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HOLLY SPRINGS SCHOOL DISTRICT

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

M. M. WINKLER & ASSOCIATES, PLLC
Certified Public Accountants
Tupelo, Mississippi

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HOLLY SPRINGS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Holly Springs School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Holly Springs School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

INDEPENDENT AUDITOR'S REPORT

- Continued -

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs 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, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 13-20, 51-52, 53 and 54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

INDEPENDENT AUDITOR'S REPORT

- Continued -

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2018, on our consideration of the Holly Springs School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Holly Springs 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 Holly Springs School District's internal control over financial reporting and compliance.

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 26, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

The following discussion and analysis of Holly Springs 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 \$935,256, which represents a 16.76% decrease from fiscal year 2016. Total net position for 2016 increased \$748,399, including a prior period adjustment of \$(19,283), which represents an 11.85% increase from fiscal year 2015.
- General revenues amounted to \$12,325,112 and \$12,083,104, or 78.93% and 78.04% 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 \$3,289,973, or 21.07% of total revenues for 2017, and \$3,399,821, or 21.96 % of total revenues for 2016.
- The District had \$16,550,341 and \$14,715,243 in expenses for fiscal years 2017 and 2016; only \$3,289,973 for 2017 and \$3,399,821 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$12,325,112 for 2017 and \$12,083,104 for 2016 were used to provide for these programs.
- Among major funds, the General Fund had \$11,109,579 in revenues and \$10,320,528 in expenditures for 2017, and \$11,010,608 in revenues and \$10,149,824 in expenditures in 2016. The General Fund's fund balance increased by \$221,747 from 2016 to 2017, and increased by \$356,733 from 2015 to 2016.
- Capital assets, net of accumulated depreciation, decreased by \$884,862 for 2017 and increased by \$5,846,366 for 2016. Decrease for 2017 was due to the donation of the West Street property to the City of Holly Springs coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$914,517 for 2017 and decreased by \$375,781 for 2016. This decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$7,536 for 2017 and decreased by \$16,686 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.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Reconciliation of Government-wide and Fund Financial Statements - Continued

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 New Pension Liability, and Schedule of District Contributions as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and the additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,514,740 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.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

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	\$ 5,053,829	\$ 4,246,498	19.01 %
Restricted assets	135,875	1,328,422	-89.77 %
Capital assets, net	16,713,987	17,598,849	-5.03 %
Total assets	21,903,691	23,173,769	-5.48 %
 Deferred outflows of resources	 3,882,763	 4,062,662	 -4.43 %
 Current liabilities	 666,288	 1,001,215	 -33.45 %
Long-term debt outstanding	11,040,192	11,962,245	-7.71 %
Net pension liability	19,827,373	17,467,572	13.51 %
Total liabilities	31,533,853	30,431,032	3.62 %
 Deferred inflows of resources	 767,341	 2,484,883	 -69.12 %
 Net position:			
Net investment in capital assets	5,924,859	6,073,204	-2.44 %
Restricted	1,364,209	1,255,148	8.69 %
Unrestricted	(13,803,808)	(12,907,836)	-6.94 %
Total net position	\$ (6,514,740)	\$ (5,579,484)	-16.76 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (13,803,808)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	16,711,951
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 2,908,143</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 \$884,862.
- The principal retirement of \$914,517 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 \$15,615,085 and \$15,482,925, respectively. The total cost of all programs and services was \$16,550,341 for 2017 and \$14,715,243 for 2016.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

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**

	Year Ended June 30, 2017	Year Ended June 30, 2016	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 223,806	\$ 251,233	(10.92) %
Operating grants and contributions	3,066,167	3,148,588	(2.62) %
General revenues:			
Property taxes	4,627,036	4,354,079	6.27 %
Grants and contributions not restricted	7,517,187	7,650,170	(1.74) %
Investment earnings	43,984	50,343	(12.63) %
Other	136,905	28,512	380.17 %
Total revenues	15,615,085	15,482,925	0.85 %
Expenses:			
Instruction	6,748,794	6,598,705	2.27 %
Support services	5,619,729	5,318,689	5.66 %
Non-instructional	957,540	996,144	(3.88) %
Pension expense	2,023,215	1,328,751	52.26 %
Donation of West Street property	754,182	-	N/A
Interest on long-term liabilities	446,881	472,954	(5.51) %
Total expenses	16,550,341	14,715,243	12.47 %
Increase (Decrease) in net position	(935,256)	767,682	(221.83) %
Net Position, July 1, as previously reported	(5,579,484)	(6,327,883)	11.83 %
Prior Period Adjustment	-	(19,283)	100.00 %
Net Position, July 1, as restated	(5,579,484)	(6,347,166)	12.09 %
Net Position, June 30	\$ (6,514,740)	\$ (5,579,484)	(16.76) %

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.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2017	2016	
Instruction	\$ 6,748,794	\$ 6,598,705	2.27 %
Support services	5,619,729	5,318,689	5.66 %
Non-instructional	957,540	996,144	(3.88) %
Pension Expense	2,023,215	1,328,751	52.26 %
Donation of West Street property	754,182	-	N/A %
Interest on long-term liabilities	446,881	472,954	(5.51) %
Total expenses	\$ 16,550,341	\$ 14,715,243	12.47 %

