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PASCAGOULA-GAUTIER SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2019

PASCAGOULA-GAUTIER SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Pascagoula-Gautier 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 Pascagoula-Gautier School District as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the 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 Pascagoula-Gautier School District, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions (PERS), the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of District Contributions (OPEB) on pages 6-14, 45-46, 47, 48, 49, and 50, 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 Pascagoula-Gautier 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 December 4, 2019 on our consideration of the Pascagoula-Gautier 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 Pascagoula-Gautier 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 Pascagoula-Gautier School District's internal control over financial reporting and compliance.

A handwritten signature in dark ink that reads "Cunningham CPAs". The signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

December 4, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

The following discussion and analysis of Pascagoula-Gautier School District's financial performance provides an overview of the Pascagoula-Gautier School District's financial activities for the year ended June 30, 2019. The intent of this discussion and analysis is to look at the Pascagoula-Gautier 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 Pascagoula-Gautier School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2019 decreased \$1,666,777, which represents a 9% decrease from fiscal year 2018. Total net position for 2018 decreased \$11,987,212, including a prior period adjustment of (\$7,105,549), which represents a 186% decrease from fiscal year 2017.
- General revenues amounted to \$84,121,566 and \$83,782,929, or 86% and 87% of all revenues for fiscal years 2019 and 2018, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$13,949,372, or 14% of total revenues for 2019, and \$12,737,084, or 13% of total revenues for 2018.
- The District had \$99,737,715 and \$101,401,676 in expenses for fiscal years 2019 and 2018; only \$13,949,372 for 2019 and \$12,737,084 for 2018 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$84,121,566 for 2019 and \$83,782,929 for 2018 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$82,308,193 in revenues and \$72,255,665 in expenditures for 2019, and \$81,490,650 in revenues and \$72,209,786 in expenditures in 2018. The General Fund's fund balance increased by \$4,143,084 from 2018 to 2019, and increased by \$6,103,905 from 2017 to 2018.
- Capital assets, net of accumulated depreciation, increased by \$9,995,224 for 2019 and increased by \$3,867,501, including a prior period adjustment of \$353,557, for 2018. The increase for 2019 was due primarily to construction in progress net of the increase in accumulated depreciation.
- Long-term debt increased by \$1,170,341 for 2019 and decreased by \$2,350,000 for 2018. This increase for 2019 was due primarily to issuing shortfall notes payable net of the principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$2,550 for 2019 and increased by \$29,313 for 2018.

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, pension expense, OPEB 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:

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

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 and net OPEB liability result in liabilities on the government-wide financial statements but are not reported on governmental funds financial statements.

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$20,106,147 as of June 30, 2019.

The District's financial position is a product of several financial transactions including the net result of

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

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, 2019 and June 30, 2018.

Table 1
Condensed Statement of Net Position

	June 30, 2019	June 30, 2018	Percentage Change
Current assets	\$ 52,338,312	\$ 44,976,284	16.37 %
Restricted assets	8,400,642	16,893,363	-50.27 %
Capital assets, net	83,918,890	73,923,666	13.52 %
Total assets	144,657,844	135,793,313	6.53 %
 Deferred outflows of resources	 16,164,253	 17,380,173	 -7.00 %
 Current liabilities	 2,310,095	 1,630,804	 41.65 %
Long-term debt outstanding	22,059,023	20,891,232	5.59 %
Net OPEB liability	7,734,215	7,607,775	1.66 %
Net pension liability	144,507,751	137,314,238	5.24 %
Total liabilities	176,611,084	167,444,049	5.47 %
 Deferred inflows of resources	 4,317,160	 4,168,807	 3.56 %
 Net position:			
Net investment in capital assets	72,063,093	69,161,284	4.20 %
Restricted	16,319,000	12,728,653	28.21 %
Unrestricted	(108,488,240)	(100,329,307)	-8.13 %
Total net position	\$ (20,106,147)	\$ (18,439,370)	-9.04 %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (108,488,240)
Less unrestricted deficit in net position resulting from recognition of the net pension and net OPEB liability, including the deferred outflows and deferred inflows related to pensions and OPEB	 <u>140,394,873</u>
Unrestricted net position, exclusive of the net pension and net OPEB liability effect	 <u>\$ 31,906,633</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 \$9,995,224.
- The principal retirement of \$2,450,000 of long-term debt.
- Issuing shortfall notes payable of \$3,620,341.

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2019 and June 30, 2018 were \$98,070,938 and \$96,520,013, respectively. The total cost of all programs and services was \$99,737,715 for 2019 and \$101,401,676 for 2018.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2019 and June 30, 2018.

**Table 2
Changes in Net Position**

	Year Ended June 30, 2019	Year Ended June 30, 2018	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 1,427,086	\$ 888,263	60.66 %
Operating grants and contributions	12,522,286	11,848,821	5.68 %
General revenues:			
Property taxes	50,913,113	49,350,180	3.17 %
Grants and contributions not restricted	32,696,958	33,360,767	(1.99) %
Investment earnings	376,409	373,850	0.68 %
Sixteenth section sources	20,911	1,500	1,294.07 %
Other	114,175	696,632	(83.61) %
Total revenues	98,070,938	96,520,013	1.61 %
Expenses:			
Instruction	44,904,792	44,544,166	0.81 %
Support services	31,879,107	32,285,345	(1.26) %
Non-instructional	5,023,108	4,631,167	8.46 %
Pension expense	16,945,877	19,018,600	(10.90) %
OPEB expense	412,207	401,258	2.73 %
Interest on long-term liabilities	572,624	521,140	9.88 %
Total expenses	99,737,715	101,401,676	(1.64) %
Increase (Decrease) in net position	(1,666,777)	(4,881,663)	65.86 %
Net Position, July 1, as previously reported	(18,439,370)	(6,452,158)	(185.79) %
Prior Period Adjustment	-	(7,105,549)	100.00 %
Net Position, July 1, as restated	(18,439,370)	(13,557,707)	(36.01) %
Net Position, June 30	\$ (20,106,147)	\$ (18,439,370)	(9.04) %

Governmental activities

The following table presents the cost of six major District functional activities: instruction, support services, non-instructional, pension expense, OPEB 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.

