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LOUISVILLE MUNICIPAL SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2017



# LOUISVILLE MUNICIPAL SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

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**SUZANNE E. SMITH, CPA, PLLC**  
**AUDITING AND ACCOUNTING SERVICES**  
**sesmithcpa@msn.com**

**INDEPENDENT AUDITOR'S REPORT**

Superintendent and School Board  
Louisville Municipal 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 Louisville Municipal School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Louisville Municipal 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 Louisville Municipal 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.

**POST OFFICE BOX 102**  
**BRANDON, MISSISSIPPI 39043**  
**PHONE: 601-938-5717**

## ***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 9-16, 53-57, 59 and 61, 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***

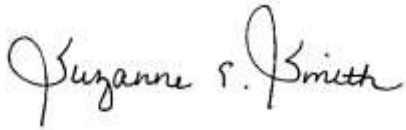
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Louisville Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations 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 February 19, 2018 on our consideration of the Louisville Municipal 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 Louisville Municipal 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 Louisville Municipal School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Suzanne E. Smith". The signature is written in dark ink and is positioned above the printed name.

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
February 19, 2018

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

The following discussion and analysis of Louisville Municipal 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 \$2,294,346, which represents a 16% decrease from fiscal year 2016. Total net position for 2016 decreased \$554,098, which represents a 4% decrease from fiscal year 2015.
- General revenues amounted to \$20,459,603 and \$20,940,488, or 75% and 78% 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 \$6,855,277, or 25% of total revenues for 2017, and \$6,018,965, or 22% of total revenues for 2016.
- The District had \$29,609,226 and \$27,513,551 in expenses for fiscal years 2017 and 2016; only \$6,855,277 for 2017 and \$6,018,965 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,459,603 for 2017 and \$20,940,488 for 2016 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$20,325,343 in revenues and \$19,555,149 in expenditures for 2017, and \$21,415,481 in revenues and \$20,864,705 in expenditures in 2016. The General Fund's fund balance increased by \$12,092 from 2016 to 2017, and decreased by \$990,880, from 2015 to 2016.
- Capital assets, net of accumulated depreciation, increased by \$531,340 for 2017 and increased by \$1,051,738 for 2016. The increase for 2017 was due to the addition of asset purchases and the construction and completion of a storm shelter and cafeteria at Nanih Waiya Attendance Center.
- Long-term debt, including compensated absences payable, decreased by \$200,775 for 2017 and decreased by \$296,378 for 2016. This decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$10,775 for 2017 and decreased by \$8,378 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.

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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.



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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. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$16,501,379 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.

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**Table 1**  
**Condensed Statement of Net Position**

	June 30, 2017	June 30, 2016	Percentage Change
Current assets	\$ 6,935,789	\$ 7,146,748	-2.95%
Restricted assets	233,613	232,907	0.30%
Capital assets, net	11,680,174	11,148,834	4.77%
<b>Total assets</b>	<b>18,849,576</b>	<b>18,528,489</b>	<b>1.73%</b>
 <b>Deferred outflows of resources</b>	 <b>8,599,023</b>	 <b>8,787,964</b>	 <b>-2.15%</b>
Current liabilities	1,371,538	1,580,441	-13.22%
Long-term debt outstanding	1,206,425	1,407,200	-14.27%
Net pension liability	41,262,368	35,553,464	16.06%
<b>Total liabilities</b>	<b>43,840,331</b>	<b>38,541,105</b>	<b>13.75%</b>
 <b>Deferred inflows of resources</b>	 <b>109,647</b>	 <b>2,982,381</b>	 <b>-96.32%</b>
 <b>Net position:</b>			
Net investment in capital assets	10,665,174	9,943,834	7.25%
Restricted	2,087,895	2,138,039	-2.35%
Unrestricted	(29,254,448)	(26,288,906)	-11.28%
<b>Total net position</b>	<b>\$ (16,501,379)</b>	<b>\$ (14,207,033)</b>	<b>-16.15%</b>

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (29,254,448)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	32,772,992
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 3,518,544</u>

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

- Increase in net capital assets in the amount of \$531,340.
- The principal retirement of \$190,000 of long-term debt.
- Increase in net pension liability in the amount of \$5,708,904.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

### Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were \$27,314,880 and \$26,959,453, respectively. The total cost of all programs and services was \$29,609,226 for 2017 and \$27,513,551 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
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 747,257	\$ 961,163	(22.25) %
Operating grants and contributions	5,457,030	5,025,812	8.58 %
Capital Grants and Contributions	650,990	31,990	1,934.98 %
General revenues:			
Property taxes	6,118,734	5,847,442	4.64 %
Grants and contributions not restricted	14,099,252	14,271,413	(1.21) %
Investment earnings	17,066	13,133	29.95 %
Sixteenth section sources	188,720	740,402	(74.51) %
Other	35,831	68,098	(47.38) %
<b>Total revenues</b>	<b>27,314,880</b>	<b>26,959,453</b>	<b>1.32 %</b>
<b>Expenses:</b>			
Instruction	13,375,496	13,458,288	(0.62) %
Support services	8,332,123	8,159,410	2.12 %
Non-instructional	2,341,180	2,142,866	9.25 %
Sixteenth section	161,544	62,200	159.72 %
Pension expense	5,360,639	3,645,191	47.06 %
Interest on long-term liabilities	38,244	45,596	(16.12) %
<b>Total expenses</b>	<b>29,609,226</b>	<b>27,513,551</b>	<b>7.62 %</b>
<b>Increase (Decrease) in net position</b>	<b>(2,294,346)</b>	<b>(554,098)</b>	<b>(314.07) %</b>
<b>Net Position, July 1</b>	<b>(14,207,033)</b>	<b>(13,652,935)</b>	<b>(4.06) %</b>
<b>Net Position, June 30</b>	<b>\$ (16,501,379)</b>	<b>\$ (14,207,033)</b>	<b>(16.15) %</b>

