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LEE COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2020

St. Clair CPA, PLLC
Carriere, MS

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INDEPENDENT AUDITOR'S REPORT

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ST. CLAIR CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Lee County School District

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Lee County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District, as of June 30, 2020, 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.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the school district adopted Governmental Accounting Standards Board ("GASB") Statement No. 84, Fiduciary Activities. As a result, net position as of July 1, 2019, has been restated. My opinion is not modified with respect to this matter.

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 9-16, 51, 52, 53, 54 and 55, 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

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

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

accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 8, 2021, on my consideration of the Lee County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lee County School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lee County School District's internal control over financial reporting and compliance.

St. Clair CPA, PLLC

St. Clair CPA, PLLC

Carriere, MS

January 8, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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LEE COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

The following discussion and analysis of Lee County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2020. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2020 increased \$1,769,271, including a prior period adjustment of \$55,000 and an adjustment for GASB 84 fund reclassification in the amount of \$95,465, which represents a 4% increase from fiscal year 2019. Total net position for 2019 increased \$2,691,269, including a prior period adjustment of \$29,521, which represents a 6% increase from fiscal year 2018.
- General revenues amounted to \$57,896,257 and \$55,724,724, or 85% and 84% of all revenues for fiscal years 2020 and 2019, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,399,617, or 15% of total revenues for 2020, and \$10,593,858, or 16% of total revenues for 2019.
- The District had \$66,677,068 and \$63,656,834 in expenses for fiscal years 2020 and 2019; only \$10,399,617 for 2020 and \$10,593,858 for 2019 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$57,896,257 for 2020 and \$55,724,724 for 2019 were adequate to provide for these programs.
- Among major funds, the General Fund had \$55,879,544 in revenues and \$52,195,270 in expenditures for 2020, and \$53,636,558 in revenues and \$50,917,563 in expenditures in 2019. The General Fund's fund balance increased by \$3,385,456, which includes an adjustment for GASB 84 fund reclassification in the amount of \$95,465, from 2019 to 2020, and increased by \$2,096,473, including a prior period adjustment of \$9,204, from 2018 to 2019.
- Capital assets, net of accumulated depreciation, decreased by \$865,507 for 2020 and increased by \$220,024 for 2019. The decrease for 2020 was due primarily to the increase in accumulated depreciation.
- Long-term debt increased by \$13,135,826 for 2020 and decreased by \$2,039,283 for 2019. This increase for 2020 was due primarily to the issuance of general obligation bonds. The liability for compensated absences increased by \$46,340 for 2020 and decreased by \$12,623 for 2019.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

A net pension liability 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 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 \$40,502,981 as of June 30, 2020.

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

Table 1 presents a summary of the District's net position at June 30, 2020 and June 30, 2019.

Table 1
Condensed Statement of Net Position

	June 30, 2020	June 30, 2019	Percentage Change
Current assets	\$ 18,754,612	\$ 11,678,582	60.59 %
Restricted assets	21,350,151	6,596,835	223.64 %
Capital assets, net	55,481,401	56,346,908	(1.54) %
Total assets	95,586,164	74,622,325	28.09 %
Deferred outflows of resources	9,521,567	8,044,851	18.36 %
Current liabilities	4,298,799	775,363	454.42 %
Long-term debt outstanding	35,937,010	22,801,184	57.61 %
Net OPEB liability	6,505,478	5,918,315	9.92 %
Net pension liability	95,853,735	90,502,823	5.91 %
Total liabilities	142,595,022	119,997,685	18.83 %
Deferred inflows of resources	3,015,690	4,941,743	(38.98) %
Net position:			
Net investment in capital assets	34,982,819	35,958,158	(2.71) %
Restricted	8,538,492	6,724,217	26.98 %
Unrestricted	(84,024,292)	(84,954,627)	1.10 %
Total net position	\$ (40,502,981)	\$ (42,272,252)	4.19 %

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)	\$ (84,024,292)
Less unrestricted deficit in net position resulting from recognition of the net pension liability and net OPEB liability including the related deferred outflows and deferred inflows	97,498,153
Unrestricted net position, exclusive of the net pension liability and net OPEB liability effect	<u>\$ 13,473,861</u>

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

- Decrease in net capital assets in the amount of \$865,507.
- The issuance of general obligation bonds payable in the amount of \$15,000,000.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2020 and June 30, 2019 were \$68,295,874 and \$66,318,582, respectively. The total cost of all programs and services was \$66,677,068 for 2020 and \$63,656,834 for 2019.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2020 and June 30, 2019.

Table 2
Changes in Net Position

	Year Ended June 30, 2020	Year Ended June 30, 2019	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 2,477,518	\$ 2,615,305	(5.27) %
Operating grants and contributions	7,922,099	7,591,071	4.36 %
Capital Grants and Contributions	0	387,482	(100.00) %
General revenues:			
Property taxes	20,492,353	19,302,560	6.16 %
Grants and contributions not restricted	37,032,262	36,127,615	2.50 %
Investment earnings	362,544	253,531	43.00 %
Other	9,098	41,018	(77.82) %
Total revenues	68,295,874	66,318,582	2.98 %
Expenses:			
Instruction	35,980,433	34,945,810	2.96 %
Support services	18,254,465	17,387,784	4.98 %
Non-instructional	2,770,445	3,268,202	(15.23) %
Pension expense	8,608,441	7,126,826	20.79 %
OPEB expense	378,277	289,360	30.73 %
Interest on long-term liabilities	685,007	638,852	7.22 %
Total expenses	66,677,068	63,656,834	4.74 %
Increase (Decrease) in net position	1,618,806	2,661,748	(39.18) %
Net Position, July 1, as previously reported	(42,272,252)	(44,963,521)	5.99 %
Fund Reclassification GASB 84	95,465	0	N/A
Prior Period Adjustment	55,000	29,521	86.31 %
Net Position, July 1, as restated	(42,121,787)	(44,934,000)	6.26 %
Net Position, June 30	\$ (40,502,981)	\$ (42,272,252)	4.19 %

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.

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change	
	2020	2019		
Instruction	\$ 35,980,433	\$ 34,945,810	2.96	%
Support services	18,254,465	17,387,784	4.98	%
Non-instructional	2,770,445	3,268,202	(15.23)	%
Pension Expense	8,608,441	7,126,826	20.79	%
OPEB Expense	378,277	289,360	30.73	%
Interest on long-term liabilities	685,007	638,852	7.22	%
Total expenses	\$ 66,677,068	\$ 63,656,834	4.74	%

	Net (Expense) Revenue		Percentage Change	
	2020	2019		
Instruction	\$ (30,840,192)	\$ (30,800,900)	(0.13)	%
Support services	(16,492,852)	(14,864,533)	(10.95)	%
Non-instructional	727,318	657,495	10.62	%
Pension Expense	(8,608,441)	(7,126,826)	(20.79)	%
OPEB Expense	(378,277)	(289,360)	(30.73)	%
Interest on long-term liabilities	(685,007)	(638,852)	(7.22)	%
Total net (expense) revenue	\$ (56,277,451)	\$ (53,062,976)	(6.06)	%

- Net cost of governmental activities (\$56,277,451 for 2020 and \$53,062,976 for 2019) was financed by general revenue, which is primarily made up of property taxes (\$20,492,353 for 2020 and \$19,302,560 for 2019) and state and federal revenues (\$37,032,262 for 2020 and \$36,127,615 for 2019).
- Investment earnings amounted to \$362,544 for 2020 and \$253,531 for 2019.

