LINCOLN COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2017

LINCOLN COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

LOWERY, PAYN AND LEGGETT
CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society of Certified Public Accountants

Member of American Institute of Certified Public Accountants

207 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lincoln County School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 6-13, 40, 41 and 42, 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 Lincoln County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 20, 2018, on our consideration of the Lincoln County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 Lincoln County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lincoln County School District's internal control over financial reporting and compliance.

Lowery, Payn & Leggett, CPAs

Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi

March 20, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Lincoln County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2017. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2017 decreased $422,373, which represents a 1% decrease from fiscal year 2016. Total net position for 2016 increased $818,166, which represents a 3% increase from fiscal year 2015.
- General revenues amounted to $20,966,778 and $21,147,767, or 84% and 85% 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 $4,038,497, or 16% of total revenues for 2017, and $3,776,721, or 15% of total revenues for 2016.
- The District had $25,427,648 and $24,106,322 in expenses for fiscal years 2017 and 2016; only $4,038,497 for 2017 and $3,776,721 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of $20,966,778 for 2017 were not adequate to provide for these programs. General revenues of $21,147,767 for 2016 were adequate to provide for these programs.
- Among major funds, the General Fund had $20,398,433 in revenues and $18,223,535 in expenditures for 2017, and $20,758,999 in revenues and $18,311,694 in expenditures in 2016. The General Fund's fund balance increased by $765,916 from 2016 to 2017, and increased by $1,959,688 from 2015 to 2016.
- Capital assets, net of accumulated depreciation, decreased by $466,114 for 2017 and decreased by $19,160 for 2016. The decrease for 2017 was due primarily to the increase in accumulated depreciation.
- Long-term debt decreased by $678,668 for 2017 and decreased by $650,580 for 2016. The decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by $18,668 for 2017 and decreased by $20,580 for 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

A net pension liability results in a liability on the government-wide financial statements but is not reported on governmental funds financial statements.

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $28,528,019 as of June 30, 2017.

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

Table 1 presents a summary of the District's net position at June 30, 2017 and June 30, 2016.

Table 1
Condensed Statement of Net Position

	June 30, 2017	June 30, 2016	Percentage Change
Current assets	$ 19,227,694	$ 17,378,619	10.64 %
Restricted assets	15,904,452	15,525,331	2.44 %
Capital assets, net	23,145,491	23,611,605	(1.97) %
Total assets	**58,277,637**	**56,515,555**	**3.12 %**
Deferred outflows of resources	**7,611,446**	**5,989,678**	**27.08 %**
Current liabilities	313,685	170,182	84.32 %
Long-term debt outstanding	1,911,971	2,590,639	(26.20) %
Net pension liability	35,042,289	29,988,574	16.85 %
Total liabilities	**37,267,945**	**32,749,395**	**13.80 %**
Deferred inflows of resources	**93,119**	**805,446**	**(88.44) %**
Net position:			
Net investment in capital assets	21,355,491	21,161,605	0.92 %
Restricted	17,134,720	16,963,407	1.01 %
Unrestricted	(9,962,192)	(9,174,620)	8.58 %
Total net position	**$ 28,528,019**	**$ 28,950,392**	**(1.46) %**

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)	$ (9,962,192)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	27,523,962
Unrestricted net position, exclusive of the net pension liability effect	$ 17,561,770

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 $466,114.
- The principal retirement of $660,000 of long-term debt.
- Recognition of the net pension liability in the amount of $35,042,289.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were $25,005,275 and $24,924,488, respectively. The total cost of all programs and services was $25,427,648 for 2017 and $24,106,322 for 2016.