	Net (Expense) Revenue		Percentage Change
	2017	2016	
Instruction	\$ (5,752,184)	\$ (5,498,932)	4.61 %
Support services	(4,422,386)	(4,148,830)	6.59 %
Non-instructional	107,988	101,430	6.47 %
Pension Expense	(2,023,215)	(1,328,751)	52.26 %
Donation of West Street property	(754,182)	-	N/A %
Interest on long-term liabilities	(416,409)	(440,339)	(5.43) %
Total net (expense) revenue	\$ (13,260,388)	\$ (11,315,422)	17.19 %

- Net cost of governmental activities (\$13,260,388 for 2017 and \$11,315,422 for 2016) was financed by general revenue, which is primarily made up of property taxes (\$4,627,036 for 2017 and \$4,354,079 for 2016) and state and federal revenues (\$7,517,187 for 2017 and \$7,650,170 for 2016).
- Investment earnings amounted to \$43,984 for 2017 and \$50,343 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 \$4,666,237, a decrease of \$58,981, which includes a decrease in inventory of \$2,904. \$3,159,207 or 67.70% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,507,030 or 32.30% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS - Continued

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$221,747. The fund balance of Other Governmental Funds showed a decrease in the amount of \$280,728, which includes a decrease in reserve for inventory of \$2,904, due primarily to the completion of a construction project, thereby depleting the capital project fund. There was no change in the fund balance for the other major fund as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I - Basic	no increase or decrease

BUDGETARY HIGHLIGHTS

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

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and the major special revenue 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 \$24,446,423, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment. This amount represents a decrease of \$1,353,452 from 2016. Total accumulated depreciation as of June 30, 2017, was \$7,732,436, and total depreciation expense for the year was \$565,603, resulting in total net capital assets of \$16,713,987.

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Land	\$ 227,020	\$ 65,155	248.43 %
Construction in Progress	17,150	9,301,142	(99.82) %
Buildings	14,344,073	5,914,429	142.53 %
Building improvements	1,491,348	1,582,540	(5.76) %
Improvements other than buildings	83,132	144,997	(42.67) %
Mobile equipment	374,772	440,242	(14.87) %
Furniture and equipment	176,492	150,344	17.39 %
Total	<u>\$ 16,713,987</u>	<u>\$ 17,598,849</u>	(5.03) %

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

**HOLLY SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION - Continued

Debt Administration. At June 30, 2017, the District had \$11,040,192 in outstanding long-term debt, of which \$1,192,708 is due within one year. The liability for compensated absences decreased \$7,536 from the prior year.

The District maintains an AA-stable bond rating.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 9,165,000	\$ 9,360,000	(2.08) %
Premiums/Discounts	162,092	171,627	(5.56) %
General obligation refunding bonds payable	225,000	440,000	(48.86) %
Premiums/Discounts	3,408	6,816	(50.00) %
Limited obligation refunding bonds payable	535,000	790,000	(32.28) %
Premiums/Discounts	5,400	10,801	(50.00) %
Three mill notes payable	182,000	360,000	(49.44) %
Qualified school construction bonds payable	693,228	746,401	(7.12) %
Compensated absences payable	69,064	76,600	(9.84) %
Total	<u><u>\$ 11,040,192</u></u>	<u><u>\$ 11,962,245</u></u>	(7.71) %

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

CURRENT ISSUES

The Holly Springs 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 finance 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 Holly Springs School District, 840 Highway 178 East, Holly Springs, Mississippi 38635.

FINANCIAL STATEMENTS

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HOLLY SPRINGS SCHOOL DISTRICT

Statement of Net Position

Exhibit A

June 30, 2017

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 4,407,806
Due from other governments	536,002
Other receivables, net	69,991
Inventories	13,933
Prepaid items	26,097
Restricted assets	135,875
Capital assets, non-depreciable:	
Land	227,020
Construction in progress	17,150
Capital assets, net of accumulated depreciation:	
Buildings	14,344,073
Building improvements	1,491,348
Improvements other than buildings	83,132
Mobile equipment	374,772
Furniture and equipment	176,492
Total Assets	<u>21,903,691</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	<u>3,882,763</u>
Total deferred inflows of resources	<u>3,882,763</u>
Liabilities	
Accounts payable and accrued liabilities	523,467
Interest payable on long-term liabilities	142,821
Long-term liabilities, due within one year:	
Capital related liabilities	1,010,708
Non-capital related liabilities	182,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	9,778,420
Non-capital related liabilities	69,064
Net pension liability	19,827,373
Total Liabilities	<u>31,533,853</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	<u>767,341</u>
Total deferred inflows of resources	<u>767,341</u>
Net Position	
Net investment in capital assets	5,924,859
Restricted for:	
Expendable:	
School-based activities	223,044
Debt service	750,799
Capital improvements	358,371
Unemployment benefits	31,995
Unrestricted	(13,803,808)
Total Net Position	<u>\$ (6,514,740)</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Statement of Activities