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 \$36,084,145, an increase of \$18,393,082, which includes an adjustment for GASB 84 fund reclassification in the amount of \$95,465 and an increase in inventory of \$85,156. \$13,522,855 or 37% 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 \$22,561,290 or 63% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$3,385,456, which includes an adjustment for GASB 84 fund reclassification in the amount of \$95,465. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,901,447, which

includes an increase in reserve for inventory of \$85,156. The fund balance of the 2020 G.O. Building Projects Fund showed an increase of \$13,106,179.

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2020, the District's total capital assets were \$92,911,326, including land, construction in progress, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$1,225,480 from 2019. Total accumulated depreciation as of June 30, 2020, was \$37,429,925, and total depreciation expense for the year was \$2,127,551, resulting in total net capital assets of \$55,481,401.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2020	June 30, 2019	Percentage Change
Land	\$ 2,088,275	\$ 2,088,275	0.00 %
Construction in Progress	390,769	0	N/A
Buildings	46,967,136	48,337,348	(2.83) %
Building improvements	1,787,392	1,900,652	(5.96) %
Improvements other than buildings	231,743	246,647	(6.04) %
Mobile equipment	3,830,102	3,520,782	8.79 %
Furniture and equipment	185,984	253,204	(26.55) %
Total	\$ 55,481,401	\$ 56,346,908	(1.54) %

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

Debt Administration. At June 30, 2020, the District had \$35,937,010 in outstanding long-term debt, of which \$3,162,024 is due within one year. The liability for compensated absences increased \$46,340 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 17,145,000	\$ 2,630,000	551.90 %
Premiums	375,253	0	N/A
Discounts	(185,017)	(52,700)	(251.08) %
General obligation refunding bonds payable	13,980,000	15,695,000	(10.93) %
Premiums on refunding bonds payable	72,592	96,792	(25.00) %
Three mill notes payable	861,750	791,000	8.94 %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	687,432	641,092	7.23 %
Total	<u>\$ 35,937,010</u>	<u>\$ 22,801,184</u>	57.61 %

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

CURRENT ISSUES

The Lee County School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Lee County School District, 1280 College View Drive, Tupelo, Mississippi 38804.

BASIC FINANCIAL STATEMENTS

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LEE COUNTY SCHOOL DISTRICT
Statement of Net Position
June 30, 2020

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 16,679,577
Due from other governments	1,807,261
Inventories	267,774
Restricted assets (Note 4)	21,350,151
Non-depreciable capital assets (Note 5)	2,479,044
Depreciable capital assets, net (Note 5)	53,002,357
Total Assets	<u>95,586,164</u>
Deferred Outflows of Resources	
Deferred outflow - pensions (Note 8)	7,071,585
Deferred outflow - OPEB (Note 9)	805,165
Deferred outflow - advance refunding on bonds	1,644,817
Total Deferred Outflows of Resources	<u>9,521,567</u>
Liabilities	
Accounts payable and accrued liabilities	4,020,618
Interest payable on long-term liabilities	278,181
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	3,081,750
Premium on bonds	42,962
Discount on bonds	(17,683)
Non-capital related liabilities	54,995
Net OPEB liability (Note 9)	237,798
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	31,905,000
Premium on bonds	404,883
Discount on bonds	(167,334)
Non-capital related liabilities	632,437
Net OPEB liability (Note 9)	6,267,680
Net pension liability (Note 8)	95,853,735
Total Liabilities	<u>142,595,022</u>
Deferred Inflows of Resources	
Deferred inflows - pensions (Note 8)	2,585,230
Deferred inflows - OPEB (Note 9)	430,460
Total Deferred Inflows of Resources	<u>3,015,690</u>
Net Position	
Net investment in capital assets	34,982,819
Restricted net position	
Expendable	
School-based activities	1,499,882
Debt service	6,864,341
Unemployment benefits	174,269
Unrestricted	<u>(84,024,292)</u>
Total Net Position	<u>\$ (40,502,981)</u>

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

LEE COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2020

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 35,980,433	1,776,040	3,364,201	(30,840,192)
Support services	18,254,465	3,136	1,758,477	(16,492,852)
Non-instructional	2,770,445	698,342	2,799,421	727,318
Pension expense	8,608,441			(8,608,441)
OPEB expense	378,277			(378,277)
Interest on long-term liabilities	685,007			(685,007)
Total Governmental Activities	<u>66,677,068</u>	<u>2,477,518</u>	<u>7,922,099</u>	<u>(56,277,451)</u>
General Revenues				
Taxes				
General purpose levies				16,805,686
Debt purpose levies				3,686,667
Unrestricted grants and contributions				
State				36,551,284
Federal				480,978
Unrestricted investment earnings				362,544
Other				9,098
Total General Revenues				<u>57,896,257</u>
Changes in Net Position				
<u>1,618,806</u>				
Net Position - Beginning, as previously reported				
Fund Reclassification GASB 84 (Note 14)				(42,272,252)
Prior Period Adjustment (Note 10)				95,465
				55,000
Net Position - Beginning - as restated				
<u>(42,121,787)</u>				
Net Position - Ending				
<u>\$ (40,502,981)</u>				

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

LEE COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2020

Exhibit C

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>2020 G.O. Building Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents (Note 2)	\$ 16,679,577	13,119,904	5,104,097	34,903,578
Cash with fiscal agent (Note 2)			3,126,150	3,126,150
Due from other governments	820,690		986,571	1,807,261
Due from other funds (Note 3)	611,633			611,633
Inventories			267,774	267,774
Total Assets	<u>18,111,900</u>	<u>13,119,904</u>	<u>9,484,592</u>	<u>40,716,396</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable & accrued liabilities	3,950,607	13,725	56,286	4,020,618
Due to other funds (Note 3)			611,633	611,633
Total Liabilities	<u>3,950,607</u>	<u>13,725</u>	<u>667,919</u>	<u>4,632,251</u>
Fund Balances				
Nonspendable				
Inventory			267,774	267,774
Restricted				
Debt service			7,142,522	7,142,522
Capital projects		13,106,179		13,106,179
Unemployment benefits			174,269	174,269
Grant activities			1,232,108	1,232,108
Assigned				
School activities	638,438			638,438
Unassigned	13,522,855			13,522,855
Total Fund Balances	<u>14,161,293</u>	<u>13,106,179</u>	<u>8,816,673</u>	<u>36,084,145</u>
Total Liabilities and Fund Balances	<u>\$ 18,111,900</u>	<u>13,119,904</u>	<u>9,484,592</u>	<u>40,716,396</u>

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

LEE COUNTY SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 36,084,145

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

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

Land	2,088,275	
Construction in progress	390,769	
Buildings	73,462,362	
Building improvements	3,238,103	
Improvement other than buildings	706,359	
Mobile equipment	11,161,248	
Furniture and equipment	1,864,210	
Accumulated depreciation	<u>(37,429,925)</u>	55,481,401

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	(95,853,735)
-----------------------	--------------

Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	7,071,585	
Deferred inflows of resources related to pensions	<u>(2,585,230)</u>	4,486,355

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	(6,505,478)
--------------------	-------------

Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to OPEB	805,165	
Deferred inflows of resources related to OPEB	<u>(430,460)</u>	374,705

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

General obligation bonds	(31,125,000)	
Unamortized premium on bonds payable	(447,845)	
Unamortized discount on bonds payable	185,017	
Notes payable	(861,750)	
Qualified school construction bonds payable	(3,000,000)	
Compensated absences	(687,432)	
Deferred outflow - advance refunding of bonds	1,644,817	
Accrued interest payable	<u>(278,181)</u>	(34,570,374)

Total Net Position - Governmental Activities	<u><u>\$ (40,502,981)</u></u>
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The notes to the financial statements are an integral part of this statement.