### Governmental activities

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

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

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2017</b>	<b>2016</b>	
Instruction	\$ 13,375,496	\$ 13,458,288	(0.62) %
Support services	8,332,123	8,159,410	2.12 %
Non-instructional	2,341,180	2,142,866	9.25 %
Sixteenth section	161,544	62,200	159.72 %
Pension Expense	5,360,639	3,645,191	47.06 %
Interest on long-term liabilities	38,244	45,596	(16.12) %
<b>Total expenses</b>	<b>\$ 29,609,226</b>	<b>\$ 27,513,551</b>	<b>7.62 %</b>

	<b>Net (Expense) Revenue</b>		<b>Percentage Change</b>
	<b>2017</b>	<b>2016</b>	
Instruction	\$ (11,236,497)	\$ (11,238,321)	0.02 %
Support services	(6,359,773)	(6,875,838)	7.51 %
Non-instructional	391,202	260,706	50.05 %
Sixteenth section	(149,998)	49,654	(402.09) %
Pension Expense	(5,360,639)	(3,645,191)	(47.06) %
Interest on long-term liabilities	(38,244)	(45,596)	16.12 %
<b>Total net (expense) revenue</b>	<b>\$ (22,753,949)</b>	<b>\$ (21,494,586)</b>	<b>(5.86) %</b>

- Net cost of governmental activities [(\$22,753,949) for 2017 and (\$21,494,586) for 2016] was financed by general revenue, which is primarily made up of property taxes (\$6,118,734 for 2017 and \$5,847,442 for 2016) and state and federal revenues (\$14,099,252 for 2017 and \$14,271,413 for 2016). In addition, there was \$188,720 and \$740,402 in Sixteenth Section sources for 2017 and 2016, respectively.
- Investment earnings amounted to \$17,066 for 2017 and \$13,133 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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
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For the Year Ended June 30, 2017

year, its governmental funds reported a combined fund balance of \$5,832,382, a decrease of \$7,812, which includes a decrease in inventory of \$32,455. \$3,564,371 or 61% 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 \$2,268,011 or 39% 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 \$12,092. The fund balance of other governmental funds showed an increase in the amount of \$120,005. This increase in fund balance of other governmental funds was due primarily to an increase in the fund balance of the Three Mill Note Retirement Fund (Debt Service Fund). The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
School Food Service Fund	\$ (139,909)
Title I Fund	No change

## BUDGETARY HIGHLIGHTS

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

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2017, the District's total capital assets were \$22,956,563, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$1,279,160 from 2016. Total accumulated depreciation as of June 30, 2017, was \$11,276,389, and total depreciation expense for the year was \$760,258, resulting in total net capital assets of \$11,680,174.

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

	June 30, 2017	June 30, 2016	Percentage Change
Land	\$ 351,451	300,015	17.14 %
Construction in Progress	11,750	598,758	(98.04) %
Buildings	5,060,129	3,818,432	32.52 %
Building improvements	3,414,917	3,588,873	(4.85) %
Improvements other than buildings	1,061,317	1,071,117	(0.91) %
Mobile equipment	1,250,391	1,354,792	(7.71) %
Furniture and equipment	530,219	416,847	27.20 %
<b>Total</b>	<b>\$ 11,680,174</b>	<b>\$ 11,148,834</b>	<b>4.77 %</b>

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
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For the Year Ended June 30, 2017

**Debt Administration.** At June 30, 2017, the District had \$1,206,425 in outstanding long-term debt, of which \$190,000 is due within one year. The liability for compensated absences decreased \$10,775 from the prior year. The district made principal payments totaling \$190,000 for the year.

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Three mill notes payable	\$ 1,015,000	\$ 1,205,000	(15.77) %
Compensated absences payable	191,425	202,200	(5.33) %
<b>Total</b>	<b><u>\$ 1,206,425</u></b>	<b><u>\$ 1,407,200</u></b>	<b><u>(14.27) %</u></b>

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

## **CURRENT ISSUES**

The Louisville Municipal 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 plans to continue its sound financial management to meet the challenges and to embrace the opportunities of the future.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Louisville Municipal School District, 891 S. Columbus Avenue (P. O. Box 909) Louisville, Mississippi 39339.

## FINANCIAL STATEMENTS

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Statement of Net Position**

**Exhibit A**

**June 30, 2017**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 5,988,955
Due from other governments	864,870
Other receivables, net	29,534
Inventories	52,430
Restricted assets	233,613
Capital assets, net of accumulated depreciation	11,680,174
Total Assets	<u>18,849,576</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pensions	8,599,023
Total deferred inflows of resources	<u>8,599,023</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,337,020
Interest payable on long-term liabilities	34,518
Long-term liabilities, due within one year:	
Capital related liabilities	190,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	825,000
Non-capital related liabilities	191,425
Net pension liability	41,262,368
Total Liabilities	<u>43,840,331</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	109,647
Total deferred inflows of resources	<u>109,647</u>
<b>Net Position</b>	
Net investment in capital assets	10,665,174
Restricted for:	
Expendable:	
School-based activities	994,456
Debt service	386,199
Capital improvements	10,985
Forestry improvements	430,182
Unemployment benefits	32,460
Non-expendable:	
Sixteenth section	233,613
Unrestricted	(29,254,448)
Total Net Position	<u>\$ (16,501,379)</u>

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Statement of Activities**

**Exhibit B**

**For the Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental Activities:					
Instruction	\$ 13,375,496	557,418	1,568,832	12,749	(11,236,497)
Support services	8,332,123	10,455	1,645,178	316,717	(6,359,773)
Non-instructional	2,341,180	167,838	2,243,020	321,524	391,202
Sixteenth section	161,544	11,546			(149,998)
Pension expense	5,360,639				(5,360,639)
Interest on long-term liabilities	38,244				(38,244)
Total Governmental Activities	<u>\$ 29,609,226</u>	<u>747,257</u>	<u>5,457,030</u>	<u>650,990</u>	<u>(22,753,949)</u>
General Revenues:					
Taxes:					
General purpose levies					
					5,784,373
Debt purpose levies					334,361
Unrestricted grants and contributions:					
State					13,918,062
Federal					181,190
Unrestricted investment earnings					17,066
Sixteenth section sources					188,720
Other					35,831
Total General Revenues					<u>20,459,603</u>
Change in Net Position					<u>(2,294,346)</u>
Net Position - Beginning					(14,207,033)
Net Position - Ending					<u>(16,501,379)</u>