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

Table 2
Changes in Net Position

	Year Ended June 30, 2017	Year Ended June 30, 2016	Percentage Change
Revenues:			
Program revenues:			
Charges for services	$ 865,337	$ 909,279	(4.83) %
Operating grants and contributions	3,173,160	2,867,442	10.66 %
General revenues:			
Property taxes	4,357,968	4,462,174	(2.34) %
Grants and contributions not restricted	15,653,965	15,546,701	0.69 %
Investment earnings	123,484	124,800	(1.05) %
Sixteenth section sources	788,256	1,284,703	(38.64) %
Other	43,105	(270,611)	(115.93) %
Total revenues	**25,005,275**	**24,924,488**	**0.32 %**
Expenses:			
Instruction	12,411,086	12,233,326	1.45 %
Support services	6,607,436	7,051,132	(6.29) %
Non-instructional	1,368,293	1,339,616	2.14 %
Sixteenth section	250,333	217,207	15.25 %
Pension expense	4,683,558	3,144,046	48.97 %
Interest on long-term liabilities	106,942	120,995	(11.61) %
Total expenses	**25,427,648**	**24,106,322**	**5.48 %**
Increase (Decrease) in net position	**(422,373)**	**818,166**	**(151.62) %**
Net Position, July 1	**28,950,392**	**28,132,226**	2.91 %
Net Position, June 30	**$ 28,528,019**	**$ 28,950,392**	**(1.46) %**

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	Total Expenses 2017	Total Expenses 2016	Percentage Change
Instruction	$ 12,411,086	$ 12,233,326	1.45 %
Support services	6,607,436	7,051,132	(6.29) %
Non-instructional	1,368,293	1,339,616	2.14 %
Sixteenth section	250,333	217,207	15.25 %
Pension Expense	4,683,558	3,144,046	48.97 %
Interest on long-term liabilities	106,942	120,995	(11.61) %
Total expenses	**$ 25,427,648**	**$ 24,106,322**	**5.48 %**

	Net (Expense) Revenue 2017	Net (Expense) Revenue 2016	Percentage Change
Instruction	$ (10,580,669)	$ (10,651,860)	(0.67) %
Support services	(5,944,621)	(6,455,077)	(7.91) %
Non-instructional	98,389	101,118	(2.70) %
Sixteenth section	(171,750)	(58,741)	192.39 %
Pension Expense	(4,683,558)	(3,144,046)	48.97 %
Interest on long-term liabilities	(106,942)	(120,995)	(11.61) %
Total net (expense) revenue	**$ (21,389,151)**	**$ (20,329,601)**	**5.21 %**

- Net cost of governmental activities ($21,389,151 for 2017 and $20,329,601 for 2016) was financed by general revenue, which is primarily made up of property taxes ($4,357,968 for 2017 and $4,462,174 for 2016) and state and federal revenues ($15,653,965 for 2017 and $15,546,701 for 2016). In addition, there was $788,256 and $1,284,703 in Sixteenth Section sources for 2017 and 2016, respectively.
- Investment earnings amounted to $123,484 for 2017 and $124,800 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 $34,836,705, an increase of $2,080,543, which includes a decrease in inventory of $433. $9,269,213, or 27% 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 $25,567,492, or 73% 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.

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 $765,916. The fund balance of Other Governmental Funds showed an increase in the amount of $1,112,683, which includes a decrease in inventory of $433. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund		Increase (Decrease)
Complex Construction Fund	$	14,254
Sixteenth Section Principal Fund	$	187,690

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2017, the District's total capital assets were $35,165,890, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of $426,807 from 2016, due primarily to the completion of a classroom addition and the purchase of various items of mobile equipment and furniture and equipment. Total accumulated depreciation as of June 30, 2017, was $12,020,399, and total depreciation expense for the year was $941,866, resulting in total net capital assets of $23,145,491.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2017	June 30, 2016	Percentage Change
Land	$ 461,631	$ 437,901	5.42 %
Construction in Progress	478,476	478,476	- %
Buildings	17,346,801	17,821,362	(2.66) %
Building improvements	1,689,571	1,730,801	(2.38) %
Improvements other than buildings	1,739,114	1,842,426	(5.61) %
Mobile equipment	1,139,259	1,014,740	12.27 %
Furniture and equipment	290,639	285,899	1.66 %
Total	**$ 23,145,491**	**$ 23,611,605**	**(1.97) %**

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

Debt Administration. At June 30, 2017, the District had $1,911,971 in outstanding long-term debt, of which $1,106,099 is due within one year. During the fiscal year, the District made principal payments totaling $660,000 on outstanding long-term debt. The liability for compensated absences decreased $18,668 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2017	June 30, 2016	Percentage Change
General obligation bonds payable	$ 1,010,000	$ 1,315,000	(23.19) %
Limited obligation bonds payable	780,000	1,135,000	(31.28) %
Compensated absences payable	121,971	140,639	(13.27) %
Total	**$ 1,911,971**	**$ 2,590,639**	**(26.20) %**

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

CURRENT ISSUES

The Lincoln County School District is financially stable. The District is proud of its community support of the public schools.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Lincoln County School District, P.O. Box 826, Brookhaven, MS 39602-0826.