Exhibit B

For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 6,748,794	\$ 111,785	\$ 884,825	\$ (5,752,184)
Support services	5,619,729	35,908	1,161,455	(4,422,366)
Non-instructional	957,540	45,641	1,019,887	107,988
Pension expense	2,023,215	-	-	(2,023,215)
Donation of West Street property	754,182	-	-	(754,182)
Interest on long-term liabilities	446,881	30,472	-	(416,409)
Total Governmental Activities	<u>\$ 16,550,341</u>	<u>\$ 223,806</u>	<u>\$ 3,066,167</u>	<u>\$ (13,260,368)</u>
General Revenues:				
Taxes:				
General purpose levies				\$ 3,589,604
Debt purpose levies				1,037,432
Unrestricted grants and contributions:				
State				7,453,739
Federal				63,448
Unrestricted investment earnings				43,984
Other				136,905
Total General Revenues				<u>12,325,112</u>
Change in Net Position				<u>(935,256)</u>
Net Position - Beginning				<u>(5,579,484)</u>
Net Position - Ending				<u>\$ (6,514,740)</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

Balance Sheet

Exhibit C

June 30, 2017

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Title I - Basic Fund		
Assets				
Cash and cash equivalents	\$ 3,235,287	\$ -	\$ 1,172,519	\$ 4,407,806
Cash with fiscal agents	-	-	135,875	135,875
Due from other governments	126,672	132,831	276,499	536,002
Other receivables, net	43,006	470	3,294	46,770
Due from other funds	181,430	520	3,186	185,136
Advance to other funds	14,297	-	-	14,297
Inventories	-	-	13,933	13,933
Prepaid items	26,097	-	-	26,097
Total assets	<u>3,626,789</u>	<u>133,821</u>	<u>1,605,306</u>	<u>5,365,916</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	426,666	27,308	67,383	521,357
Due to other funds	522	106,513	56,990	164,025
Advances from other funds	-	-	14,297	14,297
Total Liabilities	<u>427,188</u>	<u>133,821</u>	<u>138,670</u>	<u>699,679</u>
Fund Balances:				
Nonspendable:				
Inventory	-	-	13,933	13,933
Advances	14,297	-	-	14,297
Prepaid items	26,097	-	-	26,097
Restricted:				
Debt service	-	-	893,620	893,620
Capital projects	-	-	358,371	358,371
Unemployment benefits	-	-	31,995	31,995
Assigned:	-	-	-	-
School activities	-	-	168,717	168,717
Unassigned	<u>3,159,207</u>	<u>-</u>	<u>-</u>	<u>3,159,207</u>
Total Fund Balances	<u>3,199,601</u>	<u>-</u>	<u>1,466,636</u>	<u>4,666,237</u>
Total Liabilities and Fund Balances	<u>\$ 3,626,789</u>	<u>\$ 133,821</u>	<u>\$ 1,605,306</u>	<u>\$ 5,365,916</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2017**

Exhibit C-1

Total fund balances for governmental funds \$ 4,666,237

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

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

Land	\$ 227,020	
Construction in progress	17,150	
Buildings	18,453,662	
Building improvements	2,279,808	
Improvements other than buildings	161,975	
Mobile equipment	1,655,722	
Furniture and equipment	1,651,086	
Accumulated depreciation	<u>(7,732,436)</u>	16,713,987

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

Net pension liability	(19,827,373)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	3,882,763	
Deferred inflows of resources related to pensions	<u>(767,341)</u>	(16,711,951)

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

General obligation bonds	(9,390,000)	
Limited obligation bonds	(535,000)	
Notes payable	(182,000)	
Qualified school construction bonds	(693,228)	
Compensated absences	(69,064)	
Unamortized premiums	(170,900)	
Accrued interest payable	<u>(142,821)</u>	(11,183,013)

Net Position of governmental activities	<u><u>\$ (6,514,740)</u></u>
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The notes to the financial statements are an integral part of this statement.

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2017

Exhibit D

	Major Funds		Other	Total
	General	Title I - Basic	Governmental	Governmental
	Fund	Fund	Funds	Funds
Revenues:				
Local sources	\$ 3,908,276	\$ -	\$ 1,092,982	\$ 5,001,258
State sources	7,137,854	-	683,402	7,821,256
Federal sources	63,449	984,377	1,744,745	2,792,571
Total Revenues	<u>11,109,579</u>	<u>984,377</u>	<u>3,521,129</u>	<u>15,615,085</u>
Expenditures:				
Instruction	5,739,476	486,643	776,950	7,003,069
Support services	4,429,652	521,446	956,733	5,907,831
Noninstructional services	-	50,946	985,463	1,036,409
Facilities acquisition and construction	151,400	-	204,379	355,779
Debt service:				
Principal	-	-	896,173	896,173
Interest	-	-	468,194	468,194
Other	-	-	5,723	5,723
Total Expenditures	<u>10,320,528</u>	<u>1,059,035</u>	<u>4,293,615</u>	<u>15,673,178</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>789,051</u>	<u>(74,658)</u>	<u>(772,486)</u>	<u>(58,093)</u>
Other Financing Sources (Uses):				
Sale of transportation equipment	1,500	-	-	1,500
Sale of other property	1,000	-	-	1,000
Operating transfers in	22,295	84,658	598,480	705,433
Operating transfers out	(592,099)	(10,000)	(103,334)	(705,433)
Other financing uses	-	-	(484)	(484)
Total Other Financing Sources (Uses)	<u>(567,304)</u>	<u>74,658</u>	<u>494,662</u>	<u>2,016</u>
Net Change in Fund Balances	221,747	-	(277,824)	(56,077)
Fund Balances:				
July 1, 2016	2,977,854	-	1,747,364	4,725,218
Increase (Decrease) in reserve for inventory	-	-	(2,904)	(2,904)
June 30, 2017	<u>\$ 3,199,601</u>	<u>\$ -</u>	<u>\$ 1,466,636</u>	<u>\$ 4,666,237</u>