LEE COUNTY SCHOOL DISTRICT

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2020

	Major Funds			
	General Fund	2020 G.O. Building Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues				
Local sources	\$ 18,847,282	1,512	4,546,076	23,394,870
State sources	36,551,284		1,543,072	38,094,356
Federal sources	480,978		6,313,436	6,794,414
Total Revenues	55,879,544	1,512	12,402,584	68,283,640
Expenditures				
Instruction	34,611,917		3,876,395	38,488,312
Support services	17,582,168	476,550	2,459,929	20,518,647
Noninstructional services	1,185		3,357,676	3,358,861
Facilities acquisition and construction		390,769		390,769
Debt service				
Principal (Note 6)			2,936,000	2,936,000
Interest			489,709	489,709
Other			6,880	6,880
Total Expenditures	52,195,270	867,319	13,126,589	66,189,178
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,684,274	(865,807)	(724,005)	2,094,462
Other Financing Sources (Uses)				
Proceeds of general obligation bonds (Note 6)		15,000,000		15,000,000
Proceeds of loans (Note 6)			861,750	861,750
Insurance loss recoveries (Note 16)	3,136			3,136
Sale of other property	30			30
Operating transfers in (Note 3)	33,318		1,712,939	1,746,257
Payment held by QSCB escrow agent			240,000	240,000
Other financing sources	10,143	394,015		404,158
Operating transfers out (Note 3)	(440,910)	(1,272,029)	(33,318)	(1,746,257)
Payment to QSCB escrow agent			(240,000)	(240,000)
Other financing uses		(150,000)	(1,075)	(151,075)
Total Other Financing Sources (Uses)	(394,283)	13,971,986	2,540,296	16,117,999
Net Change in Fund Balances	3,289,991	13,106,179	1,816,291	18,212,461
Fund Balances				
July 1, 2019, as previously reported	10,775,837		6,915,226	17,691,063
Fund Reclassification GASB 84 (Note 14)	95,465		0	95,465
July 1, 2019, as restated	10,871,302	0	6,915,226	17,786,528
Increase in reserve for inventory			85,156	85,156
June 30, 2020	\$ 14,161,293	13,106,179	8,816,673	36,084,145

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

LEE COUNTY SCHOOL DISTRICT

Exhibit D-1

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2020

	Amount	
Net Change in Fund Balance - Governmental Funds	\$	18,212,461
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, those amounts are:		
Capital outlay	1,263,413	
Depreciation expense	(2,127,551)	(864,138)
In the Statement of Activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.		
		(1,369)
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	(15,861,750)	
Premiums on bonds payable	(394,015)	
Discount on bonds payable	150,000	
Payments of debt principal	2,936,000	
Accrued interest payable	(87,172)	(13,256,937)
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	(8,608,441)	
Contributions made subsequent to the measurement date	6,340,139	(2,268,302)
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	(378,277)	
Contributions made subsequent to the measurement date	237,798	(140,479)
Some items reported in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds. These activities include:		
Change in compensated absences	(46,340)	
Change in inventory reserve	85,156	
Amortization of deferred charges, premiums and discounts	(101,246)	(62,430)
Changes in Net Position of Governmental Activities	\$	1,618,806

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

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

Fund Financial Statements - Separate financial statements are provided for governmental funds. 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.

2020 G.O. Building Projects Fund - This fund is used to account for construction and renovation projects in the school district and is financed with the proceeds of general obligation bonds.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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. 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

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

audits.

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

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

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

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

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified School Construction Bond sinking funds.

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.

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

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:

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

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

7. Deferred outflows/inflows of resources

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

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

See Note 8, 9 and 17 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

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

available financial resources only if the payable has matured, for example, an employee retires.

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

11. 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 documented in the board minutes of the school board. Currently there is no committed fund balance for this school district.

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

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

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

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

It is the policy of the Lee County School District to maintain a minimum fund balance in the General Fund that is not less than 5% of the District Maintenance Revenues (General Fund).

13. Accounting Standards Update

The Governmental Accounting Standards Board issued GASB 95, *Postponement of the Effective Dates of Certain Authoritative Guidance* in May 2020. The objective of this Statement was to provide temporary relief to governments in light of the COVID-19 pandemic by postponing effective dates of certain Statements and Implementation Guides. The effective dates of GASB 83-84, GASB 88-93, and Implementation Guides No. 2017-3, 2018-1, 2019-1, and 2019-2 were postponed one year. The effective dates of GASB 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, were postponed eighteen months.

The school district early implemented GASB Statement No. 84, *Fiduciary Activities* during the fiscal year end June 30, 2020.

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds was \$ 34,903,578.

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

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$3,126,150.

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	<u>\$ 611,633</u>

The purpose of the inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other Governmental Funds	\$ 440,910
Major Fund - 2020 G.O Building		
Projects Fund	Other Governmental Funds	1,272,029
Other Governmental Funds	General Fund	<u>33,318</u>
Total		<u>\$ 1,746,257</u>

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The transfer out of the General Fund was for the purpose of funding the vocational program, school recognition program, extended school year program and debt service in the Other Governmental Funds. The transfer from the Major Fund to the Other Governmental Funds was for debt service. The transfers from the Other Governmental Funds to the General Fund were for indirect costs.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling \$ 13,119,904, of the 2020 G.O. Building Projects Fund (Capital Projects Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash and cash with fiscal agent, totaling \$5,104,097 and \$3,126,150, respectively, of the various grant funds and debt service funds.

Note 5 – Capital Assets

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

	Balance 7/1/2019	Increases	Decreases	Balance 6/30/2020
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 2,088,275			2,088,275
Construction-in-progress		390,769		390,769
Total non-depreciable capital assets	<u>2,088,275</u>	<u>390,769</u>	<u>0</u>	<u>2,479,044</u>
<u>Depreciable capital assets:</u>				
Buildings	73,462,362			73,462,362
Building improvements	3,238,103			3,238,103
Improvements other than buildings	706,359			706,359
Mobile equipment	10,315,073	857,175	(11,000)	11,161,248
Furniture and equipment	1,875,674	15,469	(26,933)	1,864,210
Total depreciable capital assets	<u>89,597,571</u>	<u>872,644</u>	<u>(37,933)</u>	<u>90,432,282</u>
<u>Less accumulated depreciation for:</u>				
Buildings	25,125,014	1,370,212		26,495,226
Building improvements	1,337,451	113,260		1,450,711
Improvements other than buildings	459,712	14,904		474,616
Mobile equipment	6,794,291	546,755	(9,900)	7,331,146
Furniture and equipment	1,622,470	82,420	(26,664)	1,678,226
Total accumulated depreciation	<u>35,338,938</u>	<u>2,127,551</u>	<u>(36,564)</u>	<u>37,429,925</u>
Total depreciable capital assets, net	<u>54,258,633</u>	<u>(1,254,907)</u>	<u>(1,369)</u>	<u>53,002,357</u>
Governmental activities capital assets, net	<u>\$ 56,346,908</u>	<u>(864,138)</u>	<u>(1,369)</u>	<u>55,481,401</u>

Depreciation expense was charged to the following governmental functions:

LEE COUNTY SCHOOL DISTRICT
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	<u>Amount</u>
Governmental activities:	
Instruction	\$ 1,392,478
Support services	580,639
Non-instructional	<u>154,434</u>
Total depreciation expense - Governmental activities	<u><u>\$ 2,127,551</u></u>