FINANCIAL STATEMENTS

Statement of Net Position **Exhibit A**

June 30, 2017

		Governmental Activities
Assets		
Cash and cash equivalents	$	18,380,120
Due from other governments		814,922
Other receivables, net		3,811
Inventories		28,841
Restricted assets		15,904,452
Capital assets, non-depreciable:		
Land		461,631
Construction in progress		478,476
Capital assets, net of accumulated depreciation:		
Buildings		17,346,801
Building improvements		1,689,571
Improvements other than buildings		1,739,114
Mobile equipment		1,139,259
Furniture and equipment		290,639
Total Assets		58,277,637
Deferred Outflows of Resources		
Deferred outflows - pensions		7,611,446
Total deferred outflows of resources		7,611,446
Liabilities		
Accounts payable and accrued liabilities		288,866
Due to other governments		6,575
Interest payable on long-term liabilities		18,244
Long-term liabilities, due within one year:		
Capital related liabilities		1,100,000
Non-capital related liabilities		6,099
Long-term liabilities, due beyond one year:		
Capital related liabilities		690,000
Non-capital related liabilities		115,872
Net pension liability		35,042,289
Total Liabilities		37,267,945
Deferred Inflows of Resources		
Deferred inflows - pensions		93,119
Total deferred inflows of resources		93,119
Net Position		
Invested in capital assets, net of related debt		21,355,491
Restricted for:		
Expendable:		
School-based activities		719,540
Debt service		446,861
Forestry improvements		323,346
Unemployment benefits		68,934
Non-expendable:		
Sixteenth section		15,576,039
Unrestricted		(9,962,192)
Total Net Position	$	28,528,019

Statement of Activities **Exhibit B**
For the Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	$ 12,411,086	$ 382,317	$ 1,448,100	$	$ (10,580,669)
Support services	6,607,436		662,815		(5,944,621)
Non-instructional	1,368,293	404,437	1,062,245		98,389
Sixteenth section	250,333	78,583			(171,750)
Pension expense	4,683,558				(4,683,558)
Interest on long-term liabilities	106,942				(106,942)
Total Governmental Activities	$ 25,427,648	$ 865,337	$ 3,173,160	$ 0	$ (21,389,151)

General Revenues:	
Taxes:	
General purpose levies	3,991,144
Debt purpose levies	366,824
Unrestricted grants and contributions:	
State	15,588,254
Federal	65,711
Unrestricted investment earnings	123,484
Sixteenth section sources	788,256
Other	43,105
Total General Revenues	20,966,778
Change in Net Position	(422,373)
Net Position - Beginning	28,950,392
Net Position - Ending	$ 28,528,019

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

LINCOLN COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2017

Exhibit C

	Major Funds				
	General Fund	Complex Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 11,325,883	$ 3,944,269	$ 15,663,061	$ 3,143,612	$ 34,076,825
Cash with fiscal agents				207,747	207,747
Due from other governments	346,557			467,067	813,624
Other receivables, net	3,653		158		3,811
Due from other funds	292,476			1,000,000	1,292,476
Inventories				28,841	28,841
Total assets	11,968,569	3,944,269	15,663,219	4,847,267	36,423,324
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	$ 251,821	$	$ 31,038	$ 6,007	$ 288,866
Due to other funds	1,000,000		56,142	235,036	1,291,178
Unavailable revenue	3			6,572	6,575
Total Liabilities	1,251,824	0	87,180	247,615	1,586,619
Nonspendable:					
Inventory				28,841	28,841
Permanent fund principal			15,576,039		15,576,039
Restricted:					
Debt service				465,105	465,105
Forestry improvement purposes				323,346	323,346
Grant activities				690,699	690,699
Unemployment benefits				68,934	68,934
Committed:					
Textbooks	370,180				370,180
Repairs and renovations	860,871				860,871
Capital improvements		3,944,269		3,022,727	6,966,996
Assigned:					
Activity funds	216,481				216,481
Unassigned	9,269,213				9,269,213
Total Fund Balances	10,716,745	3,944,269	15,576,039	4,599,652	34,836,705
Total Liabilities and Fund Balances	$ 11,968,569	$ 3,944,269	$ 15,663,219	$ 4,847,267	$ 36,423,324

