernando, Mississippi 38632
662-429-5271 • fax 662-429-4198 • Website: www.desotocountyschools.org

"EXCELLENCE IS A COMMITMENT"

Corrective Action Plan

May 18, 2018

As required by 2 CFR 200.511 (a), the DeSoto County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2017.

Finding 2017-001

Corrective Action Plan

- a. Contact person responsible for corrective action: Stacey Graves, CFO
- b. Description of correction action to be taken: Due the timing of the prior year audit, certain fees had already been collected for the current audit period. Subsequent to the prior year audit finding, training of both district personnel and all booster organizations was conducted. All fees collected since the training are subject to the procedures outlined in the training.
- c. Anticipated completion date of corrective action: Fall 2018

Sincerely,

Superintendent of Education

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