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

	<u>Spent to June 30, 2020</u>	<u>Remaining Commitment</u>
Governmental Activities:		
CTE Building	<u>\$ 390,769</u>	<u>7,346,723</u>

Construction projects included in governmental activities are funded with proceeds from the general obligation bonds issued in the current year.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Amounts due within one year
A. General obligation bonds payable	\$ 2,630,000	15,000,000	485,000	17,145,000	505,000
Premiums	0	394,015	18,762	375,253	18,762
Discounts	(52,700)	(150,000)	(17,683)	(185,017)	(17,683)
B. General obligation refunding bonds payable	15,640,000 *		1,660,000	13,980,000	1,715,000
Premiums	96,792		24,200	72,592	24,200
C. Three mill notes payable	791,000	861,750	791,000	861,750	861,750
D. Qualified school construction bonds payable	3,000,000			3,000,000	0
E. Compensated absences payable	<u>641,092</u>	<u>46,340</u>		<u>687,432</u>	<u>54,995</u>
Total	<u>\$ 22,746,184</u>	<u>16,152,105</u>	<u>\$ 2,961,279</u>	<u>35,937,010</u>	<u>3,162,024</u>

*The beginning balance for general obligations refunding bonds payable was restated to correctly reflect the issue amount of general obligation refunding bonds, 2016. See Note 10 for further details.

A. General obligation bonds payable

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

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Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. General obligation bonds, 2013	4.0	10/16/2013	9/1/2023	\$ 12,285,000	2,145,000
2. General obligation bonds, 2020	3.0 - 4.0	4/2/2020	3/1/2040	15,000,000	15,000,000
Total				<u>\$ 27,285,000</u>	<u>17,145,000</u>

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

1. General obligation bond issue of 2013:

Year Ending June 30	Principal	Interest	Total
2021	\$ 505,000	75,700	580,700
2022	525,000	55,100	580,100
2023	545,000	33,700	578,700
2024	570,000	11,400	581,400
Total	<u>\$ 2,145,000</u>	<u>175,900</u>	<u>2,320,900</u>

This debt will be retired from the Bond 2013 Issue Retirement Fund (Debt Service Fund).

2. General obligation bond issue of 2020:

Year Ending June 30	Principal	Interest	Total
2021	\$	481,585	481,585
2022		526,963	526,963
2023	620,000	526,963	1,146,963
2024	645,000	502,163	1,147,163
2025	670,000	476,362	1,146,362
2026 – 2030	3,685,000	2,033,162	5,718,162
2031 – 2035	4,280,000	1,439,587	5,719,587
2036 – 2040	5,100,000	628,000	5,728,000
Total	<u>\$ 15,000,000</u>	<u>6,614,785</u>	<u>21,614,785</u>

This debt will be retired from the Bond 2020 Issue Retirement Fund (Debt Service Fund).

Total general obligation bond payments for all issues:

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Year Ending June 30		Principal	Interest	Total
2021	\$	505,000	557,285	1,062,285
2022		525,000	582,063	1,107,063
2023		1,165,000	560,663	1,725,663
2024		1,215,000	513,563	1,728,563
2025		670,000	476,362	1,146,362
2026 – 2030		3,685,000	2,033,162	5,718,162
2031 – 2035		4,280,000	1,439,587	5,719,587
2036 – 2040		5,100,000	628,000	5,728,000
Total	\$	<u>17,145,000</u>	<u>6,790,685</u>	<u>23,935,685</u>

Bond Premium: The general obligation bonds, 2020 were issued with a bond premium of \$394,015. The premium was capitalized and will be amortized over the remaining life of the bonds. During the fiscal year, \$18,762 was amortized and the remaining balance to be amortized is \$375,253.

Bond Discount: The general obligation bonds, 2013 were issued with a bond discount of \$140,217. The discount was capitalized and will be amortized over the remaining life of the bonds. During the fiscal year, \$10,540 was amortized and the remaining balance to be amortized is \$42,160. Additionally, the general obligation bonds, 2020 were issued with a bond discount of \$150,000. The discount was capitalized and will be amortized over the remaining life of the bonds. During the fiscal year, \$7,143 was amortized and the remaining balance to be amortized is \$142,857.

B. General obligation refunding bonds payable

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

	Interest		Maturity		Amount
Description	Rate	Issue Date	Date	Amount Issued	Outstanding
1. General obligation refunding bonds, 2012	3.0	10/2/2012	9/1/2022	\$ 14,255,000	4,845,000
2. General obligation refunding bonds, 2016	2.0 - 3.0	9/1/2016	9/1/2033	9,630,000	9,135,000
Total				\$ 23,885,000	13,980,000

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

1. General obligation refunding bond issue of 2012:

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Year Ending June 30	Principal	Interest	Total
2021	\$ 1,550,000	105,625	1,655,625
2022	1,620,000	62,125	1,682,125
2023	<u>1,675,000</u>	<u>20,938</u>	<u>1,695,938</u>
Total	<u>\$ 4,845,000</u>	<u>188,688</u>	<u>5,033,688</u>

This debt will be retired from the Bond 2013 Issue Retirement Fund (Debt Service Fund).

Bond Premium: The general obligation refunding bonds, 2012 were issued with a bond premium of \$266,192. This premium was capitalized and will be amortized over the remaining life of the bonds. During the fiscal year, \$24,200 was amortized and the remaining balance to be amortized is \$72,592.

2. General obligation refunding bond issue of 2016:

Year Ending June 30	Principal	Interest	Total
2021	\$ 165,000	198,944	363,944
2022	170,000	195,594	365,594
2023	170,000	192,194	362,194
2024	175,000	188,744	363,744
2025	770,000	179,294	949,294
2026 – 2030	4,085,000	654,391	4,739,391
2031 – 2034	<u>3,600,000</u>	<u>180,124</u>	<u>3,780,124</u>
Total	<u>\$ 9,135,000</u>	<u>1,789,285</u>	<u>10,924,285</u>

This debt will be retired from the Bond 2013 Issue Retirement Fund (Debt Service Fund).

Total general obligation refunding bonds payments for all issues:

Year Ending June 30	Principal	Interest	Total
2021	\$ 1,715,000	304,569	2,019,569
2022	1,790,000	257,719	2,047,719
2023	1,845,000	213,132	2,058,132
2024	175,000	188,744	363,744
2025	770,000	179,294	949,294
2026 – 2030	4,085,000	654,391	4,739,391
2031 – 2035	<u>3,600,000</u>	<u>180,124</u>	<u>3,780,124</u>
Total	<u>\$ 13,980,000</u>	<u>1,977,973</u>	<u>15,957,973</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed

LEE COUNTY SCHOOL DISTRICT
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assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2020, the amount of outstanding bonded indebtedness was equal to 9.8% of property assessments as of October 1, 2019.

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Three mill notes, 2018	2.5	10/25/2018	10/25/2019	\$ 791,000	0
2. Three mill notes, 2019	1.89	10/9/2019	10/9/2020	861,750	861,750
Total				<u>\$ 1,652,750</u>	<u>861,750</u>

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

1. Three mill notes payable issue of 2018:

The three mill notes, 2018 were paid in full during the fiscal year from the Three Mill Note Debt Retirement Fund (Debt Service Fund).

2. Three mill notes payable issue of 2019:

Year Ending June 30	Principal	Interest	Total
2021	<u>\$ 861,750</u>	<u>16,287</u>	<u>878,037</u>

This debt will be retired from the Three Mill Note Debt Retirement Fund (Debt Service Fund).