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

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position **Exhibit C-1**
June 30, 2017

Total fund balances for governmental funds		$ 34,836,705
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	$ 461,631	
Construction in progress	478,476	
Buildings	24,849,150	
Building improvements	2,274,066	
Improvements other than buildings	2,626,096	
Mobile equipment	3,266,104	
Furniture and equipment	1,210,367	
Accumulated depreciation	(12,020,399)	23,145,491
2. Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:		
Net pension liability	(35,042,289)	
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	7,611,446	
Deferred inflows of resources related to pensions	(93,119)	(27,523,962)
4. 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	(1,010,000)	
Limited obligation bonds	(780,000)	
Compensated absences	(121,971)	
Accrued interest payable	(18,244)	(1,930,215)
Net position of governmental activities		$ 28,528,019

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

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

For the Year Ended June 30, 2017

	Major Funds				
	General Fund	Complex Construction Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Revenues:					
Local sources	$ 4,452,844	$ 14,254	$	$ 783,250	$ 5,250,348
State sources	15,306,729			858,933	16,165,662
Federal sources	65,711			2,595,752	2,661,463
Sixteenth section sources	573,149		274,870	79,783	927,802
Total Revenues	20,398,433	14,254	274,870	4,317,718	25,005,275
Expenditures:					
Instruction	11,438,540			1,779,542	13,218,082
Support services	6,587,333			656,851	7,244,184
Noninstructional services	7,616			1,359,529	1,367,145
Sixteenth section	161,399		31,038	57,896	250,333
Facilities acquisition and construction	23,730			49,733	73,463
Debt service:					
Principal				660,000	660,000
Interest				102,825	102,825
Other	4,917			3,350	8,267
Total Expenditures	18,223,535	0	31,038	4,669,726	22,924,299
Excess (Deficiency) of Revenues over (under) Expenditures	2,174,898	14,254	243,832	(352,008)	2,080,976
Other Financing Sources (Uses):					
Operating transfers in	88,200			1,497,183	1,585,383
Operating transfers out	(1,497,182)		(56,142)	(32,059)	(1,585,383)
Total Other Financing Sources (Uses)	(1,408,982)	0	(56,142)	1,465,124	0
Net Change in Fund Balances	765,916	14,254	187,690	1,113,116	2,080,976
Fund Balances:					
July 1, 2016	9,950,829	3,930,015	15,388,349	3,486,969	32,756,162
Increase (Decrease) in reserve for inventory				(433)	(433)
June 30, 2017	$ 10,716,745	$ 3,944,269	15,576,039	$ 4,599,652	$ 34,836,705

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

LINCOLN COUNTY SCHOOL DISTRICT

Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds		$ 2,080,976
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	$ 480,501	
Depreciation expense	(941,866)	(461,365)
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 bv the cost of the assets sold.		(4,749)
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	660,000	
Accrued interest payable	4,150	664,150
4. Some items relating to pensions and reported in the statement of activites do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds. These activities include:		
Pension expense	(4,683,558)	
Contributions subsequent to the measurement date	1,963,938	(2,719,620)
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	18,668	
Change in inventory reserve	(433)	
		18,235
Change in net position of governmental activities		$ (422,373)

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

LINCOLN COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities — **Exhibit E**

June 30, 2017

		Agency Funds
Assets		
Cash and cash equivalents	$	982,239
Total Assets	$	982,239
Liabilities		
Accounts payable and accrued liabilities	$	880,199
Due to other funds		1,298
Due to student clubs		100,742
Total Liabilities	$	982,239

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

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member is elected by the citizens of each defined county district.

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

B. Government-wide and Fund Financial Statements

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

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

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

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Complex Construction Fund – This capital projects fund is used to account for capital expenditures which are financed by transfers from the District Maintenance Fund and Sixteenth Section Interest Fund.

Sixteenth Section Principal Fund – This fund is used to account for the generation of revenues and expenditures associated with sixteenth section lands that are legally required to be accounted for in the Sixteenth Section Principal Fund. Those revenues include but are not limited to, sales of non-renewable resources, easements, interest on investments, loans to the district, and transfers.