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2019	2018	
Instruction	\$ 44,904,792	\$ 44,544,166	0.81 %
Support services	31,879,107	32,285,345	(1.26) %
Non-instructional	5,023,108	4,631,167	8.46 %
Pension Expense	16,945,877	19,018,600	(10.90) %
OPEB Expense	412,207	401,258	2.73 %
Interest on long-term liabilities	572,624	521,140	9.88 %
Total expenses	\$ 99,737,715	\$ 101,401,676	(1.64) %

	Net (Expense) Revenue		Percentage Change
	2019	2018	
Instruction	\$ (38,076,198)	\$ (38,978,795)	2.32 %
Support services	(29,998,643)	(30,504,436)	1.66 %
Non-instructional	217,206	759,637	71.41 %
Pension Expense	(16,945,877)	(19,018,600)	10.90 %
OPEB Expense	(412,207)	(401,258)	(2.73) %
Interest on long-term liabilities	(572,624)	(521,140)	(9.88) %
Total net (expense) revenue	\$ (85,788,343)	\$ (88,664,592)	3.24 %

- Net cost of governmental activities (\$85,788,343 for 2019 and \$88,664,592 for 2018) was financed by general revenue, which is primarily made up of property taxes (\$50,913,113 for 2019 and \$49,350,180 for 2018) and state and federal revenues (\$32,696,958 for 2019 and \$33,360,767 for 2018). In addition, there was \$20,911 and \$1,500 in Sixteenth Section sources for 2019 and 2018, respectively.
- Investment earnings amounted to \$376,409 for 2019 and \$373,850 for 2018.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$58,595,347, a decrease of \$1,724,990, which includes a decrease in inventory of \$86,232. \$27,900,264 or 48% 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 \$30,695,083 or 52% 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.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2019

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 \$4,143,084. The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,088,067, which includes a decrease in reserve for inventory of \$86,232, due primarily to normal operations. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
JKN Co. Exceptional School Fund	\$	13,522
3 Mill Capital Projects Fund	\$	(9,543,415)
HS Roofing Project Fund	\$	4,749,886

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 Pascagoula-Gautier School District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2019, the District's total capital assets were \$123,996,960, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$12,259,546 from 2018. Total accumulated depreciation as of June 30, 2019, was \$40,078,070, and total depreciation expense for the year was \$2,537,802, resulting in total net capital assets of \$83,918,890.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Percentage Change</u>
Land	\$ 2,357,484	\$ 2,357,484	0.00 %
Construction in progress	11,889,693	7,045,314	68.76 %
Buildings	58,347,267	56,811,563	2.70 %
Building improvements	5,864,378	2,218,794	164.30 %
Improvements other than buildings	1,924,855	2,034,263	(5.38) %
Mobile equipment	2,667,047	2,867,102	(6.98) %
Furniture and equipment	868,166	589,146	47.36 %
Total	\$ 83,918,890	\$ 73,923,666	13.52 %

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

Debt Administration. At June 30, 2019, the District had \$22,059,023 in outstanding long-term debt, of which \$3,671,473 is due within one year. The liability for compensated absences decreased \$2,550 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2019</u>	<u>June 30, 2018</u>	<u>Percentage Change</u>
Three mill notes payable	\$ 17,700,000	\$ 20,150,000	(12.16) %
Shortfall notes payable	3,620,341	-	N/A %
Compensated absences payable	738,682	741,232	(0.34) %
Total	<u>\$ 22,059,023</u>	<u>\$ 20,891,232</u>	5.59 %

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

CURRENT ISSUES

The Pascagoula-Gautier School District is financially stable. The District is proud of its community support of the public schools.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Pascagoula-Gautier School District, 1006 Communny Avenue, Pascagoula, MS 39567.

FINANCIAL STATEMENTS

PASCAGOULA-GAUTIER SCHOOL DISTRICT

**Statement of Net Position
June 30, 2019**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 47,673,109
Due from other governments	4,574,779
Inventories	90,424
Restricted assets	8,400,642
Capital assets, non-depreciable:	
Land	2,357,484
Construction in progress	11,889,693
Capital assets, net of accumulated depreciation:	
Buildings	58,347,267
Building improvements	5,864,378
Improvements other than buildings	1,924,855
Mobile equipment	2,667,047
Furniture and equipment	868,166
Total Assets	<u>144,657,844</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	15,487,540
Deferred outflows - OPEB	676,713
Total deferred outflows of resources	<u>16,164,253</u>
Liabilities	
Accounts payable and accrued liabilities	2,143,607
Interest payable on long-term liabilities	166,488
Long-term liabilities, due within one year:	
Capital related liabilities	2,500,000
Non-capital related liabilities	1,171,473
Net OPEB liability	339,660
Long-term liabilities, due beyond one year:	
Capital related liabilities	15,200,000
Non-capital related liabilities	3,187,550
Net pension liability	144,507,751
Net OPEB liability	7,394,555
Total Liabilities	<u>176,611,084</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	3,766,082
Deferred inflows - OPEB	551,078
Total deferred inflows of resources	<u>4,317,160</u>
Net Position	
Net investment in capital assets	72,063,093
Restricted for:	
Expendable:	
School-based activities	6,316,335
Debt service	2,733,477
Capital projects	6,372,779
Forestry improvements	20,612
Unemployment benefits	250,974
Non-expendable:	
Sixteenth section principal	624,823
Unrestricted	(108,488,240)
Total Net Position	<u>\$ (20,106,147)</u>

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2019

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 44,904,792	\$ 1,157,342	\$ 5,671,252	\$ -	\$ (38,076,198)
Support services	31,879,107	-	1,880,464	-	(29,998,643)
Non-instructional	5,023,108	269,744	4,970,570	-	217,206
Pension expense	16,945,877	-	-	-	(16,945,877)
OPEB expense	412,207	-	-	-	(412,207)
Interest on long-term liabilities	572,624	-	-	-	(572,624)
Total Governmental Activities	<u>\$ 99,737,715</u>	<u>\$ 1,427,086</u>	<u>\$ 12,522,286</u>	<u>\$ -</u>	<u>\$ (85,788,343)</u>

General Revenues:

Taxes:

General purpose levies	48,294,872
Debt purpose levies	2,618,241

Unrestricted grants and contributions:

State	32,400,714
Federal	296,244
Unrestricted investment earnings	376,409
Sixteenth section	20,911
Other	114,175
Total General Revenues	<u>84,121,566</u>