D. Qualified school construction bonds payable

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds	0.94	12/22/2009	9/15/2024	<u>\$ 3,000,000</u>	<u>3,000,000</u>

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

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Year Ending June 30	Principal	Interest	Total
2021	\$	28,200	28,200
2022		28,200	28,200
2023		28,200	28,200
2024		28,200	28,200
2025	3,000,000	28,200	3,028,200
Total	<u>\$ 3,000,000</u>	<u>141,000</u>	<u>3,141,000</u>

This debt will be retired from the QSCB Limited Tax Note Fund (Debt Service Fund) which is funded with ad valorem taxes and pledged Education Enhancement Funds. This debt is partially secured by an irrevocable pledge of building and bus fund revenues the district receives from the State of Mississippi pursuant to the Education Enhancement Funds authorization, Section 37-61-33, Miss. Code Ann. (1972). \$175,000 of those funds are applied toward this debt.

E. Compensated absences payable

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

Note 7 – 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

LEE COUNTY SCHOOL DISTRICT
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completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter.

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, 2020 was 17.40% 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, 2020, 2019 and 2018 were \$6,340,139, \$5,589,054 and \$5,472,661, 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, 2020, the school district reported a liability of \$95,853,735 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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, 2020 net pension liability was .544872 percent, which was based on a measurement date of June 30, 2019. This was an increase of .000755 percent from its proportionate share used to calculate the June 30, 2019 net pension liability, which was based on a measurement date of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$8,608,441. At June 30, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 41,624	\$ 75,736
Net difference between projected and actual earnings on pension plan investments	0	838,950
Changes of assumptions	689,822	0
Changes in proportion and differences between District contributions and proportionate share of contributions	0	1,670,544
District contributions subsequent to the measurement date	6,340,139	0
Total	<u>\$ 7,071,585</u>	<u>\$ 2,585,230</u>

\$6,340,139 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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2021	\$ (645,769)
2022	(645,769)
2023	(352,510)

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2024

(209,736)

Actuarial assumptions. The total pension liability as of June 30, 2019 was determined by actuarial valuation prepared as of June 30, 2018. Subsequent to the June 30, 2018 valuation, the Board adopted new actuarial assumptions based on the experience investigation for the four-year period ending June 30, 2018. The following actuarial assumptions are applied to all periods included in the measurement:

Inflation	2.75 percent
Salary increases	3.00-18.25 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

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 most recent 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>
Domestic Equity	27.00 %	4.90 %
International Equity	22.00	4.75
Global Equity	12.00	5.00
Fixed Income	20.00	1.50
Real Estate	10.00	4.00
Private Equity	8.00	6.25
Cash	1.00	0.25
Total	<u>100 %</u>	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current contribution rate (17.40%). 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 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:

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	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 126,003,056	\$ 95,853,735	\$ 70,968,178

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 \$237,798 for the year ended June 30, 2020.

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2020, the District reported a liability of \$6,505,478 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2019, 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, 2019, the District's proportion was .76666629 percent. This was an increase of .00158123 percent from the proportionate share as of the measurement date of June 30, 2018.

For the year ended June 30, 2020, the District recognized OPEB expense of \$378,277. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 9,836	\$ 93,119
Changes of assumptions	485,001	337,341
Net difference between projected and actual earnings on OPEB plan investments	123	0
Changes in proportion and differences between District contributions and proportionate share of contributions	72,407	0
District contributions subsequent to the measurement date	237,798	0
Total	<u>\$ 805,165</u>	<u>\$ 430,460</u>

\$237,798 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, 2021. 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:

2021	\$ 7,193
2022	7,193
2023	7,193
2024	20,332
2025	65,148
Thereafter	29,848

Actuarial assumptions. The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	3.00-18.20 percent, including wage inflation

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

Municipal Bond Index Rate	
Measurement Date	3.50%
Prior Measurement Date	3.89%
Year FNP is projected to be depleted	
Measurement Date	2019
Prior Measurement Date	2018
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.50%
Prior Measurement Date	3.89%
Health Care Cost Trends	
Medicare Supplement Claims	7.00 percent for 2019 decreasing to an
Pre-Medicare	ultimate rate of 4.75% by 2028

Mortality rates were based on the PubS.H-2010(B) Retiree Table with the following adjustments: For males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119. For females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119. Mortality rates will be projected generationally using the MP-2018 projection scale to account for future improvements in life expectancy.

The demographic actuarial assumptions used in the June 30, 2019 valuation were based on the results of the last actuarial experience study, dated April 2, 2019.

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, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

The long-term expected rate of return on OPEB plan investments is 4.50%.

Discount rate. The discount rate used to measure the total OPEB liability at June 30, 2019 was 3.50 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.89% to 3.50%.

The trust was established on June 28, 2018 with an initial contribution of \$1,000,000. As of June 30, 2019, the trust has \$1,017,904. 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 the June 30, 2018 and the June 30, 2019 total OPEB liability. The discount rate used to measure the total OPEB liability at June 30, 2019 was based on a monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate.

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-percentage-point lower (2.50 percent) or 1-percentage-point higher (4.50 percent) than the current discount rate:

	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Net OPEB liability	\$ 7,226,451	\$ 6,505,478	\$ 5,888,618

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

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:

		Healthcare Cost Trend Rates	
	1% Decrease	Current	1% Increase
Net OPEB liability	\$ 6,028,328	\$ 6,505,478	\$ 7,046,008

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 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
Adjustment to debt - correction of error in recording beginning balance of general obligation refunding bonds, 2016	<u>\$ 55,000</u>

Note 11 – 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 12 – 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 13 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

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

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2020 was \$1,854,121. The amount accumulated in the sinking fund at the end of the seventeen-year period is expected to be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Amount
2021	\$ 240,000
2022	240,000
2023	240,000
2024	240,000
2025	240,000
Total	<u>\$ 1,200,000</u>

Note 14 - Fund Reclassification

The Lee County School District early implemented the provisions of Statement No. 84 of the Governmental Accounting Standards Board - Fiduciary Activities. This Statement should be applied retroactively by restating financial statements for the current period. The Lee County School District reclassified all Agency Funds to the General Fund.

Note 15 – Tax Abatement

On November 4, 2014, the Union County Board of Supervisors, Pontotoc County Board of Supervisors, the Pontotoc, Union and Lee Economic Development Alliance (PUL Alliance) and Mississippi Major Economic Impact Authority and the Toyota Motor Manufacturing and related companies entered into an agreement for in lieu payments of ad valorem taxes. The agreement provides for annual payments of one third of the taxes otherwise payable for the company property. The payment period will not exceed ten years pursuant to applicable state laws. The amount received by the Lee County School District is approximately \$225,000 each school year. The payment period is expected to terminate on or about the year 2022. The Lee County Board of Supervisors is responsible for making the annual in lieu of ad valorem tax payment to the Lee County School District.

Note 16 - Insurance loss recoveries

The Lee County School District received \$3,136 in insurance loss recoveries related to bus damage during the 2019-2020 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated to support services expense.

Note 17 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$84,024,292) 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 \$6,340,139 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, 2021. The \$731,446 balance of deferred outflow of resources related to pensions, at June 30, 2020 will be recognized as an expense and will decrease the

LEE COUNTY SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2020

unrestricted net position over the next 3 years.

The unrestricted net position amount of (\$84,024,292) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$2,585,230 balance of deferred inflow of resources related to pensions, at June 30, 2020 will be recognized as revenue and will increase the unrestricted net position over the next 4 years.