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:

Accounts Payable Clearing Fund – This fund is used to report the accounts payable resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Payroll Clearing Fund – This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Student Club Fund Agency Funds – These funds are used to report student club resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

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

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

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

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

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

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

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

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

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

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

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

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

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 periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The district reports $7,611,446 of deferred outflows related to its pension plan.

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 periods and so will not be recognized as an inflow of resources (revenue) until that time. The district reports $93,119 of deferred inflows related to its pension plan.

See Note 12 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

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 result of the school board approving the commitment of funds.

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 pursuant to authorization established by the school district.

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

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.

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

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

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

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 $ 34,076,825 and $ 982,239, 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 $ 207,747.

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	Sixteenth section principal fund	$	56,142
	Other governmental funds		235,036
	Fiduciary funds		1,298
Other governmental funds	General Fund		1,000,000
Total		$	1,292,476

The purpose of the inter-fund loans was to cover federal and state funds not received prior to year end and amounts due from and amounts due to agency funds.

B. Inter-fund Transfers

Transfers Out	Transfers In		Amount
General Fund	Other governmental funds	$	1,497,182
Sixteenth section principal fund	General Fund		56,142
Other governmental funds	General Fund		32,058
	Other governmental funds		1
Total		$	1,585,383

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

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling $15,663,061 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agents balance totaling $207,747 of the MAEP limited obligation debt service fund.

In addition, the restricted assets represent the cash balance totaling $33,644 of the general obligation bonds debt service 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:				
Non-depreciable capital assets:				
Land	$ 437,901	$ 23,730	$	$ 461,631
Construction-in-progress	478,476			478,476
Total non-depreciable capital assets	916,377	23,730	-	940,107
Depreciable capital assets:				
Buildings	24,849,150			24,849,150
Building improvements	2,224,333	49,733		2,274,066
Improvements other than buildings	2,626,096			2,626,096
Mobile equipment	3,002,904	310,000	46,800	3,266,104
Furniture and equipment	1,120,223	97,038	6,894	1,210,367
Total depreciable capital assets	33,822,706	456,771	53,694	34,225,783
Less accumulated depreciation for:				
Buildings	7,027,788	474,561		7,502,349
Building improvements	493,532	90,963		584,495
Improvements other than buildings	783,670	103,312		886,982
Mobile equipment	1,988,164	180,801	42,120	2,126,845
Furniture and equipment	834,324	92,229	6,825	919,728
Total accumulated depreciation	11,127,478	941,866	48,945	12,020,399
Total depreciable capital assets, net	22,695,228	(485,095)	4,749	22,205,384
Governmental activities capital assets, net	$ 23,611,605	$ (461,365)	$ 4,749	$ 23,145,491

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	$ 648,007
Support services	227,238
Non-instructional	66,621
Total depreciation expense - Governmental activities	$ 941,866

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

	Spent to June 30, 2017	Remaining Commitment
Governmental Activities:		
Loyd Star Football Field	$ 478,476	$
Total construction in progress	$ 478,476	$ -

Construction projects included in governmental activities are funded by 2005 construction fund.

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	$ 1,315,000	$	$ 305,000	$ 1,010,000	$ 320,000
B. Limited obligation bonds payable	1,135,000		355,000	780,000	780,000
C. Compensated absences payable	140,639		18,668	121,971	6,099
Total	$ 2,590,639	$ -	$ 678,668	$ 1,911,971	$ 1,106,099

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds	3.25-4.6%	12/1/2002	6/1/2020	$ 3,800,000	$ 1,010,000
Total				$ 3,800,000	$ 1,010,000

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

General obligation bond issue of 12/1/2002:

Year Ending June 30	Principal	Interest	Total
2018	$ 320,000	$ 46,140	$ 366,140
2019	335,000	31,740	366,740
2020	355,000	16,330	371,330
			-
Total	$ 1,010,000	$ 94,210	$ 1,104,210

This debt will be retired from the general obligation bonds debt service fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2017, the amount of outstanding bonded indebtedness was equal to 1% 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 1998	4.2-6%	3/1/1998	2/1/2018	$ 5,200,000	$ 780,000
Total				$ 5,200,000	$ 780,000

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

Year Ending June 30	Principal	Interest	Total
2018	$ 780,000	$ 26,663	$ 806,663
			-
Total	$ 780,000	$ 26,663	$ 806,663

This debt will be retired from the MAEP limited obligation debt service fund.