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

HOLLY SPRINGS SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2017**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (56,077)

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

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

Capital outlay	\$ 439,018	
Depreciation expense	<u>(565,603)</u>	(126,585)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (4,095)

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

Payments of debt principal	426,173	
Payments on refunded bonds	470,000	
Accrued interest payable	<u>8,692</u>	904,865

4. Some items relating to pensions and 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. The activities include:

Pension expense	(2,023,215)	
Contributions subsequent to the measurement date	<u>1,101,057</u>	(922,158)

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

Change in compensated absences	7,536	
Donation of West Street property to the City of Holly Springs	(754,182)	
Change in inventory reserve	(2,904)	
Amortization of deferred charges, premiums and discounts	<u>18,344</u>	(731,206)

Change in Net Position of governmental activities \$ (935,256)

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

HOLLY SPRINGS SCHOOL DISTRICT**Fiduciary Funds****Statement of Fiduciary Assets and Liabilities
June 30, 2017****Exhibit E**

	Agency Funds
Assets	
Cash and cash equivalents	\$ 645,164
Other receivables, net	1,287
Due from other funds	2,110
Total Assets	<u>648,561</u>
Liabilities	
Accounts payable and accrued liabilities	582,445
Due to other funds	23,221
Due to student clubs	42,895
Total Liabilities	<u>\$ 648,561</u>

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

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HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Holly Springs since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
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.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies - Continued

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

The school district reports the following major governmental funds:

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

Title I-Basic Fund – This fund is federally funded to provide supplemental funds for the education of the district's disadvantaged students.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund – This fund is used to account for all payroll transactions including salaries and wages, withholding, employee benefits, and payroll taxes.

Accounts Payable Clearing Fund – This fund is used to account for the payment of claims against the school district.

Student Club Funds – These funds are used to account for student club activities at each of the five schools which comprise the district.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies – Continued

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

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

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

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

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

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

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

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

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.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies - Continued

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

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 nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies - Continued

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	\$ -	-
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 district has one deferred outflow for pensions.

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

See Note 7 and Note 11 for further details.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies - Continued

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.

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

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 1 – Summary of Significant Accounting Policies - Continued

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

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 board of the Holly Springs School District formally adopted the Minimum Unassigned Fund Balance policy (Policy DGA) which states that the goal of the District is to achieve and maintain an unassigned fund balance in the General Fund at fiscal year-end of no less than 7% of all revenues (functions 0000-5999). If the assigned balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from estimates.

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

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

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

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 2 – Cash and Cash Equivalents, and Cash with Fiscal Agents - Continued

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 \$ 4,407,806 and \$645,164, 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 \$135,875.

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I- Basic	\$ 106,513
	Other governmental funds	55,025
	Fiduciary funds	19,892
Title I- Basic	Fiduciary funds	520
Other governmental funds	General Fund	77
	Other governmental funds	1,965
	Fiduciary funds	1,144
Fiduciary funds	General Fund	445
	Fiduciary funds	1,665
Total		<u>\$ 187,246</u>

The purpose of the interfund loans were to cover federal funds and/or advalorem taxes not received prior to year end, interest earned in fiduciary fund bank accounts, and voided check amounts remaining in fiduciary funds.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ <u>14,297</u>

The advances were made to the Food Service Fund to cover shortfalls in prior years.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 3 – Inter-fund Receivables, Payables and Transfers – Continued

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 592,099
Title I- Basic	General Fund	10,000
Other governmental funds	General Fund	12,295
	Title I- Basic	84,658
	Other governmental funds	6,381
Total		<u>\$ 705,433</u>

The principal purpose of the interfund transfers was to provide for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

Note 4 – Restricted Assets

In addition, the restricted assets represents the cash with fiscal agent totaling \$135,875 of the MAEP Limited Obligation Bond/Note Fund.