Change in Net Position (1,666,777)

Net Position - Beginning (18,439,370)

Net Position - Ending \$ (20,106,147)

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2019

Exhibit C

	Major Funds						
	General Fund	JKN Co. Exceptional School Fund	3 Mill Capital Projects Fund	HS Roofing Project Fund	Other Governmental Funds	Total Governmental Funds	
Assets							
Cash and cash equivalents	\$ 33,866,864	\$ 3,926	\$ 6,955,296	\$ 5,174,540	\$ 10,073,125	\$ 56,073,751	
Due from other governments	1,229,804	664,142	-	-	2,669,726	4,563,672	
Due from other funds	1,765,830	-	-	-	336,732	2,102,562	
Inventories	-	-	-	-	90,424	90,424	
Total assets	36,862,498	668,068	6,955,296	5,174,540	13,170,007	62,830,409	
Liabilities and Fund Balances							
Liabilities:							
Accounts payable and accrued liabilities	\$ 260,275	\$ 3,926	\$ 1,111,093	\$ 424,654	\$ 343,659	\$ 2,143,607	
Due to other funds	336,567	642,571	-	-	1,112,317	2,091,455	
Total Liabilities	596,842	646,497	1,111,093	424,654	1,455,976	4,235,062	
Fund Balances							
Nonspendable:							
Inventory	-	-	-	-	90,424	90,424	
Permanent fund	-	-	-	-	624,823	624,823	
Restricted:							
Debt service	-	-	-	-	2,899,965	2,899,965	
Capital projects	-	-	5,844,203	4,749,886	1,622,893	12,216,982	
Forestry improvements	-	-	-	-	20,612	20,612	
Grant activities	-	21,571	-	-	6,204,340	6,225,911	
Unemployment benefits	-	-	-	-	250,974	250,974	
Assigned:							
Future building projects	7,441,680	-	-	-	-	7,441,680	
Textbooks	140,538	-	-	-	-	140,538	
Special projects	76,789	-	-	-	-	76,789	
Activity funds	706,385	-	-	-	-	706,385	
Unassigned	27,900,264	-	-	-	-	27,900,264	
Total Fund Balances	36,265,656	21,571	5,844,203	4,749,886	11,714,031	58,595,347	
Total Liabilities and Fund Balances	\$ 36,862,498	\$ 668,068	\$ 6,955,296	\$ 5,174,540	\$ 13,170,007	\$ 62,830,409	

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

Exhibit C-1

June 30, 2019

Total fund balances for governmental funds	\$	58,595,347
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	2,357,484	
Construction in progress	11,889,693	
Buildings	86,623,598	
Building improvements	8,036,703	
Improvements other than buildings	2,931,166	
Mobile equipment	8,728,251	
Furniture and equipment	3,430,065	
Accumulated depreciation	<u>(40,078,070)</u>	83,918,890
2. Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:		
Net pension liability	(144,507,751)	
Deferred outflow s and inflow s of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflow s of resources related to pensions	15,487,540	
Deferred inflow s of resources related to pensions	<u>(3,766,082)</u>	(132,786,293)
3. Some liabilities, including net OPEB obligations, are not due and payable in the current period and, therefore, are not reported in the funds:		
Net OPEB liability	(7,734,215)	
Deferred outflow s and inflow s of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflow s of resources related to OPEB	676,713	
Deferred inflow s of resources related to OPEB	<u>(551,078)</u>	(7,608,580)
4. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
Three mill notes payable	(17,700,000)	
Shortfall notes payable	(3,620,341)	
Compensated absences	(738,682)	
Accrued interest payable	<u>(166,488)</u>	(22,225,511)
Net position of governmental activities	\$	<u><u>(20,106,147)</u></u>

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Exhibit D

For the Year Ended June 30, 2019

	Major Funds						
	General Fund	JKN Co. Exceptional School Fund	3 Mill Capital Projects Fund	HS Roofing Project Fund	Other Governmental Funds	Total Governmental Funds	
Revenues:							
Local sources	\$ 49,150,943	\$ 570,557	\$ -	\$ -	\$ 3,105,003	\$ 52,826,503	
State sources	32,817,650	-	-	-	1,559,200	34,376,850	
Federal sources	310,979	-	-	-	10,531,416	10,842,395	
Sixteenth section sources	28,621	-	-	-	4,222	32,843	
Total Revenues	82,308,193	570,557	-	-	15,199,841	98,078,591	
Expenditures:							
Instruction	41,400,083	503,150	-	-	6,743,244	48,646,477	
Support services	30,855,395	313,614	552,274	-	2,923,987	34,645,270	
Noninstructional services	187	-	-	-	5,305,757	5,305,944	
Facilities acquisition and construction	-	-	8,991,141	969,714	1,842,902	11,803,757	
Debt service:							
Principal	-	-	-	-	2,450,000	2,450,000	
Interest	-	-	-	-	487,630	487,630	
Total Expenditures	72,255,665	816,764	9,543,415	969,714	19,753,520	103,339,078	
Excess (Deficiency) of Revenues over (under) Expenditures	10,052,528	(246,207)	(9,543,415)	(969,714)	(4,553,679)	(5,260,487)	
Other Financing Sources (Uses):							
Bonds and notes issued	3,620,341	-	-	-	-	3,620,341	
Insurance recovery	1,388	-	-	-	-	1,388	
Operating transfers in	750,811	259,729	-	5,719,600	4,987,986	11,718,126	
Operating transfers out	(10,281,984)	-	-	-	(1,436,142)	(11,718,126)	
Total Other Financing Sources (Uses)	(5,909,444)	259,729	-	5,719,600	3,551,844	3,621,729	
Net Change in Fund Balances	4,143,084	13,522	(9,543,415)	4,749,886	(1,001,835)	(1,638,758)	
July 1, 2018	32,122,572	8,049	15,387,618	-	12,802,098	60,320,337	
Increase (Decrease) in reserve for inventory	-	-	-	-	(86,232)	(86,232)	
June 30, 2019	\$ 36,265,656	\$ 21,571	\$ 5,844,203	\$ 4,749,886	\$ 11,714,031	\$ 58,595,347	

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

PASCAGOULA-GAUTIER 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, 2019**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (1,638,758)

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	\$ 12,542,067	
Depreciation expense	<u>(2,537,802)</u>	10,004,265

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.