C. Compensated absences payable

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

Note 7 – Other Commitments

Operating leases:

The school district has an operating lease for 21 copiers dated August 22, 2016.

Lease expenditures for the year ended June 30, 2017, amounted to $ 26,467. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2018	$ 31,761
2019	31,761
2020	5,293
Total	$ 68,815

Note 8 – Defined Benefit 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 $1,963,938, $1,976,621 and $1,909,377, 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 $35,042,289 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 0.196178 percent, which was based on a measurement date of June 30, 2016. This was an increase of 0.00213 percent from its proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $4,683,558. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 972,988	$
Net difference between projected and actual earnings on pension plan investments	2,378,331	
Changes of assumptions	1,633,630	93,119
Changes in proportion and differences between District contributions and proportionate share of contributions	662,559	
District contributions subsequent to the measurement date	1,963,938	
Total	$ 7,611,446	$ 93,119

$1,963,938 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	$ 2,062,007
2019	1,532,584
2020	1,267,528
2021	692,270

Actuarial assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

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

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

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

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at the current employer contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	$ 44,932,072	$ 35,042,289	$ 26,836,976

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 9 – Sixteenth Section Lands

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

Year Ending June 30		Amount
2018	$	93,738
2019		82,752
2020		54,631
2021		44,645
2022		36,609
2023 – 2027		139,321
2028 – 2032		87,324
2033 – 2037		69,197
Total	$	608,217

Note 10 – Contingencies

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

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

Note 11 – Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 12 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of ($9,962,192) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pensions in the amount of $1,963,938 resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. The $5,647,508 balance of the deferred outflow of resources related to pensions at June 30, 2017 will be recognized as pension expense and will decrease the unrestricted net position amount over the next 4 years. The $93,119 balance of the deferred inflow of resources related to pensions at June 30, 2017 will be recognized as a reduction of pension expense and will increase the unrestricted net position amount over the next 3 years.

Note 13 - 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 Lincoln County School District evaluated the activity of the district through March 20, 2018, (the date the financial statements were available to be issued), and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 4,235,277	$ 4,235,614	$ 4,452,844	$ 337	$ 217,230
State sources	15,367,013	15,354,288	15,306,729	(12,725)	(47,559)
Federal sources	73,815	73,815	65,711	0	(8,104)
Sixteenth section sources	724,493	573,149	573,149	(151,344)	0
Total Revenues	20,400,598	20,236,866	20,398,433	(163,732)	161,567
Expenditures:					
Instruction	12,573,678	12,468,257	11,438,540	105,421	1,029,717
Support services	8,331,615	8,358,766	6,587,333	(27,151)	1,771,433
Noninstructional services	15,220	11,130	7,616	4,090	3,514
Sixteenth section	96,933	161,485	161,399	(64,552)	86
Facilities acquisition and construction	1,000	24,230	23,730	(23,230)	500
Debt service:					
Other		9,835	4,917	(9,835)	4,918
Total Expenditures	21,018,446	21,033,703	18,223,535	(15,257)	2,810,168
Excess (Deficiency) of Revenues over (under) Expenditures	(617,848)	(796,837)	2,174,898	(178,989)	2,971,735
Other Financing Sources (Uses):					
Operating transfers in	2,987,037	2,879,882	88,200	(107,155)	(2,791,682)
Operating transfers out	(3,548,672)	(3,393,905)	(1,497,182)	154,767	1,896,723
Total Other Financing Sources (Uses)	(561,635)	(514,023)	(1,408,982)	47,612	(894,959)
Net Change in Fund Balances	(1,179,483)	(1,310,860)	765,916	(131,377)	2,076,776
Fund Balances:					
July 1, 2016	9,589,008	9,950,831	9,950,829	361,823	(2)
June 30, 2017	$ 8,409,525	$ 8,639,971	$ 10,716,745	$ 230,446	$ 2,076,774

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

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS
Last 10 Fiscal Years*

		2017	2016	2015
District's proportion of the net pension liability (asset)	$	35,042,289	29,988,574	22,774,725
District's proportionate share of the net pension liability (asset)		0.196178%	0.194000%	0.187629%
District's covered payroll		12,549,975	12,123,029	11,470,356
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll		279.22%	247.37%	198.55%
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.