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Governmental Funds**

**Balance Sheet**

**Exhibit C**

**June 30, 2017**

	Major Funds			Other	Total
	General	School Food	Title I	Governmental	Governmental
	Fund	Service Fund	Fund	Funds	Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 4,132,361	698,829		1,391,378	6,222,568
Due from other governments	318,468	3,154	196,103	347,145	864,870
Other receivables, net	27,189			1,229	28,418
Due from other funds	341,240	17,213		29,826	388,279
Inventories		52,430			52,430
Total assets	4,819,258	771,626	196,103	1,769,578	7,556,565
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable and accrued liabilities	1,116,165	68,576	77,798	74,481	1,337,020
Due to other funds	29,826		118,305	239,032	387,163
Total Liabilities	1,145,991	68,576	196,103	313,513	1,724,183
<b>Fund Balances:</b>					
<b>Nonspendable:</b>					
Inventory		52,430			52,430
Permanent fund principal				233,613	233,613
<b>Restricted:</b>					
Debt service				420,717	420,717
Capital projects				10,985	10,985
Forestry improvement purposes				430,182	430,182
Grant activities		650,620		291,407	942,027
Unemployment benefits				32,460	32,460
<b>Assigned:</b>					
Student activities	100,867				100,867
Unemployment benefits				36,701	36,701
Capital improvements	8,029				8,029
<b>Unassigned</b>	3,564,371				3,564,371
Total Fund Balances	3,673,267	703,050	0	1,456,065	5,832,382
Total Liabilities and Fund Balances	\$ 4,819,258	\$ 771,626	\$ 196,103	\$ 1,769,578	\$ 7,556,565

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Governmental Funds**

**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** \$ 5,832,382

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	\$ 351,451	
Construction in progress	11,750	
Buildings	10,399,060	
Building improvements	4,348,916	
Improvements other than buildings	1,507,435	
Mobile equipment	4,553,599	
Furniture and equipment	1,784,352	
Accumulated depreciation	<u>(11,276,389)</u>	11,680,174

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

Net pension liability	(41,262,368)	
-----------------------	--------------	--

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	8,599,023	
Deferred inflows of resources related to pensions	<u>(109,647)</u>	(32,772,992)

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

Notes payable	(1,015,000)	
Compensated absences	(191,425)	
Accrued interest payable	<u>(34,518)</u>	(1,240,943)

**Net Position of governmental activities** \$ (16,501,379)

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Governmental Funds**

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

**Exhibit D**

**For the Year Ended June 30, 2017**

	General Fund	Major Funds School Food Service Fund	Title I Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Local sources	\$ 6,372,866	167,649		362,175	6,902,690
Intermediate sources		34,510			34,510
State sources	13,529,076	19,543		1,026,222	14,574,841
Federal sources	232,086	1,991,658	1,439,969	1,934,208	5,597,921
Sixteenth section sources	191,315			13,603	204,918
Total Revenues	20,325,343	2,213,360	1,439,969	3,336,208	27,314,880
<b>Expenditures:</b>					
Instruction	12,221,482		458,257	1,860,219	14,539,958
Support services	7,154,775	121,066	795,530	906,784	8,978,155
Noninstructional services		2,199,749	186,182	120,261	2,506,192
Sixteenth section	115,707			47,912	163,619
Facilities acquisition and construction	63,185			804,422	867,607
Debt service:					
Principal				190,000	190,000
Interest				44,706	44,706
Total Expenditures	19,555,149	2,320,815	1,439,969	3,974,304	27,290,237
Excess (Deficiency) of Revenues over (under) Expenditures	770,194	(107,455)	0	(638,096)	24,643
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	774,090	1		1,532,192	2,306,283
Operating transfers out	(1,532,192)			(774,091)	(2,306,283)
Total Other Financing Sources (Uses)	(758,102)	1	0	758,101	(0)
Net Change in Fund Balances	12,092	(107,454)	0	120,005	24,643
Fund Balances:					
July 1, 2016	3,661,175	842,959	0	1,336,060	5,840,194
Increase (Decrease) in reserve for inventory		(32,455)			(32,455)
June 30, 2017	\$ 3,673,267	\$ 703,050	\$ 0	\$ 1,456,065	\$ 5,832,382

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

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**LOUISVILLE MUNICIPAL 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** \$ 24,643

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	\$ 1,291,815	
Depreciation expense	<u>(760,258)</u>	531,557

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

(217)

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	190,000	
Accrued interest payable	<u>6,462</u>	196,462

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

Pension expense	(5,360,639)	
Contributions subsequent to the measurement date	<u>2,335,528</u>	(3,025,111)

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	10,775	
Change in inventory reserve	<u>(32,455)</u>	(21,680)

**Change in Net Position of governmental activities** \$ (2,294,346)

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

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**LOUISVLE MUNICIPAL SCHOOL DISTRICT**

**Fiduciary Funds**

**Statement of Fiduciary Net Position**

**Exhibit E**

**June 30, 2017**

	Private-Purpose Trust Funds	Agency Funds
<b>Assets</b>		
Cash and cash equivalents	\$ 32,582	\$ 125,578
Investments	20,376	
Total Assets	<u>52,958</u>	<u>125,578</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities		585
Due to other funds		1,116
Due to student clubs		123,877
Total Liabilities	<u>0</u>	<u>\$ 125,578</u>
<b>Net Position</b>		
Reserved for endowments	<u>52,958</u>	
Total Net Position	<u>\$ 52,958</u>	

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Fiduciary Funds**

**Statement of Changes in Fiduciary Net Position  
For the Year Ended June 30, 2017**

**Exhibit F**

	Private-Purpose Trust Funds
<b>Additions</b>	
Interest on investments	\$ 154
Total Additions	<u>154</u>
<b>Deductions</b>	
Scholarships awarded	<u>8,000</u>
Total Deductions	<u>8,000</u>
Change in Net Position	<u>(7,846)</u>
<b>Net Position</b>	
July 1, 2016	<u>60,804</u>
June 30, 2017	<u>\$ 52,958</u>

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

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

**Note 1 – Summary of Significant Accounting Policies**

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

**A. Financial Reporting Entity**

As defined by accounting principles generally accepted in the United States of America, the school district is considered 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, Louisville Municipal 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:

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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.