Note 5 – Capital Assets

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

	Balance 7/1/2016	Increases	Decreases		Balance 6/30/2017
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 65,155	\$ 177,670	\$ 15,805	1	\$ 227,020
Construction-in-progress	9,301,142	204,379	9,488,371		17,150
Total non-depreciable capital assets	<u>9,366,297</u>	<u>382,049</u>	<u>9,504,176</u>		<u>244,170</u>
<u>Depreciable capital assets:</u>					
Buildings	10,574,905	9,462,101	1,583,344	1	18,453,662
Building improvements	2,279,808	-	-		2,279,808
Improvements other than buildings	248,515	-	86,540	1	161,975
Mobile equipment	1,689,352	-	33,630		1,655,722
Furniture and equipment	1,640,998	83,239	73,151		1,651,086
Total depreciable capital assets	<u>16,433,578</u>	<u>9,545,340</u>	<u>1,776,665</u>		<u>24,202,253</u>
<u>Less accumulated depreciation for:</u>					
Buildings	4,660,476	349,465	900,352	1	4,109,589
Building improvements	697,268	91,192	-		788,460
Improvements other than buildings	103,518	6,479	31,154	1	78,843
Mobile equipment	1,249,110	62,107	30,267		1,280,950
Furniture and equipment	1,490,654	56,360	72,420		1,474,594
Total accumulated depreciation	<u>8,201,026</u>	<u>565,603</u>	<u>1,034,193</u>		<u>7,732,436</u>
Total depreciable capital assets, net	<u>8,232,552</u>	<u>8,979,737</u>	<u>742,472</u>		<u>16,469,817</u>
Governmental activities capital assets, net	<u>\$ 17,598,849</u>	<u>\$ 9,361,786</u>	<u>\$ 10,246,648</u>		<u>\$ 16,713,987</u>

1 – The District donated land, building and improvements with a net book value of \$754,182, to the City of Holly Springs. In return the District received 24 Acres with a value of \$101,400.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 5 – Capital Assets – Continued

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 454,898
Support services	100,476
Non-instructional	10,229
Total depreciation expense - Governmental activities	<u>\$ 565,603</u>

The capital assets above include significant amounts of buildings which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

The details of construction-in-progress are as follows:

	Spent to June 30, 2017	Remaining Commitment
Governmental Activities:		
High School Gym Renovation	\$ 17,150	\$ -
Total governmental activities	<u>\$ 17,150</u>	<u>\$ -</u>

Construction projects included in governmental activities are funded with three mill notes payable.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2016	Additions	Reductions	Balance 6/30/2017	Amounts due within one year
A. General obligation bonds payable	\$ 9,360,000	\$ -	\$ 195,000	\$ 9,165,000	\$ 195,000
General obligation refunding bonds payable	440,000	-	215,000	225,000	225,000
Premiums/Discounts	178,443	-	12,943	165,500	-
B. Limited obligation refunding bonds payable	790,000	-	255,000	535,000	535,000
Premiums/Discounts	10,801	-	5,401	5,400	-
C. Three mill notes payable	360,000	-	178,000	182,000	182,000
D. Qualified school construction bonds payable	746,401	-	53,173	693,228	55,708
E. Compensated absences payable	76,600	-	7,536	69,064	-
Total	<u>\$ 11,962,245</u>	<u>\$ -</u>	<u>\$ 922,053</u>	<u>\$ 11,040,192</u>	<u>\$ 1,192,708</u>

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 6 – Long-term Liabilities - Continued

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. Refunding Bonds, Series 2009	4.00%	6/1/2009	6/18/2018	\$ 1,785,000	\$ 225,000
Capital Projects -					
2. Int.School	3.5-4.75%	8/1/2013	8/1/2033	9,750,000	9,165,000
Total				<u>\$ 11,535,000</u>	<u>\$ 9,390,000</u>

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

1. General obligation bond issue of June 1, 2009:

Year Ending June 30	Principal	Interest	Total
2018	\$ 225,000	\$ 9,000	\$ 234,000
Total	<u>\$ 225,000</u>	<u>\$ 9,000</u>	<u>\$ 234,000</u>

This debt will be retired from the General Obligations Refunding Bond Fund.

2. General obligation bond issue of August 1, 2013:

Year Ending June 30	Principal	Interest	Total
2018	\$ 195,000	\$ 380,075	\$ 575,075
2019	205,000	373,075	578,075
2020	450,000	361,612	811,612
2021	465,000	345,600	810,600
2022	485,000	328,975	813,975
2023 – 2027	2,750,000	1,347,422	4,097,422
2028 – 2032	3,365,000	686,978	4,051,978
2033 – 2037	1,250,000	52,969	1,302,969
Total	<u>\$ 9,165,000</u>	<u>\$ 3,876,706</u>	<u>\$ 13,041,706</u>

This debt will be retired from the GO-Intermediate School Construction Bond Fund.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 6 – Long-term Liabilities - Continued

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ 420,000	\$ 389,075	\$ 809,075
2019	205,000	373,075	578,075
2020	450,000	361,612	811,612
2021	465,000	345,600	810,600
2022	485,000	328,975	813,975
2023 – 2027	2,750,000	1,347,422	4,097,422
2028 – 2032	3,365,000	686,978	4,051,978
2033 – 2037	1,250,000	52,969	1,302,969
Total	<u>\$ 9,390,000</u>	<u>\$ 3,885,706</u>	<u>\$ 13,275,706</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 12.8% of property assessments as of October 1, 2016.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Refunding bonds, Series 2009	3.50%	5/15/2009	2/1/2018	\$ 2,190,000	\$ 535,000

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

- Limited obligation bond issue of May 15, 2009:

Year Ending June 30	Principal	Interest	Total
2018	\$ 535,000	\$ 14,175	\$ 549,175

This debt will be retired from the MAEP Refunding Bond Fund.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

Note 6 – Long-term Liabilities - Continued

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

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note	1.60%	8/14/2015	8/14/2017	\$ 360,000	\$ 182,000

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

1. Three mill notes payable issue of August 14, 2015:

Year Ending June 30	Principal	Interest	Total
2018	\$ 182,000	\$ 2,912	\$ 184,912

This debt will be retired from the Three Mill Fund.