SCHEDULE OF DISTRICT CONTRIBUTIONS
PERS
Last 10 Fiscal Years

	2017	2016	2015
Contractually required contribution	$ 1,963,938	1,976,621	1,909,377
Contributions in relation to the contractually required contribution	$ 1,963,938	1,976,621	1,909,377
Contribution deficiency (excess)	$ 0	0	0
District's covered payroll	12,469,448	12,549,975	12,123,029
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.

Notes to the Required Supplementary Information
For the Year Ended June 30, 2017

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of assumptions

2015:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.

The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

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

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

2016:

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

(2) Changes in benefit provisions

2016:

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

SUPPLEMENTARY INFORMATION

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.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	$ 277,782
National school lunch program	10.555	914,759
Total child nutrition cluster		1,192,541
Urban and community forestry program	10.675	5,099
Total passed-through Mississippi Department of Education		1,197,640
Total U.S. Department of Agriculture		1,197,640
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	59,912
Total Federal Communications Commission		59,912
U.S. Department of Education		
Passed through Mississippi Department of Rehabilitation Services:		
Rehabilitation services-vocational rehabilitiation grants to states	84.126	700
Total		700
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	548,158
Career and technical education - basic grants to states	84.048	17,195
Rural education	84.358	59,435
Improving teacher quality state grants	84.367	95,742
Subtotal		720,530
Special education cluster:		
Special education - grants to states	84.027	652,645
Special education - preschool grants	84.173	30,036
Total special education cluster		682,681
Total passed-through Mississippi Department of Education		1,403,211
Total U.S. Department of Education		1,403,911
Total for all federal awards		$ 2,661,463

Notes to the Supplementary Information
For the Year Ended June 30, 2017

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

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

(2) Summary of Significant Accounting Policies

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

(3) Indirect Cost Rate

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

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	$	17,205,856	13,437,958	891,917	915,420	1,960,561
Other		5,718,443	1,218,897	272,273	50,061	4,177,212
Total	$	22,924,299	14,656,855	1,164,190	965,481	6,137,773
Total number of students *		2,940				
Cost per student	$	7,797	4,985	396	328	2,088

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

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

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

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

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

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

OTHER INFORMATION

Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years
UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	$ 4,452,844	$ 4,525,563	$ 4,482,494	$ 4,090,740
State sources	15,306,729	14,894,069	13,972,749	12,955,852
Federal sources	65,711	326,402	82,652	89,233
Sixteenth section sources	573,149	1,012,965	625,146	0
Total Revenues	20,398,433	20,758,999	19,163,041	17,135,825
Expenditures:				
Instruction	11,438,540	11,398,637	11,109,652	10,594,611
Support services	6,587,333	6,817,416	6,594,529	6,192,588
Noninstructional services	7,616	9,652	10,908	9,362
Sixteenth section	161,399	85,989	133,866	16,800
Facilities acquisition and construction	23,730			
Debt service:				
Other	4,917			
Total Expenditures	18,223,535	18,311,694	17,848,955	16,813,361
Excess (Deficiency) of Revenues over (under) Expenditures	2,174,898	2,447,305	1,314,086	322,464
Other Financing Sources (Uses):				
Sale of transportation equipment		2,711		
Operating transfers in	88,200	80,642	76,241	31,149
Operating transfers out	(1,497,182)	(570,970)	(4,099,514)	(256,145)
Total Other Financing Sources (Uses)	(1,408,982)	(487,617)	(4,023,273)	(224,996)
Net Change in Fund Balances	765,916	1,959,688	(2,709,187)	97,468
Fund Balances:				
Beginning of period, as previously reported	9,950,829	7,991,141	7,026,567	6,929,099
Fund reclassification			3,673,761	
Beginning of period, as restated	9,950,829	7,991,141	10,700,328	6,929,099
End of Period	$ 10,716,745	$ 9,950,829	$ 7,991,141	$ 7,026,567