The unrestricted net position amount of (\$84,024,292) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from OPEB. A portion of the deferred outflow of resources related to OPEB in the amount of \$237,798 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, 2021. The \$567,367 balance of deferred outflow of resources related to OPEB, at June 30, 2020 will be recognized as an expense and will decrease the unrestricted net position over the next 6 years.

The unrestricted net position amount of (\$84,024,292) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from OPEB. The \$430,460 balance of deferred inflow of resources related to OPEB, at June 30, 2020 will be recognized as revenue and will increase the unrestricted net position over the next 6 years.

The net investment in capital assets net position amount of 34,982,819 includes the effects of deferring the recognition of expenses resulting from deferred outflow from advance refunding of general obligations bonds in a previous year. The balance at June 30, 2020 of \$1,644,817 will be amortized by \$126,525 over the next 13 years.

Note 18 - Other Matters

The increase in the spread of the COVID-19 pandemic has resulted in a volatile investment market. The resulting impact of this pandemic upon the operations of the District is uncertain at this time.

Note 19 - 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 January 8, 2021, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

In October 2020, the school board approved the issuance of \$921,000 in Limited Tax Notes to be repaid to Trustmark National Bank over a one year period with an interest rate of 0.82%.

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REQUIRED SUPPLEMENTARY INFORMATION

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LEE COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2020

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 18,106,203	18,842,740	18,847,282	736,537	4,542
State sources	36,442,140	36,551,284	36,551,284	109,144	0
Federal sources	349,000	480,978	480,978	131,978	0
Total Revenues	<u>54,897,343</u>	<u>55,875,002</u>	<u>55,879,544</u>	<u>977,659</u>	<u>4,542</u>
Expenditures					
Instruction	35,057,265	34,477,240	34,611,917	580,025	(134,677)
Support services	19,334,946	17,709,422	17,582,168	1,625,524	127,254
Noninstructional services	0	1,185	1,185	(1,185)	0
Facilities acquisition and construction	125,000	0	0	125,000	0
Total Expenditures	<u>54,517,211</u>	<u>52,187,847</u>	<u>52,195,270</u>	<u>2,329,364</u>	<u>(7,423)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>380,132</u>	<u>3,687,155</u>	<u>3,684,274</u>	<u>3,307,023</u>	<u>(2,881)</u>
Other Financing Sources (Uses)					
Insurance loss recoveries	0	3,136	3,136	3,136	0
Sale of other property	0	30	30	30	0
Operating transfers in	2,648,272	2,755,985	33,318	107,713	(2,722,667)
Other financing sources	0	10,143	10,143	10,143	0
Operating transfers out	(2,939,008)	(3,162,495)	(440,910)	(223,487)	2,721,585
Total Other Financing Sources (Uses)	<u>(290,736)</u>	<u>(393,201)</u>	<u>(394,283)</u>	<u>(102,465)</u>	<u>(1,082)</u>
Net Change in Fund Balances			<u>3,289,991</u>		
Fund Balances					
July 1, 2019, as previously reported			10,775,837		
Fund Reclassification GASB 84			95,465		
July 1, 2019, as restated			<u>10,871,302</u>		
June 30, 2020			<u>\$ 14,161,293</u>		

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

LEE COUNTY SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net Pension Liability

PERS

Last 10 Fiscal Years *

	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.544872%	0.544117%	0.542060%	0.541124%	0.548020%	0.544522%
District's proportionate share of the net pension liability	\$ 95,853,735	90,502,823	90,108,770	96,658,259	84,370,225	65,546,112
District's covered payroll	\$ 35,486,057	34,747,054	34,773,435	34,617,010	34,065,486	33,288,292
District's proportionate share of the net pension liability as a percentage of its covered payroll	270.12%	260.46%	259.13%	279.22%	247.67%	196.90%
Plan fiduciary net position as a percentage of the total pension liability	61.59%	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 68 was implemented in the FYE 6-30-15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

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

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 6,340,139	5,589,054	5,472,661	5,476,816	5,452,179	5,365,314
Contributions in relation to the contractually required contribution	6,340,139	5,589,054	5,472,661	5,476,816	5,452,179	5,365,314
Contribution deficiency (excess)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
District's covered payroll	36,437,580	35,486,057	34,747,054	34,773,435	34,617,010	34,065,486
Contributions as a percentage of covered payroll	17.40%	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 68 was implemented in the FYE 6-30-15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

LEE COUNTY SCHOOL DISTRICT

Schedule of the District's Proportionate Share of the Net OPEB Liability

OPEB

Last 10 Fiscal Years *

	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net OPEB liability	0.76666629%	0.76508506%	0.76075530%
District's proportionate share of the net OPEB liability	<u>\$ 6,505,478</u>	<u>5,918,315</u>	<u>5,968,956</u>
Covered employee payroll	<u>\$ 35,486,057</u>	<u>34,747,054</u>	<u>34,773,435</u>
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	<u>18.33%</u>	<u>17.03%</u>	<u>17.17%</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.12%</u>	<u>0.13%</u>	<u>0.00%</u>

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.

LEE COUNTY SCHOOL DISTRICT
Schedule of District Contributions
OPEB
Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 237,798	260,760	254,465
Contributions in relation to the actuarially determined contribution	237,798	260,760	254,465
Contribution deficiency (excess)	<u>0</u>	<u>0</u>	<u>0</u>
Covered employee payroll	\$ 36,437,580	35,486,057	34,747,054
Contributions as a percentage of covered employee payroll	0.65%	0.73%	0.73%

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 75 was implemented in the FYE 6-30-18, 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).

LEE COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2020

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) *Changes of assumptions*

2015:

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

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

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

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

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

2016:

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

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%.

LEE COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2020

2019:

The expectation of retired life mortality was changed to the PubS.H-2010(B) Retiree Table with the following adjustments: for males, 112% of male rates from ages 18 to 75 scaled down to 105% for ages 80 to 119; for females, 85% of the female rates from ages 18 to 65 scaled up to 102% for ages 75 to 119; and projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The expectation of disabled mortality was changed to PubT.H-2010 Disabled Retiree Table for disabled retirees with the following adjustments: for males, 137% of male rates at all ages; for females, 115% of female rates at all ages; and projection scale MP-2018 will be used to project future improvements in life expectancy generationally.

The price inflation assumption was reduced from 3.00% to 2.75%.

The wage inflation assumption was reduced from 3.25% to 3.00%.

Withdrawal rates, pre-retirement mortality 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 7% to 9%.

(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, 2017 valuation for the June 30, 2019 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	38.4 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.25 percent to 18.50 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.

LEE COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2020

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

2019: The discount rate was changed from 3.89% for the prior Measurement Date to 3.50% for the current Measurement Date.