(9,041)

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:

Bonds and notes issued	(3,620,341)	
Payments of debt principal	2,450,000	
Accrued interest payable	<u>(84,994)</u>	(1,255,335)

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. These activities include:

Pension expense	(16,945,877)	
Contributions subsequent to the measurement date	<u>8,334,198</u>	(8,611,679)

5. Some items relating to OPEB 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. These activities include:

OPEB expense	(412,207)	
Contributions subsequent to the measurement date	<u>339,660</u>	(72,547)

6. 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	2,550	
Change in inventory reserve	<u>(86,232)</u>	(83,682)

Change in net position of governmental activities **\$ (1,666,777)**

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Net Position

Exhibit E

June 30, 2019

	Private- Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 363,289	\$ 3,938,872
Due from local sources	-	772
Due from other funds	-	541
Total Assets	<u>363,289</u>	<u>3,940,185</u>
Liabilities		
Accounts payable and accrued liabilities	-	\$ 3,783,633
Due to other funds	-	11,648
Due to student clubs	-	144,904
Total Liabilities	<u>-</u>	<u>\$ 3,940,185</u>
Net Position		
Reserved for endowments	<u>363,289</u>	
Total Net Position	<u>\$ 363,289</u>	

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Fiduciary Funds

Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2019

Exhibit F

	Private-Purpose Trust Funds
Additions	
Contributions and donations from private sources	\$ 198,468
Total Additions	<u>198,468</u>
Deductions	
Scholarships awarded	<u>10,000</u>
Total Deductions	<u>10,000</u>
Change in Net Position	<u>188,468</u>
Net Position	
July 1, 2018	<u>174,821</u>
June 30, 2019	<u><u>\$ 363,289</u></u>

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

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 Pascagoula-Gautier School District is considered an "other stand-alone government." The Pascagoula-Gautier School District is a related organization of, but not a component unit of, the city of Pascagoula since the governing authority of the city selects a majority of the Pascagoula-Gautier School District's board but does not have financial accountability for the Pascagoula-Gautier School District.

For financial reporting purposes, Pascagoula-Gautier 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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

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

JKN. Co. Exceptional School Fund - This Special Revenue Fund is financed with local funds whose use is restricted for services associated with the operations of the special education consortium.

3 Mill Capital Projects – This is capital projects fund used to account for projects funded by the 3 mill debt issuance.

HS Roofing Project Fund – This is a capital project fund used to account for the high school roofing project.

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:

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

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 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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

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

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired. Investments for the District are reported at fair 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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

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. The district reports \$15,487,540 of deferred outflows related to its pension plan and \$676,713 related to its OPEB plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The district reports \$3,766,082 of deferred inflows related to its pension plan and \$551,078 related to its OPEB plan.

See Note 13 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State and School Employees' Life and Health Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, benefit payments are recorded when the OPEB benefits come due. Investments are reported at fair value as determined by the state.

12. 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 a vote by the board to commit funds. Currently there is no committed fund balance for this school district.

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

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

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

Note 2 – Cash and Cash Equivalents

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$56,073,751 and \$4,302,161, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

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	JKN Co. Exception School Fund	\$ 642,571
	Other governmental funds	1,112,152
	Fiduciary funds	11,107
Other governmental funds	General fund	336,567
	Other governmental funds	165
Fiduciary funds	Fiduciary funds	541
Total		<u>\$ 2,103,103</u>

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General fund	JKN Co. Exceptional School Fund	\$ 259,729
	HS Roofing Project Fund	5,719,600
	Other governmental funds	4,302,655
Other governmental funds	General fund	750,811
	Other governmental funds	685,331
Total		<u>\$ 11,718,126</u>

The primary reason for the transfer out of the other governmental funds is the indirect cost allocation from the general fund.

Note 4 – Restricted Assets

The restricted assets amounting to \$624,823 represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) and various Federal Programs which are legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash balance, totaling \$6,955,296, of unspent proceeds of the three mill notes payable.

Also, the restricted assets represent the cash balance, totaling \$820,523, in the debt service funds that can only be used for future debt service requirements.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

Note 5 – Capital Assets

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

	Balance 7/1/2018	Increases	Decreases	Completed Construction	Balance 6/30/2019
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 2,357,484	\$ -	\$ -	\$ -	2,357,484
Construction in progress	7,045,314	11,803,757	-	(6,959,378)	11,889,693
Total non-depreciable capital assets	9,402,798	11,803,757	-	(6,959,378)	14,247,177
<u>Depreciable capital assets:</u>					
Buildings	83,540,231	-	-	3,083,367	86,623,598
Building improvements	4,160,692	-	-	3,876,011	8,036,703
Improvements other than buildings	2,931,166	-	-	-	2,931,166
Mobile equipment	8,474,367	253,884	-	-	8,728,251
Furniture and equipment	3,228,160	484,426	(282,521)	-	3,430,065
Total depreciable capital assets	102,334,616	738,310	(282,521)	6,959,378	109,749,783
<u>Less accumulated depreciation for:</u>					
Buildings	26,728,668	1,547,663	-	-	28,276,331
Building improvements	1,941,898	230,427	-	-	2,172,325
Improvements other than buildings	896,903	109,408	-	-	1,006,311
Mobile equipment	5,607,265	453,939	-	-	6,061,204
Furniture and equipment	2,639,014	196,365	(273,480)	-	2,561,899
Total accumulated depreciation	37,813,748	2,537,802	(273,480)	-	40,078,070
Total depreciable capital assets, net	64,520,868	(1,799,492)	(9,041)	6,959,378	69,671,713
Governmental activities capital assets, net	\$ 73,923,666	\$ 10,004,265	\$ (9,041)	\$ -	\$ 83,918,890

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 1,794,741
Support services	610,973
Non-instructional	132,088
Total depreciation expense - Governmental activities	<u>\$ 2,537,802</u>

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

	Spent to June 30, 2019	Remaining Commitment
Performing Arts Center	\$ 10,683,495	\$ 4,962,906
Bleacher Replacement Project	194,818	155,316
Highschool Roofing Project	969,713	1,093,425
GHS Track	32,767	-
TLA Parking Lot	8,900	-
Total construction in progress	<u>\$ 11,889,693</u>	<u>\$ 6,211,647</u>