*SOURCE - PRIOR YEAR AUDIT REPORTS

Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years
UNAUDITED

	2017	2016*	2015*	2014*
Revenues:				
Local sources	$ 5,250,348	$ 5,323,148	$ 5,308,842	$ 4,894,265
State sources	16,165,662	15,635,793	14,962,125	13,994,032
Federal sources	2,661,463	2,778,351	2,710,265	2,826,890
Sixteenth section sources	927,802	1,505,521	1,337,400	1,911,866
Total Revenues	25,005,275	25,242,813	24,318,632	23,627,053
Expenditures:				
Instruction	13,218,082	13,023,733	12,950,601	12,402,225
Support services	7,244,184	7,574,607	7,388,953	7,057,329
Noninstructional services	1,367,145	1,522,854	1,312,072	1,341,503
Sixteenth section	250,333	217,207	274,211	416,421
Facilities acquisition and construction	73,463	810,593	660,708	809,066
Debt service:				
Principal	660,000	630,000	595,000	565,000
Interest	102,825	130,772	156,867	181,418
Other	8,267	1,350	2,250	2,250
Total Expenditures	22,924,299	23,911,116	23,340,662	22,775,212
Excess (Deficiency) of Revenues over (under) Expenditures	2,080,976	1,331,697	977,970	851,841
Other Financing Sources (Uses):				
Sale of transportation equipment		2,711		
Sale of other property				877
Operating transfers in	1,585,383	651,612	4,175,755	340,706
Operating transfers out	(1,585,383)	(651,612)	(4,175,755)	(340,706)
Total Other Financing Sources (Uses)	0	2,711	0	877
Net Change in Fund Balances	2,080,976	1,334,408	977,970	852,718
Fund Balances:				
Beginning of period	32,756,162	31,413,118	30,449,341	29,594,027
Increase (Decrease) in reserve for inventory	(433)	8,636	(14,193)	2,596
End of Period	$ 34,836,705	$ 32,756,162	$ 31,413,118	$ 30,449,341

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

LOWERY, PAYN AND LEGGETT
CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society of Certified Public Accountants

207 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896

Member of American Institute of Certified Public Accountants

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

To the Superintendent and School Board
Lincoln County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Lincoln County School District's basic financial statements, and have issued our report thereon dated March 20, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi

March 20, 2018

LOWERY, PAYN AND LEGGETT
CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society of Certified Public Accountants

Member of American Institute of Certified Public Accountants

207 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896

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

To the Superintendent and School Board
Lincoln County School District

Report on Compliance for Each Major Federal Program

We have audited the Lincoln County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Lincoln County School District's major federal programs for the year ended June 30, 2017. Lincoln County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Lowery, Payn & Leggett, CPAs

Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi

March 20, 2018

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

LOWERY, PAYN AND LEGGETT
CERTIFIED PUBLIC ACCOUNTANTS

Member of Mississippi Society of Certified Public Accountants

207 SOUTH RAILROAD AVENUE
BROOKHAVEN, MISSISSIPPI 39601

PHONE (601) 833-1456
FAX (601) 833-9896

Member of American Institute of Certified Public Accountants

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

Superintendent and School Board
Lincoln County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lincoln County School District as of and for the year ended June 30, 2017, which collectively comprise Lincoln County School District's basic financial statements and have issued our report thereon dated March 20, 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 disclosed the following instance of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding:

Condition: Lincoln County School District failed to obtain a payment bond and a performance bond on a construction contract during the fiscal year in accordance with Miss. Code Ann. 31-5-51.

Criteria: Miss. Code Ann. 31-5-51 requires: (a) A performance bond payable to, in favor of or for the protection of such public body, as owner, for the work to be done in an amount not less than the amount of the contract, conditioned for the full and faithful performance of the contract; (b) A payment bond payable to such public body but conditioned for the prompt payment of all persons supplying labor or material used in the prosecution of the work under said contract, for the use of each such person, in an amount not less than the amount of the contract.

Effect: Lincoln County School District is not in compliance with Miss. Code Ann. 31-5-51.

Recommendation: Lincoln County School District should institute procedures to review all bids and contracts to ensure the requirements of Miss. Code Ann. 31-5-51 are met.

Response: In the future, the Lincoln County School District will ensure that all contractors secure a performance bond payable prior to issuing a purchase order, for projects with total costs of $25,000.00 or more.

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

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

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

Lowery, Payn & Leggett, CPAs

Lowery, Payn and Leggett, CPAs

Brookhaven, Mississippi

March 20, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LINCOLN COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2017

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

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

7. Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555	Child Nutrition Cluster

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

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.