D. Qualified school construction bonds payable

As more fully explained in Note 10, 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
Energy efficiency lease purchase	4.77%	6/29/2012	6/29/2027	\$ 935,961	\$ 693,228

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.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2017

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 \$1,101,057, \$1,120,334 and \$1,114,247, respectively, which equaled the required contributions for each year.

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

At June 30, 2017, the school district reported a liability of \$19,827,373 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 0.111 percent, which was based on a measurement date of June 30, 2016. This was a decrease of 0.002 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.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 7 – Defined Benefit Pension Plan – Continued

For the year ended June 30, 2017, the District recognized pension expense of \$2,023,215. 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	\$ 561,359	\$ -
Net difference between projected and actual earnings on pension plan investments	1,268,800	-
Changes of assumptions	951,547	52,688
Changes in proportion and differences between District contributions and proportionate share of contributions	-	714,653
District contributions subsequent to the measurement date	1,101,057	-
Total	<u>\$ 3,882,763</u>	<u>\$ 767,341</u>

\$1,101,057 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	\$ 554,629
2019	412,199
2020	655,843
2021	391,694

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.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 7 – Defined Benefit Pension Plan – Continued

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

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

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:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 25,423,136	\$ 19,827,373	\$ 15,184,701

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 – Contingencies

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

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

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 9 – 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.

Note 10 – 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.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2017, the subsidy payments amounted to \$30,472.

Year Ending June 30	Principal	Interest	Total
2018	\$ 55,708	\$ 33,067	\$ 88,775
2019	58,367	30,410	88,777
2020	61,151	27,626	88,777
2021	64,068	24,709	88,777
2022	67,124	21,653	88,777
2023 – 2027	386,810	57,070	443,880
Total	<u>\$ 693,228</u>	<u>\$ 194,535</u>	<u>\$ 887,763</u>

Note 11 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of \$(13,803,808) includes the effect of deferring the recognition of expense resulting from a deferred outflow of pensions and the effect of deferring the recognition of revenues resulting from a deferred inflow of pensions. The \$3,882,763 balance of the deferred outflow of resources at June 30, 2017 will be recognized as expense and decrease unrestricted net position over the next four years. The \$767,341 balance of the deferred inflow of resources at June 30, 2017 will be recognized as revenue and increase unrestricted net position over the next three years.

HOLLY SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements

For Year Ended June 30, 2017

Note 12 - 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 Holly Springs School District evaluated the activity of the district through March 26, 2018, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>
Limited-Tax Promissory Note	2.125-2.3%	August 11, 2017	June 1, 2024	\$1,100,000

REQUIRED SUPPLEMENTARY INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2017

Unaudited

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
				Original	Final
	Original	Final		to Final	to Actual
Revenues:					
Local sources	\$ 3,542,024	\$ 3,806,877	\$ 3,908,276	\$ 264,853	\$ 101,399
State sources	7,010,378	7,137,854	7,137,854	127,476	-
Federal sources	178,500	63,449	63,449	(115,051)	-
Total Revenues	10,730,902	11,008,180	11,109,579	277,278	101,399
Expenditures:					
Instruction	6,093,945	5,739,476	5,739,476	354,469	-
Support services	4,882,590	4,429,652	4,429,652	452,938	-
Facilities acquisition and construction	-	50,000	151,400	(50,000)	(101,400)
Total Expenditures	10,976,535	10,219,128	10,320,528	757,407	(101,400)
Excess (Deficiency) of Revenues over (under) Expenditures	(245,633)	789,052	789,051	1,034,685	(1)
Other Financing Sources (Uses):					
Sale of transportation equipment	-	1,500	1,500	1,500	-
Sale of other property	-	1,000	1,000	1,000	-
Operating transfers in	1,789,746	1,736,249	22,295	(53,497)	(1,713,954)
Operating transfers out	(2,216,769)	(2,306,054)	(592,099)	(89,285)	1,713,955
Total Other Financing Sources (Uses)	(427,023)	(567,305)	(567,304)	(140,282)	1
Net Change in Fund Balances	(672,656)	221,747	221,747	894,403	-
Fund Balances:					
July 1, 2016	2,853,551	2,977,853	2,977,854	124,302	1
June 30, 2017	\$ 2,180,895	\$ 3,199,600	\$ 3,199,601	\$ 1,018,705	\$ 1

