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Smith County School District

Audited Financial Statements
For the Year Ended June 30, 2020

Fortenberry & Ballard, PC
Certified Public Accountants

Smith County School District

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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

Superintendent and School Board
Smith County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith 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 Smith County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith 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.

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 8 -15 and 52 -60, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare

the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2020, on our consideration of the Smith County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Smith 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 Smith County School District's internal control over financial reporting and compliance.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 4, 2020

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

**SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

The following discussion and analysis of Smith 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 \$697,349, including a prior period adjustment of \$74, which represents a 10% increase from fiscal year 2019. Total net position for 2019 decreased \$250,660, including a prior period adjustment of (\$111,313), which represents a 4% decrease from fiscal year 2018.
- General revenues amounted to \$20,033,737 and \$19,803,911, or 80% and 81% 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 \$4,965,580, or 20% of total revenues for 2020, and \$4,613,973, or 19% of total revenues for 2019.
- The District had \$24,302,042 and \$24,557,231 in expenses for fiscal years 2020 and 2019; only \$4,965,580 for 2020 and \$4,613,973 for 2019 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,033,737 for 2020 were adequate to provide for these programs. General revenues of \$19,803,911 for 2019 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$20,066,555 in revenues and \$18,568,600 in expenditures for 2020, and \$19,691,403 in revenues and \$18,044,200 in expenditures in 2019. The General Fund's fund balance increased by \$1,000,368 from 2019 to 2020, including a prior period adjustment of \$74, and increased by \$907,691 from 2018 to 2019, including a prior period adjustment of \$41.
- Capital assets, net of accumulated depreciation, increased by \$79,142 for 2020 and decreased by \$246,820 for 2019. The increase for 2020 was due primarily to the ongoing construction of school facilities and the addition of buildings and mobile equipment.
- Long-term debt, excluding the liability for compensated absences, decreased by \$180,647 for 2020 and decreased by \$66,771 for 2019. The decrease for 2020 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$7,812 for 2020 and increased by \$3,904 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.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

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

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

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

Fund Financial Statements

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

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

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

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

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

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

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.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$6,163,182 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	\$ 11,258,445	\$ 10,598,001	6.23 %
Restricted assets	9,544,376	9,387,094	1.68 %
Capital assets, net	14,733,121	14,653,979	0.54 %
Total assets	35,535,942	34,639,074	2.59 %
 Deferred outflows of resources	 2,907,677	 2,282,467	 27.39 %
 Current liabilities	180,370	206,546	(12.67) %
Long-term debt outstanding	5,835,753	6,008,588	(2.88) %
Net OPEB liability	2,441,069	2,258,152	8.10 %
Net pension liability	34,036,422	33,883,192	0.45 %
Total liabilities	42,493,614	42,356,478	0.32 %
 Deferred inflows of resources	 2,113,187	 1,425,594	 48.23 %
 Net position:			
Net investment in capital assets	10,170,084	10,513,498	(3.27) %
Restricted	10,613,400	10,267,310	3.37 %
Unrestricted	(26,946,666)	(27,641,339)	2.51 %
Total net position (deficit)	\$ (6,163,182)	\$ (6,860,531)	10.16 %

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)	\$ (26,946,666)
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	35,683,001
Unrestricted net position, exclusive of the net pension liability and net OPEB liability effect	\$ 8,736,335