Construction projects included in governmental activities are funded with local funds and 3 mill note proceeds and other capital project funds.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

Note 6 – Long-term Liabilities

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

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019	Amounts due within one year
A. Three mill notes payable	\$ 20,150,000	\$ -	\$ (2,450,000)	\$ 17,700,000	\$ 2,500,000
B. Shortfall notes payable	-	3,620,341		3,620,341	1,171,473
C. Compensated absences payable	741,232	-	(2,550)	738,682	-
Total	\$ 20,891,232	\$ 3,620,341	\$ (2,452,550)	\$ 22,059,023	\$ 3,671,473

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	2.42%	5/12/2017	5/1/2026	\$ <u>22,500,000</u>	\$ <u>17,700,000</u>

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

Year Ending June 30	Principal	Interest	Total
2020	\$ 2,500,000	\$ 428,340	\$ 2,928,340
2021	2,575,000	367,840	2,942,840
2022	2,675,000	305,525	2,980,525
2023	2,775,000	240,790	3,015,790
2024	2,875,000	173,635	3,048,635
2025-2026	4,300,000	136,730	4,436,730
Total	\$ 17,700,000	\$ 1,652,860	\$ 19,352,860

This debt will be retired from the Three Mill Debt Service Fund.

B. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
2018 Ad valorem shortfall	2.99%	8/14/2018	8/14/2021	\$ <u>3,620,341</u>	\$ <u>3,620,341</u>

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

Year Ending June 30	Principal	Interest	Total
2020	\$ 1,171,473	\$ 108,248	\$ 1,279,721
2021	1,206,299	73,422	1,279,721
2022	1,242,569	37,152	1,279,721
Total	<u>\$ 3,620,341</u>	<u>\$ 218,822</u>	<u>\$ 3,839,163</u>

This debt will be retired from the Shortfall Notes Debt Service Fund.

C. Compensated absences payable

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

Note 7— Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 – 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 is available at www.pers.ms.gov.

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2019

fiscal year thereafter.

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, 2019 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, 2019, 2018 and 2017 were \$8,334,198, \$8,740,788 and \$8,345,963, 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, 2019, the school district reported a liability of \$144,507,751 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2019 net pension liability was .868803 percent, which was based on a measurement date of June 30, 2018. This was an increase of .0428 percent from its proportionate share used to calculate the June 30, 2018 net pension liability, which was based on a measurement date of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$16,945,877. At June 30, 2019 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 607,557	\$ 579,182
Net difference between projected and actual earnings on pension plan investments	-	2,988,451
Changes of assumptions	81,066	75,636
Changes in proportion and differences between District contributions and proportionate share of contributions	6,464,719	122,813
District contributions subsequent to the measurement date	8,334,198	-
Total	\$ <u>15,487,540</u>	\$ <u>3,766,082</u>

\$8,334,198 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

Year ending June 30:	
2020	\$ 4,322,076
2021	1,357,889
2022	(1,642,845)
2023	(649,860)
Total	<u>\$ 3,387,260</u>

Actuarial assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.25-18.50 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 2022, with males rates set forward one year for males with adjustments.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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	27.00	%	4.60	%
International Equity	18.00		4.50	
Emerging Markets Equity	4.00		4.75	
Global	12.00		4.75	
Fixed Income	18.00		0.75	
Real Estate	10.00		3.50	
Private Equity	8.00		5.10	
Emerging Debt	2.00		2.25	
Cash	1.00		0.00	
Total	<u>100</u>	<u>%</u>		

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the former employer contribution rate (15.75%) through June 30, 2019 and at the current contribution rate (17.40%) thereafter. 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 table presents the District's proportionate share of the net pension liability calculated using

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

the discount rate of 7.75%, 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%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 190,275,242	\$ 144,507,751	\$ 106,468,923

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

Note 9 – Other Postemployment Benefits (OPEB)

General Information about the OPEB Plan.

Plan description. State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State and School Employees' Life and Health Insurance Plan (the Plan). The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan. The plan issues a publicly available financial report that can be obtained at <http://knowyourbenefits.dfa.ms.gov/>.

Benefits provided.

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA participants, may be eligible for health insurance coverage under the Plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare Eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

Contributions.

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees while employees' premiums are funded primarily by their employer. Contributions to the OPEB plan from the District were \$339,660 for the year ended June 30, 2019.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements
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OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2019, the District reported a liability of \$7,734,215 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for the District's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2018, the District's proportion was .99983387 percent. This was an increase of .0302 percent from the proportionate share as of the measurement date of June 30, 2017.

For the year ended June 30, 2019, the District recognized OPEB expense of \$412,207. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 15,750	\$ -
Net difference between projected and actual earnings on OPEB plan investments	-	-
Changes of assumptions	-	551,078
Changes in proportion and differences between District contributions and proportionate share of contributions	321,303	-
District contributions subsequent to the measurement date	339,660	-
Total	\$ <u>676,713</u>	\$ <u>551,078</u>

\$339,660 reported as deferred outflows of resources related to OPEB resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ending June 30:

2020	\$ (45,655)
2021	(45,655)
2022	(45,655)
2023	(45,655)
2024	(31,723)
Thereafter	318
Total	<u>\$ (214,025)</u>

Actuarial assumptions. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

Inflation	3.00 percent
Salary increases	3.25-18.50 percent, including wage inflation
Long-term Investment Rate of Return, net of OPEB plan investment expense, including inflation	4.50%
Municipal Bond Index Rate	
Measurement Date	3.89%
Prior Measurement Date	3.56%
Year FNP is projected to be depleted	
Measurement Date	2018
Prior Measurement Date	2017
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.89%
Prior Measurement Date	3.56%
Health Care Cost Trends	
Medicare Supplement Claims	7.25 percent for 2018 decreasing to an
Pre-Medicare	ultimate rate of 4.75% by 2028

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

The demographic actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study dated April 18, 2017.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2018 valuation were based on a review of recent plan experience done concurrently with the June 30, 2018 valuation.

The long-term investment rate of return, net of OPEB plan investment expense, including inflation was 4.50%.

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2018 was 3.89 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.56% to 3.89%.