(2) *Changes in benefit provisions*

2017: None

2018: None

2019: 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, 2018 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2019:

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	7.25%
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	4.75%
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2028
Pre-Medicare	
Long-term investment rate of return, net of OPEB plan investment expense, including price inflation	3.89%

SUPPLEMENTARY INFORMATION

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LEE COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2020

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	205MS326N1099	\$ 965,382
National school lunch program	10.555	205MS326N1099	2,538,972
Summer food service program for children	10.559	205MS326N1099	229
COVID-19 - summer food service program for children	10.559	205MS326N1099	\$ 50,574
Total child nutrition cluster			<u>3,555,157</u>
Fresh fruits and vegetable program	10.582	205MS326L1603	67,109
Total passed-through Mississippi Department of Education			<u>3,622,266</u>
Total U.S. Department of Agriculture			<u>3,622,266</u>
<u>U.S. Department of Commerce</u>			
Passed-through Appalachian Regional Committee:			
Economic development support for planning organizations	11.302	Not Available	11,129
Total U.S. Department of Commerce			<u>11,129</u>
<u>U.S. Department of Education</u>			
Passed-through Mississippi Department of Education:			
Title I - grants to local educational agencies	84.010	ES010A190024	1,780,216
Career and technical education - basic grants to states	84.048	VO48A190024	72,407
Twenty first century community learning centers	84.287	ES287C190024	25,986
Rural education	84.358	ES358B190024	2,288
Supporting effective instruction - state grants	84.367	ES367A190023	291,475
Student support and academic enrichment program	84.424	ES424A190025	50,920
Total			<u>2,223,292</u>
Special education cluster:			
Special education - grants to states	84.027	H027A190108	1,319,752
Special education - preschool grants	84.173	H173A190113	36,947
Total special education cluster			<u>1,356,699</u>
Total passed-through Mississippi Department of Education			<u>3,579,991</u>
Total U.S. Department of Education			<u>3,579,991</u>
<u>U.S. Department of Health and Human Services</u>			
Passed-through Mississippi Department of Education:			
Medical assistance program	93.778	2005MS5ADM	41,088
Total passed-through Mississippi Department of Education			<u>41,088</u>
Total U.S. Department of Health and Human Services			<u>41,088</u>
<u>U.S. Department of Homeland Security</u>			
Passed-through Lee County:			
Hazard mitigation grant	97.039	Not Available	191,548
Total passed through Lee County			<u>191,548</u>
Total U.S. Department of Homeland Security			<u>191,548</u>
Total for All Federal Awards			<u>\$ 7,446,022</u>

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

LEE COUNTY SCHOOL DISTRICT
Notes to the Supplementary Information
For the Year Ended June 30, 2020

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the School District under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the School District.

(2) Summary of Significant Accounting Policies

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

(3) Indirect Cost Rate

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

(4) Noncash Awards

Donated commodities of \$247,914 are included in the National School Lunch Program.

(5) Other Items

As allowed by federal regulations, the school district elected to transfer program funds. The district expended \$70,431 from its Supporting Effective Instruction - State Grants CFDA # 84.367 on allowable activities of the Title I - Grants to Local Educational Agencies CFDA # 84.010. These amounts are reflected in the expenditures of Title I - Grants to Local Educational Agencies.

For each federal grant passed through the Mississippi Department of Education, the school district has elected to use the pass-through entity identifying number as provided by the Mississippi Department of Education for the most recent and significant grant year.

LEE COUNTY SCHOOL DISTRICT

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2020

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 49,915,611	39,443,377	1,504,025	3,589,352	5,378,857
Other	16,273,567	4,152,022	480,160	62,430	11,578,955
Total	66,189,178	43,595,399	1,984,185	3,651,782	16,957,812
Total number of students	6,650				
Cost per student	\$ 9,953	6,556	298	549	2,550

Notes to the schedule.

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.

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

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OTHER INFORMATION

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

	UNAUDITED			
	2020	2019*	2018*	2017*
Revenues				
Local sources	18,847,282	17,460,037	16,229,226	14,910,087
State sources	36,551,284	35,373,770	34,673,206	35,269,917
Federal sources	480,978	802,751	493,329	531,590
Total Revenues	<u>55,879,544</u>	<u>53,636,558</u>	<u>51,395,761</u>	<u>50,711,594</u>
Expenditures				
Instruction	34,611,917	33,289,708	32,646,815	31,762,268
Support services	17,582,168	16,925,238	16,995,634	17,101,715
Noninstructional services	1,185	59	0	0
Facilities acquisition and construction	0	702,558	88,359	42,487
Total Expenditures	<u>52,195,270</u>	<u>50,917,563</u>	<u>49,730,808</u>	<u>48,906,470</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,684,274</u>	<u>2,718,995</u>	<u>1,664,953</u>	<u>1,805,124</u>
Other Financing Sources (Uses)				
Insurance loss recoveries	3,136	44,364	31,056	133,731
Sale of transportation equipment	0	0	10,933	8,511
Sale of other property	30	88	0	3,120
Operating transfers in	33,318	69,463	708,314	155,537
Other financing sources	10,143	56	0	0
Operating transfers out	(440,910)	(742,207)	(400,541)	(454,966)
Other financing uses	0	(3,490)	0	0
Total Other Financing Sources (Uses)	<u>(394,283)</u>	<u>(631,726)</u>	<u>349,762</u>	<u>(154,067)</u>
Net Change in Fund Balances	<u>3,289,991</u>	<u>2,087,269</u>	<u>2,014,715</u>	<u>1,651,057</u>
Fund Balances:				
Beginning of period, as previously reported	10,775,837	8,679,364	6,664,649	4,963,121
Prior period adjustments	0	9,204	0	50,471
Fund Reclassification (GASB 84)	<u>95,465</u>	<u>0</u>	<u>0</u>	<u>0</u>
Beginning of period, as restated	<u>10,871,302</u>	<u>8,688,568</u>	<u>6,664,649</u>	<u>5,013,592</u>
End of period	<u>\$ 14,161,293</u>	<u>10,775,837</u>	<u>8,679,364</u>	<u>6,664,649</u>

* Source - Prior year audit reports.

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

	UNAUDITED			
	2020	2019*	2018*	2017*
Revenues				
Local sources	23,394,870	22,212,808	20,682,278	19,611,573
State sources	38,094,356	36,841,550	36,028,781	36,511,255
Federal sources	6,794,414	7,223,206	7,107,654	7,402,520
Total Revenues	68,283,640	66,277,564	63,818,713	63,525,348
Expenditures				
Instruction	38,488,312	37,196,114	36,255,910	35,570,155
Support services	20,518,647	20,032,545	19,044,442	19,720,790
Noninstructional services	3,358,861	3,668,730	3,744,564	3,914,080
Facilities acquisition and construction	390,769	702,558	88,359	266,645
Debt service				
Principal	2,936,000	2,804,000	2,710,000	1,888,528
Interest	489,709	531,496	592,154	720,359
Other	6,880	6,880	6,880	5,430
Total Expenditures	66,189,178	64,942,323	62,442,309	62,085,987
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,094,462	1,335,241	1,376,404	1,439,361
Other Financing Sources (Uses)				
Proceeds of general obligation bonds	15,000,000	0	0	0
Proceeds of refunding bonds	0	0	0	9,685,000
Proceeds of loans	861,750	791,000	724,000	690,000
Insurance loss recoveries	3,136	44,364	31,056	133,731
Sale of transportation equipment	0	0	10,933	8,511
Sale of other property	30	88	175	3,120
Operating transfers in	1,746,257	986,670	1,283,855	610,503
Payment held by QSCB escrow agent	240,000	0	238,500	0
Other financing sources	404,158	56	0	84,615
Operating transfers out	(1,746,257)	(986,670)	(1,283,855)	(610,503)
Payment to QSCB escrow agent	(240,000)	0	(238,500)	0
Payment to refunded bond escrow agent	0	0	0	(9,575,915)
Other financing uses	(151,075)	(3,490)	0	0
Total Other Financing Sources (Uses)	16,117,999	832,018	766,164	1,029,062
Net Change in Fund Balances	18,212,461	2,167,259	2,142,568	2,468,423
Fund Balances:				
Beginning of period, as previously reported	17,691,063	15,578,593	13,420,562	10,799,129
Prior period adjustments	0	0	0	122,818
Fund Reclassification (GASB 84)	95,465	0	0	0
Beginning of period, as restated	17,786,528	15,578,593	13,420,562	10,921,947
Increase (Decrease) in reserve for inventory	85,156	(54,789)	15,463	30,192
End of period	\$ 36,084,145	17,691,063	15,578,593	13,420,562

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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ST. CLAIR CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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

Independent Auditor's Report

Superintendent and School Board
Lee County School District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lee County School District, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Lee County School District's basic financial statements, and have issued my report thereon dated January 8, 2021.