School Food Service Fund – This is a special revenue fund that accounts for the expenditures and related revenues of the Child Nutrition Cluster of federal awards.

Title I Fund – This is a special revenue fund that accounts for the expenditures and related revenues of the Title I grants to local educational agencies.

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

The school district also reports fiduciary funds which focus on net position and changes in net position.

The District's fiduciary funds include the following:

Student Club Funds – These various funds account for the monies raised through student club activities.

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

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

Scholarship Trust Funds – Various private-purpose trust funds are held by the district and used to fund scholarships for scholarship award winners.

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

Private-purpose Trust Funds – Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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.

#### 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 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

#### 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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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 period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows – Pensions

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

Deferred inflows – Pensions

See Note 7 and Note 11 for further details on deferred amounts relating to pensions.

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.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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 approval of the type and amount of the commitment through a formal order of the school board. Currently there are no committed fund balances.

*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 business manager pursuant to authorization established by formal school board policy.

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

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

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

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

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

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

**Cash and Cash Equivalents and Investments**

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds was \$6,222,568 while the amount of cash and cash equivalents reported in the fiduciary funds was \$158,160. The carrying amount of deposits reported in the government-wide financial statements was \$5,988,955.

**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 school district.

**Investments**

As of June 30, 2017, the district had the following investments in its fiduciary funds:

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
Certificates of deposit	Less than 1	\$ 20,376
Total		<u>\$ 20,376</u>

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

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- Certificates of deposit of \$20,376 are valued using a matrix pricing model (Level 2 inputs)

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

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

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2017, the district did not have any investments to which this would apply.

*Concentration of Credit Risk.* Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2017, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Certificates of deposit - Regions Bank	\$ 5,176	25%
Certificates of deposit - Citizens's Bank	15,200	75%
	<u>\$ 20,376</u>	

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

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

#### A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 118,305
	Other governmental funds	221,819
	Fiduciary funds	1,116
School Food Service Fund	Other governmental funds	17,213
Other governmental funds	General Fund	29,826
		<u>\$ 388,279</u>

The amounts primarily represent inter-fund balances created by loans from the General Fund to special revenue funds to provide adequate cash flow for those funds operating on an expenditure reimbursement basis. Cash is loaned to the funds for operational purposes, and the loans are repaid after reimbursement for grant expenditures is received. Also included are amounts of interest earned on deposits in the imprest clearing funds (fiduciary funds) and due to the general fund and interfund transfer amounts between the general fund and other governmental funds.



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**B. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 1,532,192
Other governmental funds	General Fund	774,090
	School Food Service Fund	1
Total		<u>\$ 2,306,283</u>

Transfers represent indirect costs from special revenue funds transferred to the General Fund and operational transfers.

**Note 4 – Restricted Assets**

The restricted assets represent the cash and cash equivalents balance, totaling \$233,613, 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.

**Note 5 – Capital Assets**

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

	Balance 7/1/2016	Increases	Decreases	Completed Construction	Balance 6/30/2017
<b>Governmental Activities:</b>					
<u><b>Non-depreciable capital assets:</b></u>					
Land	\$ 300,015	51,436			351,451
Construction-in-progress	598,758	816,171		(1,403,179)	11,750
Total non-depreciable capital assets	898,773	867,607	-	(1,403,179)	363,201
<u><b>Depreciable capital assets:</b></u>					
Buildings	8,995,881			1,403,179	10,399,060
Building improvements	4,348,916				4,348,916
Improvements other than buildings	1,459,681	47,754			1,507,435
Mobile equipment	4,458,095	102,510	7,006		4,553,599
Furniture and equipment	1,516,057	273,944	5,649		1,784,352
Total depreciable capital assets	20,778,630	424,208	12,655	1,403,179	22,593,362
<u><b>Less accumulated depreciation for:</b></u>					
Buildings	5,177,449	161,482			5,338,931
Building improvements	760,043	173,956			933,999
Improvements other than buildings	388,564	57,554			446,118
Mobile equipment	3,103,303	206,750	6,845		3,303,208
Furniture and equipment	1,099,210	160,516	5,593		1,254,133
Total accumulated depreciation	10,528,569	760,258	12,438	-	11,276,389
Total depreciable capital assets, net	10,250,061	(336,050)	217	1,403,179	11,316,973
Governmental activities capital assets, net	<u>\$ 11,148,834</u>	<u>531,557</u>	<u>217</u>	<u>-</u>	<u>11,680,174</u>

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
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Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 411,215
Support services	234,713
Sixteenth section	112,778
Non-instructional	1,552
Total depreciation expense - Governmental activities	<u>\$ 760,258</u>

Construction in progress is composed of the following:

	Spent to June 30, 2017	Remaining Commitment
Softball field improvement	\$ 11,750	48,250
	<u>\$ 11,750</u>	<u>48,250</u>

The improvements on the softball field will be completed using existing fund balances.

#### 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	Adjustments	Balance 6/30/2017	Amounts due within one year
A. Three mill notes payable	\$ 1,205,000		190,000		1,015,000	190,000
B. Compensated absences payable	202,200	-	10,775		191,425	
Subtotal	<u>\$ 1,407,200</u>	<u>-</u>	<u>200,775</u>	<u>-</u>	<u>1,206,425</u>	<u>190,000</u>

#### A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited Tax Note Series 2018	3.71%	1-Aug-08	1-Aug-22	\$ 3,300,000	\$ 1,015,000
Total				<u>\$ 3,300,000</u>	<u>\$ 1,015,000</u>

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

1. Three mill notes payable issued August 1, 2008:

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Year Ending June 30	Principal	Interest	Total
2018	\$ 190,000	37,657	227,657
2019	160,000	30,608	190,608
2020	160,000	24,672	184,672
2021	170,000	18,736	188,736
2022	170,000	12,429	182,429
2023	165,000	6,121	171,121
Total	\$ 1,015,000	130,223	1,145,223

The school district has pledged future state educational enhancement revenues for buildings and buses to help repay the \$3,300,000 three mill notes payable issued August 1, 2008. The notes were issued to make improvements to the district's buildings. The debt will be paid in full and the pledge satisfied August 1, 2022. The annual pledge is approximately \$85,618, which is 100% of such state revenues. The total state educational enhancement revenues for buildings and buses and the debt requirements of the issue for the year ended June 30, 2017, were \$85,617 and \$234,706, respectively. The district levies local taxes not to exceed three mills each year to satisfy the portion of debt requirements not covered by the pledge.