The trust was established on June 28, 2018 with an initial contribution of \$1,000,000. The fiduciary net position is projected to be depleted immediately, therefore, the Municipal Bond Index Rate is used in the determination of the discount rate for both June 30, 2017 and the June 30, 2018. The discount rate used to measure the total OPEB liability at June 30, 2018 was based on an average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by Bond Buyer.

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

percentage-point lower (2.89 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

	1% Decrease (2.89%)	Current Discount Rate (3.89%)	1% Increase (4.89%)
Net OPEB liability	\$ 8,573,186	\$ 7,734,215	\$ 7,012,675

Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates Current	1% Increase
Net OPEB liability	\$ 7,164,440	\$ 7,734,215	\$ 8,381,317

OPEB plan fiduciary net position. Detailed information about the OPEB plan's fiduciary net position is available in a separately issued report that can be found at <http://knowyourbenefits.dfa.ms.gov/>.

Note 10 – Contingencies

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

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

Note 11 – Risk Management

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

Note 12— Special Education Consortium

The school district entered into a special education consortium dated June 15, 1988 creating the Exceptional School Program. This consortium was created pursuant to the provisions of Section 37-7-403 through 37-7-415 Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the following participants: Jackson County School District, Pascagoula-Gautier School District, Moss Point School District and the Jackson County Board of Supervisors.

The building housing the Exceptional School Program is the property of the Jackson County Board of Supervisors and they are responsible for the constructing, erecting, equipping, alterations, and major maintenance of the building.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

Operating expenses for the educational programs are shared in direct proportion to each district's monthly enrollment of students placed by each school district in the Exception School Program. Each district is billed by the fiscal agent. The Jackson County Board of Supervisors provides funding by levying an ad valorem tax at a rate of not less than 0.5 mills. Transportation for students attending the special education program is the responsibility of the individual school district sending the students. The Pascagoula-Gautier School District has been designated the lead school district (fiscal agent) and the operations of the consortium are included in the financial statements.

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Exceptional School Program.

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds For the Year Ended June 30, 2019

Revenues

Local sources:

Tuition from other LEA's within the state	\$ 570,557
Total Revenues	<u>570,557</u>

Expenditures

Salaries and employee benefits	747,676
Purchased property services	59,001
Supplies	5,769
Property	4,318
Total Expenditures	<u>816,764</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(246,207)</u>
-----------------------------------------------------------	------------------

Other Financing Sources/Uses:

Transfers in	259,729
Total Other Financing Sources/Uses	<u>259,729</u>
Net Change in Fund Balance	<u>13,522</u>

Fund Balance:

July 1, 2018	8,049
June 30, 2019	<u>\$ 21,571</u>

Note 13 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$108,488,240) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. A portion of the deferred outflow of resources related to pension in the amount of \$8,334,198 resulting from the school district contribution subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. The \$7,153,342 balance of deferred outflow of resources related to pensions, at June 30, 2019 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$108,488,240) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$3,766,082 balance of deferred inflow of resources related to pensions, at June 30, 2019 will be recognized as revenue and will increase the unrestricted net position over the next 4 years.

The unrestricted net position amount of (\$108,488,240) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from OPEB. A portion of the deferred outflow of resources

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2019

related to OPEB in the amount of \$339,660 resulting from the school district contribution subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. The \$337,053 balance of deferred outflow of resources related to OPEB, at June 30, 2019 will be recognized as an expense and will decrease the unrestricted net position over the next 6 years.

The unrestricted net position amount of (\$108,488,240) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from OPEB. The \$551,078 balance of deferred inflow of resources related to OPEB, at June 30, 2019 will be recognized as revenue and will increase the unrestricted net position over the next 6 years.

Note 14— Economic Dependency

The school district is significantly economically dependent on two ad valorem tax payers (Chevron Corporation and Huntington Ingalls Corporation). In the event of a loss of ad valorem taxes from these payers, the district would encounter an economic hardship.

Note 15 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through December 4, 2019 (the date the financial statements were available to be issued), and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 49,024,757	\$ 49,150,939	\$ 49,150,943	\$ 126,182	\$ 4
State sources	32,682,902	32,817,650	32,817,650	134,748	-
Federal sources	310,000	310,979	310,979	979	-
Sixteenth section sources	7,640	28,622	28,621	20,982	(1)
Total Revenues	82,025,299	82,308,190	82,308,193	282,891	3
Expenditures:					
Instruction	47,957,393	41,400,083	41,400,083	6,557,310	-
Support services	32,300,869	30,854,918	30,855,395	1,445,951	(477)
Noninstructional services	3,876	188	187	3,688	1
Facilities acquisition and construction	265,000	475	-	264,525	475
Total Expenditures	80,527,138	72,255,664	72,255,665	8,271,474	(1)
Excess (Deficiency) of Revenues over (under) Expenditures	1,498,161	10,052,526	10,052,528	8,554,365	2
Other Financing Sources (Uses):					
Bonds and notes issued	-	3,620,341	3,620,341	3,620,341	-
Insurance recovery	17,651	1,388	1,388	(16,263)	-
Operating transfers in	9,791,754	12,099,580	750,811	2,307,826	(11,348,769)
Operating transfers out	(12,516,237)	(21,630,753)	(10,281,984)	(9,114,516)	11,348,769
Total Other Financing Sources (Uses)	(2,706,832)	(5,909,444)	(5,909,444)	(3,202,612)	-
Net Change in Fund Balances	(1,208,671)	4,143,082	4,143,084	5,351,753	2
July 1, 2018	32,122,572	32,122,572	32,122,572	-	-
June 30, 2019	\$ 30,913,901	\$ 36,265,654	\$ 36,265,656	\$ 5,351,753	\$ 2

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
JKN Co. Exception School Fund
For the Year Ended June 30, 2019**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 435,000	\$ 570,557	\$ 570,557	\$ 135,557	\$ -
Total Revenues	435,000	570,557	570,557	135,557	-
Expenditures:					
Instruction	490,609	503,150	503,150	(12,541)	-
Support services	314,285	313,615	313,614	670	1
Total Expenditures	804,894	816,765	816,764	(11,871)	1
Excess (Deficiency) of Revenues over (under) Expenditures	(369,894)	(246,208)	(246,207)	123,686	1
Other Financing Sources (Uses):					
Operating transfers in	369,894	259,729	259,729	(110,165)	-
Total Other Financing Sources (Uses)	369,894	259,729	259,729	(110,165)	-
Net Change in Fund Balances	-	13,521	13,522	13,521	1
July 1, 2018	8,049	8,049	8,049	-	-
June 30, 2019	\$ 8,049	\$ 21,570	\$ 21,571	\$ 13,521	\$ 1