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

HOLLY SPRINGS SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I - Basic

For the Year Ended June 30, 2017

Unaudited

Unaudited	Variances				
	Budgeted Amounts		Actual (GAAP Basis)	Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	\$ -	\$ -	\$ -	\$ -
Intermediate sources	-	-	-	-	-
State sources	-	-	-	-	-
Federal sources	1,235,576	984,377	984,377	(251,199)	-
Sixteenth section sources	-	-	-	-	-
Total Revenues	1,235,576	984,377	984,377	(251,199)	-
Expenditures:					
Instruction	414,090	490,362	486,643	(76,272)	3,719
Support services	762,625	517,727	521,446	244,898	(3,719)
Noninstructional services	58,861	50,946	50,946	7,915	-
Total Expenditures	1,235,576	1,059,035	1,059,035	176,541	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	(74,658)	(74,658)	(74,658)	-
Other Financing Sources (Uses):					
Operating transfers in	-	84,658	84,658	84,658	-
Operating transfers out	-	(10,000)	(10,000)	(10,000)	-
Total Other Financing Sources (Uses)	-	74,658	74,658	74,658	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2016	-	-	-	-	-
June 30, 2017	\$ -	\$ -	\$ -	\$ -	\$ -

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

HOLLY SPRINGS SCHOOL DISTRICT**Required Supplementary Information****SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY****PERS****Last 10 Fiscal Years*****Unaudited**

	2017	2016	2015
District's proportion of the net pension liability (asset)	\$ 19,827,373	17,467,572	14,687,185
District's proportionate share of the net pension liability (asset)	0.111%	0.113%	0.121%
District's covered payroll	7,113,226	7,074,584	7,392,260
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	278.74%	246.91%	198.68%
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 Statement No. 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

HOLLY SPRINGS SCHOOL DISTRICT**Required Supplementary Information****SCHEDULE OF DISTRICT CONTRIBUTIONS****PERS****Last 10 Fiscal Years****Unaudited**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,101,057	1,120,334	1,114,247
Contributions in relation to the contractually required contribution	1,101,057	1,120,334	1,114,247
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>
District's covered payroll	6,990,830	7,113,226	7,074,584
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 Statement No. 68 was implemented in FYE 6/30/2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2017
Unaudited

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 the major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

(3) Excess of Actual Expenditures Over Budget in Individual Funds

The General Fund had an excess of actual expenditures over budget for the year ended June 30, 2017. The General fund excess of actual expenditures over budget is not in violation of Section 37-61-19, Miss. Code Ann. (1972), for it was caused by a journal entry for land donated to the District by the City of Holly Springs.

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.

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SUPPLEMENTARY INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

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	\$ 319,586
National school lunch program	10.555	669,728
Summer food service program for children	10.559	39,276
Total child nutrition cluster		<u>1,028,590</u>
Fresh fruit and vegetable program	10.582	35,698
Total passed-through Mississippi Department of Education		<u>1,064,288</u>
Total U.S. Department of Agriculture		<u>1,064,288</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	6,952
Total Federal Communications Commission		<u>6,952</u>
<u>U.S. Department of Education</u>		
Passed through Mississippi Department of Rehabilitation Services		
Rehabilitation services - vocational rehabilitation grants to state	84.126	714
Total passed-through Mississippi Department of Rehabilitation Services		<u>714</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	984,377
Career and technical education - basic grants to states	84.048	20,059
Supporting effective instruction - state grant	84.367	128,387
Subtotal		<u>1,132,823</u>
Special education cluster:		
Special education - grants to states	84.027	472,660
Special education - preschool grants	84.173	28,879
Total special education cluster		<u>501,539</u>
Total passed-through Mississippi Department of Education		<u>1,634,362</u>
Total U.S. Department of Education		<u>1,635,076</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medicaid cluster:		
Medical assistance program	93.778	15,475
Total Medicaid cluster		<u>15,475</u>
Total passed-through Mississippi Department of Education		<u>15,475</u>
Total U.S. Department of Health and Human Services		<u>15,475</u>
Total for All Federal Awards		<u>\$ 2,721,791</u>

-Continued-

HOLLY SPRINGS SCHOOL DISTRICT
Notes to the Supplementary Information
For the Year Ended June 30, 2017

Schedule of Expenditures of Federal Awards - Continued

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Holly Springs 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 US. *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 Holly Springs School District, it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of the Holly Springs 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.

(3) Indirect Cost Rate

The Holly Springs School District has elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

HOLLY SPRINGS SCHOOL DISTRICT

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2017

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 9,600,093	7,042,403	658,114	778,345	1,121,231
Other	6,073,085	1,677,767	216,676	16,605	4,162,037
Total	<u>\$ 15,673,178</u>	<u>8,720,170</u>	<u>874,790</u>	<u>794,950</u>	<u>5,283,268</u>
Total number of students *	<u>1,354</u>				
Cost per student	<u>\$ 11,575</u>	<u>6,440</u>	<u>646</u>	<u>587</u>	<u>3,902</u>