This debt will be retired from the Three Mill Note Retirement Fund (debt service fund).

**B. Compensated absences payable**

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

**Note 7 – Defined Benefit Pension Plan**

**General Information about the Pension Plan**

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

*Benefits provided.* Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
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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 \$2,335,528, \$2,325,588 and \$2,260,172, 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 \$41,262,368 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 0.231 percent, which was based on a measurement date of June 30, 2016. This is a 0.001% increase from the 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 \$5,360,639. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,146,754	\$
Net difference between projected and actual earnings on pension plan investments	2,832,528	
Changes of assumptions	1,936,776	109,647
Changes in proportion and differences between District contributions and proportionate share of contributions	347,437	
District contributions subsequent to the measurement date	2,335,528	
Total	\$ <u>8,599,023</u>	\$ <u>109,647</u>

\$2,335,528 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	\$ 2,242,689
2019	1,636,964
2020	1,459,048
2021	815,147

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*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:

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

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

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 52,907,607	\$ 41,262,368	\$ 31,600,594

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

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
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**Note 8 – Sixteenth Section Lands**

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

<u>Year Ending</u>	
<u>June 30</u>	
2018 \$	117,229
2019	116,714
2020	111,963
2021	88,839
2022	49,018
2023-2027	233,330
2028-2032	205,405
2033-2037	155,106
Thereafter	56,369
	<u>\$ 1,133,973</u>

**Note 9 – Contingencies**

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

**Note 10 – Risk Management**

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

**Participation in Public Entity Risk Pools**

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 71 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Financial Statements  
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**Note 11 – Effect of Deferred Amounts on Net Position**

The unrestricted net position amount of (\$29,254,448) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. \$2,335,528 of contributions subsequent to the measurement date included in deferred outflow of resources balance at June 30, 2017, will be recognized as pension expense in the year ended June 30, 2018. \$6,263,495 of deferred outflow of resources balance at June 30, 2017, will be recognized as expense and will decrease the unrestricted net position over the next four (4) years.

The unrestricted net position amount of (\$29,254,448) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from pensions. The \$109,647 balance of deferred inflow of resources at June 30, 2017, will be recognized as revenue and will increase the unrestricted net position over the next three (3) years.

**Note 12 - Subsequent Events**

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Louisville Municipal School District evaluated the activity of the district through February 19, 2018, (the date the financial statements were available to be issued), and determined that no events have occurred requiring disclosure in the notes to the financial statements.

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## REQUIRED SUPPLEMENTARY INFORMATION

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**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
<b>Revenues:</b>					
Local sources	\$ 6,554,435	6,372,866	6,372,866	(181,569)	0
State sources	14,207,058	14,052,696	13,529,076	(154,362)	(523,620)
Federal sources	276,200	232,086	232,086	(44,114)	0
Sixteenth section sources	361,050	191,315	191,315	(169,735)	0
Total Revenues	21,398,743	20,848,963	20,325,343	(549,780)	(523,620)
<b>Expenditures:</b>					
Instruction	12,746,201	12,221,482	12,221,482	524,719	0
Support services	7,728,319	7,154,774	7,154,775	573,545	(1)
Sixteenth section	65,530	115,707	115,707	(50,177)	0
Facilities acquisition and construction	80,000	63,186	63,185	16,814	1
Total Expenditures	20,620,050	19,555,149	19,555,149	1,064,901	0
Excess (Deficiency) of Revenues over (under) Expenditures	778,693	1,293,814	770,194	515,121	(523,620)
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	2,393,636	2,770,585	774,090	376,949	(1,996,495)
Operating transfers out	(4,177,382)	(4,052,306)	(1,532,192)	125,076	2,520,114
Total Other Financing Sources (Uses)	(1,783,746)	(1,281,721)	(758,102)	502,025	523,619
Net Change in Fund Balances	(1,005,053)	12,093	12,092	1,017,146	(1)
<b>Fund Balances:</b>					
July 1, 2016	3,610,295	3,661,175	3,661,175	50,880	0
June 30, 2017	\$ 2,605,242	3,673,268	3,673,267	1,068,026	(1)

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule**

**School Food Service Fund**

**For the Year Ended June 30, 2017**

				Variances	
	Budgeted Amounts		Actual (GAAP Basis)	Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 276,200	167,649	167,649	(108,551)	0
Intermediate sources	35,000	34,510	34,510	(490)	0
State sources	25,000	19,543	19,543	(5,457)	0
Federal sources	2,255,000	1,991,658	1,991,658	(263,342)	0
Total Revenues	2,591,200	2,213,360	2,213,360	(377,840)	0
<b>Expenditures:</b>					
Support services	106,950	121,066	121,066	(14,116)	0
Noninstructional services	2,419,650	2,199,749	2,199,749	219,901	0
Total Expenditures	2,526,600	2,320,815	2,320,815	205,785	0
Excess (Deficiency) of Revenues					
over (under) Expenditures	64,600	(107,455)	(107,455)	(172,055)	0
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	0	1	1	1	0
Operating transfers out	(60,000)	0	0	60,000	0
Total Other Financing Sources (Uses)	(60,000)	1	1	60,001	0
Net Change in Fund Balances	4,600	(107,454)	(107,454)	(112,054)	0
Fund Balances:					
July 1, 2016	789,809	842,959	842,959	53,150	0
Increase (Decrease) in reserve for inventory	0	(32,455)	(32,455)	(32,455)	0
June 30, 2017	\$ 794,409	703,050	703,050	(91,359)	0