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Required Supplementary Information

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

PERS

Last 10 Fiscal Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.8688030%	0.826030%	0.823300%	0.777370%	0.800000%
District's proportionate share of the net pension liability	\$ 144,507,751	137,314,238	147,061,938	120,165,918	97,105,353
District's covered payroll	\$ 55,497,067	52,990,241	52,673,543	48,565,549	48,604,305
District's proportionate share of the net pension liability as a percentage of its covered payroll	260.39%	259.13%	279.20%	247.43%	199.79%
Plan fiduciary net position as a percentage of the total pension liability	62.54%	61.49%	57.47%	61.70%	67.21%

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

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 8,334,198	8,740,788	8,345,963	8,296,083	7,649,074
Contributions in relation to the contractually required contribution	\$ 8,334,198	8,740,788	8,345,963	8,296,083	7,649,074
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	\$ 52,915,543	55,497,067	52,990,241	52,673,543	48,565,549
Contributions as a percentage of covered payroll	15.75%	15.75%	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.

PASCAGOULA-GAUTIER SCHOOL DISTRICT
Required Supplementary Information

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

	<u>2019</u>	<u>2018</u>
District's proportion of the net OPEB liability	0.99983387%	0.96962470%
District's proportionate share of the net OPEB liability	\$ 7,734,215	7,607,775
District's covered-employee payroll	\$ 55,497,067	52,990,241
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	13.936%	14.357%
Plan fiduciary net position as a percentage of the total OPEB liability	0.12911%	0.0000%

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, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

OPEB

Last 10 Fiscal Years

	<u>2019</u>	<u>2018 *</u>
Actuarially determined contribution	\$ 339,660	324,331
Contributions in relation to the actuarially determined contribution	\$ 339,660	324,331
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>
District's covered-employee payroll	\$ 52,915,543	55,497,067
Contributions as a percentage of covered-employee payroll	0.6419%	0.5844%

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.75 was implemented in FYE 6/30/2018, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available. Prior year information is based on historical amounts reported in prior year audit report(s).

Notes to Required Supplementary Information

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%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

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

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

(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.

(3) *Method and assumptions used in calculations of actuarially determined contributions.*

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2016 valuation for the June 30, 2018 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	36.6 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

OPEB Schedules

(1) *Changes of assumptions*

2017: The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

2018: The discount rate was changed from 3.56% for the prior Measurement Date to 3.89% for the current Measurement Date.

(2) *Changes in benefit provisions*

2017: None

2018: None

(3) *Methods and assumptions used in calculations of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2017 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2018:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price inflation	3%
Salary increases, including wage inflation	3.25% to 18.50%

Initial health care cost trend rates	
Medicare Supplement Claims	7.75%
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	5.00%
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2023
Pre-Medicare	
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56%

SUPPLEMENTARY INFORMATION

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2019

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Pass-through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>			
Passed-through Mississippi Department of Education:			
Child nutrition cluster:			
School breakfast program	10.553	185MS326N1099	\$ 1,362,540
National school lunch program	10.555	185MS326N1099	3,630,534
Summer food service program for children	10.559	185MS326N1099	82,567
Total child nutrition cluster			5,075,641
Total passed-through Mississippi Department of Education			5,075,641
Total U.S. Department of Agriculture			5,075,641
<u>U.S. Department of Defense</u>			
Direct Program:			
Reserve Officers' Training Corps	12.xxx	N/A	136,798
Total U.S. Department of Defense			136,798
<u>Federal Communications Commission</u>			
Administered through the Universal Service Administrative			
The schools and libraries program of the universal service fund	32.xxx	N/A	296,244
Total Federal Communications Commission			296,244
<u>U.S. Department of Education</u>			
Direct program:			
Impact Aid	84.041	N/A	390,060
Passed-through Mississippi Board for Community and Junior Colleges:			
Adult education - state grant program	84.002	N/A	188,800
Total passed-through Mississippi Board for Community and			188,800
Passed-through Mississippi Department of Education:			
Title I grants to local educational agencies	84.010	ES010A180024	2,382,445
Career and technical education - basic grants to states	84.048	V048A180024	98,359
Student Support and Academic Enrichment	84.424	ES424A180025	115,558
English language acquisition grant	84.365	ES365A180024	49,136
Improving teacher quality-State Grants	84.367	ES367A180023	400,989
Subtotal			3,046,487
Special education cluster:			
Special education - grants to states	84.027	H027A180108	1,654,973
Special education - preschool grants	84.173	H173A180113	53,391
Total special education cluster			1,708,364
Total passed-through Mississippi Department of Education			4,754,851
Total U.S. Department of Education			5,333,711
Total for All Federal Awards			\$ 10,842,394

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

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Notes to the Supplementary Information For the Year Ended June 30, 2019

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 Pascagoula-Gautier School District under programs of the federal government for the year ended June 30, 2019. 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 Pascagoula-Gautier School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Pascagoula-Gautier School District.

(2) Summary of Significant Accounting Policies

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

(3) Indirect Cost Rate

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

(4) Noncash Awards

Donated commodities of \$335,275 are included in the National School Lunch Program.