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

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

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

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

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

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

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OTHER INFORMATION

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HOLLY SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 3,908,276	\$ 3,628,394	\$ 3,519,937	\$ 3,447,817
State sources	7,137,854	7,101,827	6,842,583	6,730,403
Federal sources	63,449	280,387	160,294	107,800
Total Revenues	11,109,579	11,010,608	10,522,814	10,286,020
Expenditures:				
Instruction	5,739,476	5,705,586	5,795,258	5,658,816
Support services	4,429,652	4,444,238	3,975,309	4,486,840
Facilities acquisition and construction	151,400	-	-	-
Debt service:				
Interest	-	-	-	2,315
Total Expenditures	10,320,528	10,149,824	9,770,567	10,147,971
Excess (Deficiency) of Revenues over (under) Expenditures	789,051	860,784	752,247	138,049
Other Financing Sources (Uses):				
Insurance recovery	-	-	11,219	242,907
Sale of transportation equipment	1,500	-	9,200	-
Sale of other property	1,000	-	-	-
Operating transfers in	22,295	24,594	29,049	150,562
Operating transfers out	(592,099)	(528,645)	(510,870)	(580,048)
Total Other Financing Sources (Uses)	(567,304)	(504,051)	(461,402)	(186,579)
Net Change in Fund Balances	221,747	356,733	290,845	(48,530)
Fund Balances:				
Beginning of period, as previously reported	2,977,854	2,621,121	2,330,276	2,389,781
Prior period adjustments	-	-	-	(10,975)
Beginning of period, as restated	2,977,854	2,621,121	2,330,276	2,378,806
End of Period	\$ 3,199,601	\$ 2,977,854	\$ 2,621,121	\$ 2,330,276

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLLY SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	\$ 5,001,258	\$ 4,651,552	\$ 4,542,701	\$ 4,444,324
State sources	7,821,256	7,713,027	7,418,826	7,368,059
Federal sources	2,792,571	3,118,346	3,060,657	3,100,775
Total Revenues	15,615,085	15,482,925	15,022,184	14,913,158
Expenditures:				
Instruction	7,003,069	7,006,701	7,181,611	7,102,524
Support services	5,907,831	5,656,459	5,244,191	5,868,071
Noninstructional services	1,036,409	1,035,779	1,059,415	1,037,451
Facilities acquisition and construction	355,779	6,196,390	2,766,792	566,437
Debt service:				
Principal	896,173	700,752	683,441	471,236
Interest	468,194	487,156	717,182	126,743
Other	5,723	5,757	6,790	287,481
Total Expenditures	15,673,178	21,088,994	17,659,422	15,459,943
Excess (Deficiency) of Revenues over (under) Expenditures	(58,093)	(5,606,069)	(2,637,238)	(546,785)
Other Financing Sources (Uses):				
Bonds and notes issued	-	360,000	-	9,750,000
Insurance recovery	-	-	11,219	242,907
Premiums on bonds and refunding bonds issued	-	-	-	190,697
Sale of transportation equipment	1,500	-	9,200	-
Sale of other property	1,000	-	-	-
Operating transfers in	705,433	553,239	892,919	747,861
Operating transfers out	(705,433)	(553,239)	(892,919)	(747,861)
Other financing uses	(484)	-	-	-
Total Other Financing Sources (Uses)	2,016	360,000	20,419	10,183,604
Net Change in Fund Balances	(56,077)	(5,246,069)	(2,616,819)	9,636,819
Fund Balances:				
Beginning of period, as previously reported	4,725,218	9,992,165	12,610,584	2,991,308
Prior period adjustments	-	(19,283)	-	(10,975)
Beginning of period, as restated	4,725,218	9,972,882	12,610,584	2,980,333
Increase (Decrease) in reserve for inventory	(2,904)	(1,595)	(1,600)	(6,568)
End of Period	\$ 4,666,237	\$ 4,725,218	\$ 9,992,165	\$ 12,610,584

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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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 THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Superintendent and School Board
Holly Springs School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Holly Springs School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Holly Springs School District's basic financial statements and have issued our report thereon dated March 26, 2018.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

- Continued -

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 26, 2018

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

Superintendent and School Board
Holly Springs School District

Report on Compliance for Each Major Federal Program

We have audited Holly Springs 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 Holly Springs School District's major federal programs for the year ended June 30, 2017. Holly Springs School District's major federal program is 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

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

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

Opinion on Each Major Federal Program

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

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

- Continued -

Report on Internal Control Over Compliance

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

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 26, 2018

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

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

Superintendent and School Board
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2017, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated March 26, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance.

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

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

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

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

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

-Continued-

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

M. M. Winkler & Associates, PLLC

Tupelo, Mississippi
March 26, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HOLLY SPRINGS 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: | Unmodified |
| 2. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? (Yes/No) | No |
| b. | Significant deficiency(ies) identified? (Yes/None reported) | None Reported |
| 3. | Noncompliance material to financial statements noted? (Yes/No) | No |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major programs: | |
| a. | Material weakness(es) identified? (Yes/No) | No |
| b. | Significant deficiency(ies) identified? (Yes/None reported) | None Reported |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? (Yes/No) | No |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027; 84.173	Special Education Cluster
84.367	Supporting Effective Instruction State Grant

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

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

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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