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule**

**Title I Fund**

**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Variances	
				Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 1,603,794	1,439,969	1,439,969	(163,825)	0
Total Revenues	1,603,794	1,439,969	1,439,969	(163,825)	0
<b>Expenditures:</b>					
Instruction	530,453	458,257	458,257	72,196	0
Support services	841,751	795,530	795,530	46,221	0
Noninstructional services	212,783	186,182	186,182	26,601	0
Total Expenditures	1,584,987	1,439,969	1,439,969	145,018	0
Excess (Deficiency) of Revenues over (under) Expenditures	18,807	0	0	(18,807)	0
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(18,807)	0	0	18,807	0
Total Other Financing Sources (Uses)	(18,807)	0	0	18,807	0
Net Change in Fund Balances	0	0	0	0	0
<b>Fund Balances:</b>					
July 1, 2016	0	0	0	0	0
June 30, 2017	\$ 0	0	0	0	0

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

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Required Supplementary Information**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**

**PERS**

**Last 10 Fiscal Years\***

	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
District's proportion of the net pension liability (asset)	0.231%	0.230%	0.226%
District's proportionate share of the net pension liability (asset)	\$ 41,262,368	35,553,464	27,432,262
District's covered payroll	14,765,635	14,350,287	13,799,016
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	279.45%	247.75%	198.80%
Plan fiduciary net position as a percentage of the total pension liability	57%	62%	67%

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.

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Required Supplementary Information**

**SCHEDULE OF DISTRICT CONTRIBUTIONS**

**PERS**

**Last 10 Fiscal Years**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,335,528	2,325,588	2,260,172
Contributions in relation to the contractually required contribution	2,335,528	2,325,588	2,260,172
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>
District's covered payroll	14,828,740	14,765,635	14,350,287
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.

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For Year Ended June 30, 2017

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of assumptions

2015:

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

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

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

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

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

2016:

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

(2) Changes in benefit provisions

2016:

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

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## SUPPLEMENTARY INFORMATION

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Supplementary Information**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2017**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 649,827
National school lunch program	10.555	1,670,987
Summer food service program for children	10.559	56,924
Total child nutrition cluster		2,377,738
Fresh fruits and vegetables grant	10.582	63,538
Total passed-through Mississippi Department of Education		2,441,276
Passed-through Winston County, Mississippi:		
National forest-dependent rural communities	10.665	195
Total passed-through Winston County, Mississippi		195
<b>Total U.S. Department of Agriculture</b>		<b>2,441,471</b>
<b><u>U.S. Department of Defense</u></b>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	49,468
<b>Total U.S. Department of Defense</b>		<b>49,468</b>
<b><u>U. S. Department of Labor</u></b>		
Passed-through Mississippi Department of Education:		
H-1B Job Training Grants	17.268	12,748
<b>Total U. S. Department of Labor</b>		<b>12,748</b>
<b><u>Appalachian Regional Commission</u></b>		
Direct Program:		
Appalachian research, technical assistance, and demonstration projects	23.011	28,603
<b>Total Appalachian Regional Commission</b>		<b>28,603</b>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,439,969
Title I neglected and delinquent state agency and LEA programs	84.013	16,124
Impact aid - facilities maintenance	84.040	22,875
Career and technical education - basic grants to states	84.048	43,510
Twenty-first century community learning centers	84.287	268,383
Rural education	84.358	59,528
Improving teacher quality-State Grants	84.367	95,094
Subtotal		1,945,483
Special education cluster:		
Special education - grants to states	84.027	638,312
Special education - preschool grants	84.173	22,729
Total special education cluster		661,041
Total passed-through Mississippi Department of Education		2,606,524
Passed-through Mississippi Department of Rehabilitative Services:		
Vocational rehabilitation grants to states	84.126	1,428
Total passed-through Mississippi Department of Rehabilitative Services		1,428
<b>Total U.S. Department of Education</b>		<b>2,607,952</b>
<b><u>U.S. Department of Homeland Security</u></b>		
Passed-through Winston County, Mississippi:		
Hazard mitigation grant	97.039	603,731
Total passed-through Winston County, Mississippi		603,731
<b>Total Department of Homeland Security</b>		<b>603,731</b>
<b>Total for All Federal Awards</b>		<b>\$ 5,743,973</b>

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Supplementary Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds**

**For the Year Ended June 30, 2017**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 20,482,407	15,161,373	766,753	1,510,883	3,043,398
Other	6,807,830	1,807,988	348,788	78,655	4,572,399
Total	<u>\$ 27,290,237</u>	<u>16,969,361</u>	<u>1,115,541</u>	<u>1,589,538</u>	<u>7,615,797</u>
Total number of students *	<u>2,839</u>				
Cost per student	<u>\$ 9,613</u>	<u>5,977</u>	<u>393</u>	<u>560</u>	<u>2,683</u>

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

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

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

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

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

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

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LOUISVILLE MUNICIPAL SCHOOL DISTRICT  
Notes to the Supplementary Information  
For 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 Louisville Municipal 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 Louisville Municipal School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Louisville Municipal School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the governmental funds financial statements (modified accrual basis of accounting); however, expenditures reported on the Schedule include operating transfers out. 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 Louisville Municipal School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) The pass-through entities did not assign identifying numbers to the school district.