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2019

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 71,224,409	53,768,289	2,388,170	5,498,510	9,569,440
Other	32,114,669	6,807,633	530,099	61,756	24,715,181
Total	<u>\$ 103,339,078</u>	<u>60,575,922</u>	<u>2,918,269</u>	<u>5,560,266</u>	<u>34,284,621</u>
Total number of students *	<u>6,237</u>				
Cost per student	<u>\$ 16,569</u>	<u>9,713</u>	<u>468</u>	<u>891</u>	<u>5,497</u>

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

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

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

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

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

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

OTHER INFORMATION

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2019	2018*	2017*	2016*
Revenues:				
Local sources	\$ 49,150,943	\$ 47,644,535	\$ 49,011,660	\$ 50,155,421
State sources	32,817,650	33,510,434	32,769,024	32,256,854
Federal sources	310,979	329,725	322,584	753,204
Sixteenth section sources	28,621	5,956	16,557	16,500
Total Revenues	82,308,193	81,490,650	82,119,825	83,181,979
Expenditures:				
Instruction	41,400,083	42,380,722	42,620,304	42,799,541
Support services	30,855,395	29,733,413	30,022,451	29,308,421
Noninstructional services	187	-	-	-
Facilities acquisition and construction	-	95,651	4,000	121,791
Total Expenditures	72,255,665	72,209,786	72,646,755	72,229,753
Excess (Deficiency) of Revenues over (under) Expenditures	10,052,528	9,280,864	9,473,070	10,952,226
Other Financing Sources (Uses):				
Insurance recovery	1,388	-	-	4,015
Bonds and notes issued	3,620,341	-	-	-
Sale of other property	-	-	4,516	8,815
Sale of transportation equipment	-	-	6,497	-
Operating transfers in	750,811	-	-	-
Other financing sources	-	7,299	-	750,000
Operating transfers out	(10,281,984)	(3,184,258)	(11,370,481)	(4,026,634)
Total Other Financing Sources (Uses)	(5,909,444)	(3,176,959)	(11,359,468)	(3,263,804)
Net Change in Fund Balances	4,143,084	6,103,905	(1,886,398)	7,688,422
Fund Balances:				
Beginning of period, as previously reported	32,122,572	26,018,667	27,905,065	20,124,505
Prior period adjustments	-	-	-	92,138
Beginning of period, as restated	32,122,572	26,018,667	27,905,065	20,216,643
End of Period	\$ 36,265,656	\$ 32,122,572	\$ 26,018,667	\$ 27,905,065

*SOURCE - PRIOR YEAR AUDIT REPORTS

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2019	2018*	2017*	2016*
Revenues:				
Local sources	\$ 52,826,503	\$ 51,296,952	\$ 50,013,139	\$ 51,437,131
State sources	34,376,850	34,930,554	33,879,291	33,429,415
Federal sources	10,842,395	10,279,032	10,255,746	10,017,288
Sixteenth section sources	32,843	10,149	20,727	19,741
Total Revenues	98,078,591	96,516,687	94,168,903	94,903,575
Expenditures:				
Instruction	48,646,477	48,763,715	48,817,314	48,784,219
Support services	34,645,270	35,195,696	37,220,427	36,293,372
Noninstructional services	5,305,944	5,099,364	5,105,328	4,741,619
Facilities acquisition and construction	11,803,757	5,001,982	2,998,930	1,063,897
Debt service:				
Principal	2,450,000	2,350,000	-	-
Interest	487,630	527,864	-	-
Other	-	-	56,117	-
Total Expenditures	103,339,078	96,938,621	94,198,116	90,883,107
Excess (Deficiency) of Revenues over (under) Expenditures	(5,260,487)	(421,934)	(29,213)	4,020,468
Other Financing Sources (Uses):				
Bonds and notes issued	3,620,341	-	22,500,000	-
Insurance recovery	1,388	-	-	4,015
Sale of other property	-	-	4,516	8,815
Sale of transportation equipment	-	-	6,497	-
Operating transfers in	11,718,126	31,023,916	14,399,991	6,287,024
Other financing sources	-	7,299	-	750,000
Operating transfers out	(11,718,126)	(31,023,916)	(14,399,991)	(6,287,024)
Other financing uses	-	-	-	-
Total Other Financing Sources (Uses)	3,621,729	7,299	22,511,013	762,830
Net Change in Fund Balances	(1,638,758)	(414,635)	22,481,800	4,783,298
Fund Balances:				
Beginning of period, as previously reported	60,320,337	60,688,616	38,197,287	33,295,752
Prior period adjustments	-	-	-	93,157
Beginning of period, as restated	60,320,337	60,688,616	38,197,287	33,388,909
Increase (Decrease) in reserve for inventory	(86,232)	46,356	9,529	25,080
End of Period	\$ 58,595,347	\$ 60,320,337	\$ 60,688,616	\$ 38,197,287

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Pascagoula-Gautier School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pascagoula-Gautier School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Pascagoula-Gautier School District's basic financial statements, and have issued our report thereon dated December 4, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in dark ink that reads "Cunningham CPAs". The signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

December 4, 2019

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

Superintendent and School Board
Pascagoula-Gautier School District

Report on Compliance for Each Major Federal Program

We have audited the Pascagoula-Gautier 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 Pascagoula-Gautier School District's major federal programs for the year ended June 30, 2019. Pascagoula-Gautier School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Pascagoula-Gautier 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, 2019.

Report on Internal Control over Compliance

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

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

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

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

A handwritten signature in dark ink that reads "Cunningham CPAs". The signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

December 4, 2019

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

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

Superintendent and School Board
Pascagoula-Gautier School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pascagoula-Gautier School District as of and for the year ended June 30, 2019, which collectively comprise Pascagoula-Gautier School District's basic financial statements and have issued our report thereon dated December 4, 2019. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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 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 dark ink that reads "Cunningham CPAs". The word "Cunningham" is written in a cursive script, and "CPAs" is written in a more blocky, sans-serif style.

Cunningham CPAs, PLLC

Belzoni, Mississippi

December 4, 2019

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | | | | | |
|---------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-------------------------------------------|--------|------------------------------------------------|--|
| 4. | Internal control over major programs: | | | | | |
| a. | Material weakness(es) identified? | No | | | | |
| b. | Significant deficiency(ies) identified? | None reported | | | | |
| 5. | Type of auditor's report issued on compliance for major programs: | Unmodified | | | | |
| 6. | Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No | | | | |
| 7. | Identification of major programs: | | | | | |
| | <table border="0"><tr><td><u>CFDA Numbers</u></td><td><u>Name of Federal Program or Cluster</u></td></tr><tr><td>84.010</td><td>Title I – Grants to local educational agencies</td></tr></table> | <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | 84.010 | Title I – Grants to local educational agencies | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> | | | | | |
| 84.010 | Title I – Grants to local educational agencies | | | | | |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$750,000 | | | | |
| 9. | Auditee qualified as low-risk auditee? | Yes | | | | |
| 10. | Prior fiscal year audit findings(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2CFR 200.511(b). | No | | | | |

PASCAGOULA-GAUTIER SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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