Internal Control Over Financial Reporting

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

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness [2020-001].

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. I consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies [2020-002 and 2020-003].

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

Lee County School District's Response to Findings

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

Purpose of this Report

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

St. Clair CPA, PLLC

St. Clair CPA, PLLC

Carriere, MS

January 8, 2021



ST. CLAIR CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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

Independent Auditor's Report

Superintendent and School Board
Lee County School District

Report on Compliance for Each Major Federal Program

I have audited Lee County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lee County School District's major federal programs for the year ended June 30, 2020. Lee County School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In my opinion, Lee County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

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

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

St. Clair CPA, PLLC

St. Clair CPA, PLLC
Carriere, MS
January 8, 2021

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

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ST. CLAIR CPA, PLLC
CERTIFIED PUBLIC ACCOUNTANT

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

Superintendent and School Board
Lee County School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lee County School District as of and for the year ended June 30, 2020, which collectively comprise Lee County School District's basic financial statements and have issued my report thereon dated January 8, 2021. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

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

St. Clair CPA, PLLC

St. Clair CPA, PLLC

Carriere, MS

January 8, 2021

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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LEE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 7. | Federal program identified as major program: | |

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I – grants to local educational agencies
84.027 & 84.173	Special Education Cluster

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 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). | Yes |

Section II: Financial Statement Findings

Deficiency identified that is considered a material weakness.

Finding 2020-001

CRITERIA: A well designed system of accounting controls would limit the duties and responsibilities of the accountant.

CONDITION: There is a lack of segregation of duties with the accountant. The accountant prepares bank reconciliations, journal entries, has access to blank checks, has access to the vendor master file and has full access in the accounting software.

CAUSE: The cause of the condition is an inadequately designed system of accounting controls.

EFFECT: Failure to adequately segregate duties could result in errors or misappropriation of assets that would not be prevented or detected by management in a timely manner.

LEE COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

RECOMMENDATION: It is recommended that management limit the duties and responsibilities of the accountant to provide an adequate segregation of duties.

VIEWS OF RESPONSIBLE OFFICIALS: See Auditee's Corrective Action Plan.

Significant Deficiencies that are not considered to be material weaknesses.

Finding 2020-002

CRITERIA: To comply with school district policy, purchase orders should be issued for purchases greater than \$1,000. The purchase of goods or services should occur based on an approved purchase order. Yearbooks should be acquired using the request for proposal process.

CONDITION: The following conditions were noted when testing activity funds expenditures:

- Three (3) purchase orders were dated after the invoice date suggesting that the actual purchase occurred prior to the authority being granted by management.
- One (1) purchase for an amount greater than \$1,000 did not have an approval by the business manager as required by district policy.
- Yearbooks were acquired based on quotes rather than the request for proposal (RFP) process as required by state law.

CAUSE: The cause of the condition is the result of oversight and errors by school district staff.

EFFECT: The effect of the condition could result in the obligation of school funds without the proper approval of management.

RECOMMENDATION: It is recommended that purchase orders greater than \$1,000 be properly approved, that purchase orders be issued prior to the acquisition of goods and services and that the request for proposal (RFP) process be utilized for the acquisition of yearbooks.

VIEWS OF RESPONSIBLE OFFICIALS: See Auditee's Corrective Action Plan.

Finding 2020-003

CRITERIA: Annual observations and physical inventories are necessary to establish the existence of school district assets.

CONDITION: The testing of year-end physical inventory of school district assets revealed that an inventory had not been conducted at two (2) schools. The failure to conduct the inventory was the result of an absence of staff being available due to the COVID-19 pandemic.

CAUSE: The cause of the condition is an absence of year-end physical inventory procedures due to staffing limitations resulting from COVID-19.

EFFECT: The effect of the condition could result in loss of school district assets.

RECOMMENDATION: It is recommended that the physical inventories be conducted to support the existence of school district assets.

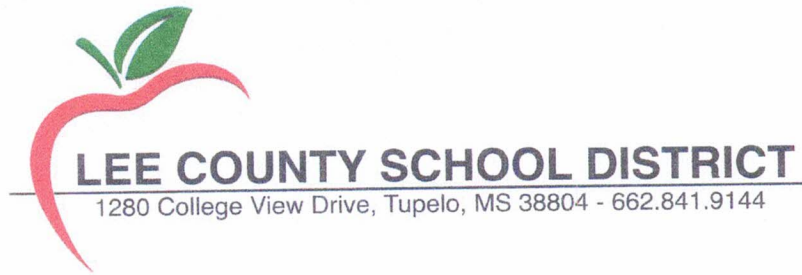
VIEWS OF RESPONSIBLE OFFICIALS: See Auditee's Corrective Action Plan.

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR YEAR AUDIT FINDINGS

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CORRECTIVE ACTION PLAN

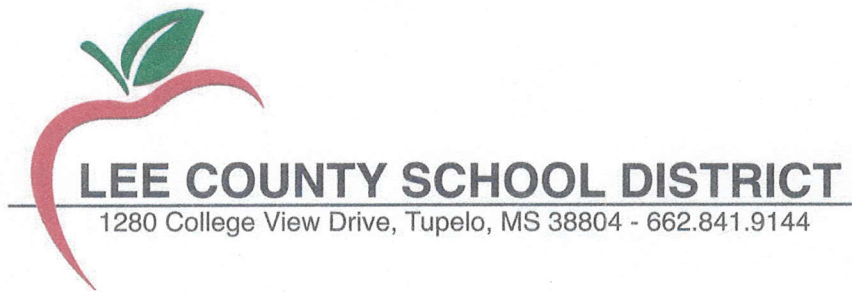
As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards (UG), the Lee County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2020:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2020-001	<p>a. Name of contact person responsible for corrective action: Michael Martin, Business Manager</p> <p>b. Corrective action planned: The Business Manager will improve internal controls, including adding additional review procedures, removing physical access to blank checks, removing rights in the accounting software, and the consideration of additional changes.</p> <p>c. Anticipated completion date: January 29, 2021</p>
2020-002	<p>a. Name of contact person responsible for corrective action: Michael Martin, Business Manager</p> <p>b. Corrective action planned: The Business Office will continue to emphasize the importance of following proper purchasing procedures, including Business Manager approval of purchases over \$1,000 and issuance of a purchase order prior to obligation of district funds. The district will use the state mandated RFP process for yearbooks beginning in the 2021-22 school year.</p> <p>c. Anticipated completion date: Because of the timing of the audit, the district cannot implement the RFP process for yearbooks until the 2021-22 school year. The remainder of the corrective actions will be implemented immediately.</p>
2020-003	<p>a. Name of contact person responsible for corrective action: Michael Martin, Business Manager</p> <p>b. Corrective action planned: The district will conduct inventories to support the existence of school district assets.</p> <p>c. Anticipated completion date: June 30, 2021</p>

Sincerely,

Superintendent of Education

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost principles, and Audit Requirements for Federal Awards (UG), the Lee County School District has prepared and hereby submits the following summary schedule for prior audit findings for the year ended June 30, 2020:

<u>Finding</u>	<u>Status</u>
2019 - 001	Corrected

Sincerely,

Superintendent of Education

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