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## OTHER INFORMATION

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Other Information**

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

**General Fund**

**Last Four Years**

**UNAUDITED**

	2017	2016*	2015*	2014*
<b>Revenues:</b>				
Local sources	\$ 6,372,866	6,196,517	6,136,436	6,087,602
State sources	13,529,076	14,173,726	13,670,607	12,951,401
Federal sources	232,086	300,919	226,675	272,601
Sixteenth section sources	191,315	744,319	463,778	
Total Revenues	20,325,343	21,415,481	20,497,496	19,311,604
<b>Expenditures:</b>				
Instruction	12,221,482	12,398,988	12,058,363	11,993,358
Support services	7,154,775	7,394,440	7,700,906	7,451,228
Noninstructional services			1,900	1,944
Sixteenth section	115,707	41,806	62,435	26,445
Facilities acquisition and construction	63,185	1,029,471	851,692	261,711
Total Expenditures	19,555,149	20,864,705	20,675,296	19,734,686
Excess (Deficiency) of Revenues over (under) Expenditures	770,194	550,776	(177,800)	(423,082)
<b>Other Financing Sources (Uses):</b>				
Insurance recovery			23,425	
Sale of transportation equipment			14,500	
Sale of other property			2,600	83,410
Operating transfers in	774,090	60,272	115,920	729,033
Operating transfers out	(1,532,192)	(1,601,928)	(1,100,877)	(1,001,249)
Total Other Financing Sources (Uses)	(758,102)	(1,541,656)	(944,432)	(188,806)
Net Change in Fund Balances	12,092	(990,880)	(1,122,232)	(611,888)
<b>Fund Balances:</b>				
Beginning of period, as previously reported	3,661,175	4,652,055	2,696,196	3,308,084
Fund reclassification			3,078,091	
Beginning of period, as restated	3,661,175	4,652,055	5,774,287	3,308,084
End of Period	\$ 3,673,267	3,661,175	4,652,055	2,696,196

\*SOURCE - PRIOR YEAR AUDIT REPORTS

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**LOUISVILLE MUNICIPAL SCHOOL DISTRICT**

**Other Information**

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

**All Governmental Funds**

**Last Four Years**

**UNAUDITED**

	2017	2016*	2015*	2014*
<b>Revenues:</b>				
Local sources	\$ 6,902,690	6,772,475	6,718,752	6,733,321
Intermediate sources	34,510	31,990	31,696	
State sources	14,574,841	14,751,519	14,228,319	13,564,749
Federal sources	5,597,921	4,545,707	4,285,794	4,415,626
Sixteenth section sources	204,918	857,762	527,156	310,541
Total Revenues	27,314,880	26,959,453	25,791,717	25,024,237
<b>Expenditures:</b>				
Instruction	14,539,958	14,644,698	14,215,423	14,471,598
Support services	8,978,155	8,767,789	9,020,317	8,719,166
Noninstructional services	2,506,192	2,231,133	2,192,755	2,024,780
Sixteenth section	163,619	63,989	93,765	82,693
Facilities acquisition and construction	867,607	1,520,026	959,894	261,711
Debt service:				
Principal	190,000	288,000	330,000	318,000
Interest	44,706	55,390	67,633	79,431
Total Expenditures	27,290,237	27,571,025	26,879,787	25,957,379
Excess (Deficiency) of Revenues over (under) Expenditures	24,643	(611,572)	(1,088,070)	(933,142)
<b>Other Financing Sources (Uses):</b>				
Insurance recovery			23,425	
Sale of transportation equipment			14,500	
Sale of other property			2,600	83,410
Operating transfers in	2,306,283	1,662,200	1,216,797	1,730,282
Operating transfers out	(2,306,283)	(1,662,200)	(1,216,797)	(1,730,282)
Total Other Financing Sources (Uses)	0	0	40,525	83,410
Net Change in Fund Balances	24,643	(611,572)	(1,047,545)	(849,732)
<b>Fund Balances:</b>				
Beginning of period	5,840,194	6,432,599	7,481,842	8,334,274
Increase (Decrease) in reserve for inventory	(32,455)	19,167	(1,698)	(2,700)
End of Period	\$ 5,832,382	5,840,194	6,432,599	7,481,842

\*SOURCE - PRIOR YEAR AUDIT REPORTS

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## REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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**SUZANNE E. SMITH, CPA, PLLC**  
**AUDITING AND ACCOUNTING SERVICES**  
**sesmithcpa@msn.com**

**Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards**

Superintendent and School Board  
Louisville Municipal 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 Louisville Municipal School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Louisville Municipal School District's basic financial statements, and have issued our report thereon dated February 19, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Louisville Municipal 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 Louisville Municipal School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Louisville Municipal 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.

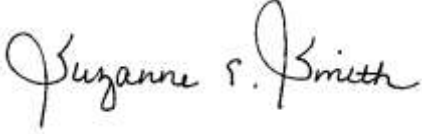
**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Louisville Municipal 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*.

**POST OFFICE BOX 102  
BRANDON, MISSISSIPPI 39043  
PHONE: 601-938-5717**

### **Purpose of this Report**

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

A handwritten signature in black ink that reads "Suzanne E. Smith". The signature is written in a cursive, flowing style.

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
February 19, 2018



**SUZANNE E. SMITH, CPA, PLLC**  
**AUDITING AND ACCOUNTING SERVICES**  
**sesmithcpa@msn.com**

**Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control  
Over Compliance Required by the Uniform Guidance**

Superintendent and School Board  
Louisville Municipal School District

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

We have audited Louisville Municipal 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 district's major federal programs for the year ended June 30, 2017. Louisville Municipal 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 Louisville Municipal 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 (CFR) 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 Louisville Municipal 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 Louisville Municipal School District's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Louisville Municipal 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.

**Other Matters**

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as Finding 2017-001 and Finding 2017-002. Our opinion on each major federal program is not modified with respect to these matters. Louisville Municipal School District's responses to the noncompliance findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. The school district's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

**Report on Internal Control Over Compliance**

Management of Louisville Municipal 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 Louisville Municipal 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

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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 Louisville Municipal School District's internal control over compliance.

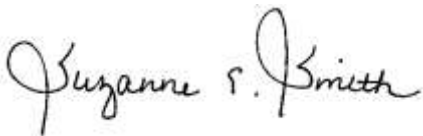
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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 and therefore material weaknesses or significant deficiencies may exist that have not been identified.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2017-001 and Finding 2017-002 that we consider to be significant deficiencies.

Louisville Municipal School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. The school district's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

A handwritten signature in cursive script that reads "Suzanne E. Smith".

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
February 19, 2018

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

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**SUZANNE E. SMITH, CPA, PLLC**  
**AUDITING AND ACCOUNTING SERVICES**  
**sesmithcpa@msn.com**

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

Superintendent and School Board  
Louisville Municipal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Louisville Municipal School District as of and for the year ended June 30, 2017, which collectively comprise Louisville Municipal School District's basic financial statements and have issued our report thereon dated February 19, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

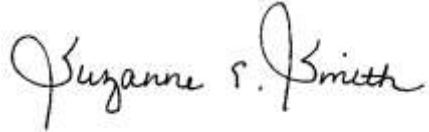
As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective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

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

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

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**PHONE: 601-938-5717**

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.

A handwritten signature in cursive script that reads "Suzanne E. Smith". The signature is written in dark ink on a white background.

Suzanne E. Smith, CPA, PLLC

Brandon, Mississippi

February 19, 2018

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

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- |  |   |
|--|---|
| 4. Internal control over major programs:   |   |
| a. Material weakness(es) identified? (Yes/No)  | No  |
| b. Significant deficiency(ies) identified? (Yes/None reported)   | Yes                                       |
| 5. Type of auditor's report issued on compliance for major programs:   | Unmodified                                |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? (Yes/No) | Yes                                       |
| 7. Identification of major programs:   |   |
| <u>CFDA Numbers</u>  | <u>Name of Federal Program or Cluster</u> |
| 84.027/84.173  | Special Education Cluster                 |
| 97.039   | Hazard Mitigation Grant                   |
| 8. Dollar threshold used to distinguish between type A and type B programs:                                    | \$750,000                                 |
| 9. Auditee qualified as low-risk auditee? (yes/no)   | Yes                                       |

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

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following findings and questioned costs related to the federal awards.

*Findings that are considered significant deficiencies and immaterial instances of noncompliance:*

**Finding 2017-001. 84.027 Special Education – Grants to States. Cost Principles.**

CONDITON: During our testing of payroll expenditures we noted that five (5) individuals who worked full-time in the area of the federal award and were paid from the federal award did not have on file semi-annual certifications or other documentation certifying their time worked in the federal award. While the individuals did maintain a daily record of hours worked, there is no direct certification that the hours worked were directly related to the grant. One (1) individual who worked as program director maintained monthly time forms to substantiate the hours worked in the area of the federal award, but there was no evidence that the hours worked on the award were reviewed and reconciled to the budgeted distributions between federal and non-federal funds.

CRITERIA: The Uniform Guidance ( specifically CFR 200.430) requires that time distribution records must be maintained for all employees whose salary is paid in whole or in part with federal funds or is used to meet a match or cost-share requirement for a grant. Payroll allocations among grant awards cannot be based on budgeted distributions alone. Rather, allocations of salaries and wages among grant programs need to be supported by actual hours worked. If budgeted numbers are used to allocate salaries and wages among grant programs, the entity's system of internal controls should include an after-the-fact review of the grant programs. If actual time worked differs from the budgeted allocations, adjustments should be made such that the final amount charged to each grant is accurate, allowable, and appropriately allocated. Another requirement of the Uniform Guidance as it relates to time and effort reporting is that all time worked for the non-federal organization should be included in order to calculate what portion relates to federal awards. Nonexempt employees must prepare records indicating the total number of hours worked each day. The non-federal entity should have in place a system of controls that will show that employees who are paid wholly from a federal award spend all of their time working in the area of the award. While the use of semi-annual certifications is not mandated, such documentation is an acceptable and efficient supplemental method of certifying the time worked in federal award areas.

CAUSE: The cause is not fully known.

EFFECT: The effect is noncompliance with federal award cost principles and a control deficiency surrounding payroll expenditures being charged to the federal award.

RECOMMENDATION: We recommend that the district develop a system of controls for the federal Special Education – Grants to States award that will ensure that the appropriate time records are maintained for all employees whose salary is paid in whole or in part with grant funds. We further recommend that the controls provide assurances that the cost principles for personnel expenditures are in line with the Uniform Guidance as outlined in CFR 200.430.



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

**Finding 2017-002. 84.027/84.173. Special Education – Grants to States. Special Education –  
Preschool Grants. Reporting.**

CONDITION: The annual expenditure reported submitted to the Mississippi Department of Education did not match the underlying accounting records. The Preschool Award showed \$31,502.79 of reported expenditures while the general ledger for this fund reflected \$22,729.21 in actual expenditures. The Special Education Grants to States award showed \$889,707.19 of reported expenditures while the general ledger for this fund reflected \$638,312.55 in actual general ledger expenditures. There were inaccuracies across expenditure areas. The report was due September 30, 2017, and was not submitted until October 20, 2017.

CRITERIA: Annual financial data reports are required to be submitted to the Mississippi Department of Education. The district is charged with developing a system of controls to ensure that such reports are accurate and timely.

CAUSE: The cause is not fully known.

EFFECT: The effect is noncompliance with reporting requirements and a control deficiency surrounding timely and accurate reporting to the Mississippi Department of Education.

RECOMMENDATION: We recommend that the district develop a system of controls that will ensure that annual financial reports submitted to the Mississippi Department of Education are timely and accurate and reflect the actual expenditures in the district's accounting system.

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## AUDITEE'S CORRECTIVE ACTION PLAN

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# Louisville Municipal School District

KEN MCMULLAN, Superintendent  
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## Auditee's Corrective Action Plan For the Year Ended June 30, 2017

**Finding 2017-01:** Controls over completion of semi-annual certifications for personnel considered to be employed under a single cost objective should be strengthened.

### Direct Response:

- A. What corrective action will be taken? Action has already been taken to correct the absence of semi-annual certifications preparation on employees to certify their time worked in the federal award area.
  - B. Who is responsible? Mavis Crawford, Special Education Director, Ken McMullan, Superintendent and Stacie VanLandingham, Business Manager
  - C. When will the plan be implemented? This has been corrected.
- 

**Finding 2017-02:** Controls over submitting annual financial reports to the MDE accurately and timely should be strengthened.

### District Response:

- A. What corrective action will be taken? A meeting was held with the special education director to stress the importance of the timeliness and accuracy of the annual financial reports submitted to the MDE, and that these reports should reflect the actual expenditures in the district's accounting system. Since the special education director is new to her position, a special education representative from the MDE will begin mentoring the special education director. We will be sure to have all budgets reconciled in the district's accounting system reflecting the amounts the state is showing as available going into the new year.
  - B. Who is responsible? Mavis Crawford, Special Education Director, Ken McMullan, Superintendent and Stacie VanLandingham, Business Manager
  - C. When will the plan be implemented? Immediately.
- 

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