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

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

- Increase in net capital assets in the amount of \$79,142.
- The principal retirement of \$180,647 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2020 and June 30, 2019 were \$24,999,317 and \$24,417,884, respectively. The total cost of all programs and services was \$24,302,042 for 2020 and \$24,557,231 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	\$ 784,936	\$ 987,193	(20.49) %
Operating grants and contributions	4,180,644	3,626,780	15.27 %
General revenues:			
Property taxes	5,508,094	5,427,428	1.49 %
Grants and contributions not restricted	13,549,184	13,416,594	0.99 %
Investment earnings	536,916	437,919	22.61 %
Sixteenth section sources	429,126	500,815	(14.31) %
Other	10,417	21,155	(50.76) %
Total revenues	24,999,317	24,417,884	2.38 %
Expenses:			
Instruction	12,491,120	11,990,113	4.18 %
Support services	7,231,932	7,502,877	(3.61) %
Non-instructional	1,446,324	1,516,651	(4.64) %
Sixteenth section	66,592	63,296	5.21 %
Pension expense	2,614,655	3,029,571	(13.70) %
OPEB expense	130,574	104,558	24.88 %
Interest on long-term liabilities	320,845	350,165	(8.37) %
Total expenses	24,302,042	24,557,231	(1.04) %
Increase (Decrease) in net position	697,275	(139,347)	600.39 %
Net Position (Deficit), July 1, as previously reported	(6,860,531)	(6,609,871)	(3.79) %
Prior Period Adjustment	74	(111,313)	100.07 %
Net Position (Deficit), July 1, as restated	(6,860,457)	(6,721,184)	(2.07) %
Net Position (Deficit), June 30	\$ (6,163,182)	\$ (6,860,531)	10.16 %

Governmental activities

The following table presents the cost of seven major District functional activities: instruction, support services, non-instructional, sixteenth section, 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.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2020	2019	
Instruction	\$ 12,491,120	\$ 11,990,113	4.18 %
Support services	7,231,932	7,502,877	(3.61) %
Non-instructional	1,446,324	1,516,651	(4.64) %
Sixteenth section	66,592	63,296	5.21 %
Pension Expense	2,614,655	3,029,571	(13.70) %
OPEB Expense	130,574	104,558	24.88 %
Interest on long-term liabilities	320,845	350,165	(8.37) %
Total expenses	\$ 24,302,042	\$ 24,557,231	(1.04) %

	Net (Expense) Revenue		Percentage Change
	2020	2019	
Instruction	\$ (10,188,944)	\$ (10,164,193)	(0.24) %
Support services	(6,024,567)	(6,474,328)	6.95 %
Non-instructional	(31,038)	197,118	(115.75) %
Sixteenth section	(25,839)	(17,561)	(47.14) %
Pension Expense	(2,614,655)	(3,029,571)	13.70 %
OPEB Expense	(130,574)	(104,558)	(24.88) %
Interest on long-term liabilities	(320,845)	(350,165)	8.37 %
Total net (expense) revenue	\$ (19,336,462)	\$ (19,943,258)	3.04 %

- Net cost of governmental activities (\$19,336,462 for 2020 and \$19,943,258 for 2019) was financed by general revenue, which is primarily made up of property taxes (\$5,508,094 for 2020 and \$5,427,428 for 2019) and state and federal revenues (\$13,549,184 for 2020 and \$13,416,594 for 2019). In addition, there was \$429,126 and \$500,815 in Sixteenth Section sources for 2020 and 2019, respectively.
- Investment earnings amounted to \$536,916 for 2020 and \$437,919 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 \$20,781,781, an increase of \$841,439, which includes a prior period adjustment of \$74 and an increase in inventory of \$14,045. \$7,820,397, or 38% 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

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020

fund balance of \$12,961,384, or 62% 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 \$1,000,368, which includes a prior period adjustment of \$74. The fund balance of Other Governmental Funds showed a decrease in the amount of \$329,467, which includes an increase in inventory of \$14,045. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
Sixteenth Section Principal Fund	\$	170,538

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. Budget revisions during the year were routine in nature and were insignificant when compared to the total revenues and expenditures of the 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 \$29,732,465, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of \$838,708 from 2019, due primarily to the ongoing construction of school facilities and the purchase of various items of mobile equipment. Total accumulated depreciation as of June 30, 2020, was \$14,999,344, and total depreciation expense for the year was \$790,933, resulting in total net capital assets of \$14,733,121.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Change</u>
Land	\$ 276,690	\$ 276,690	0.00 %
Construction in progress	132,588	-	N/A %
Buildings	11,575,002	11,581,518	(0.06) %
Building improvements	574,755	609,298	(5.67) %
Improvements other than buildings	474,314	520,525	(8.88) %
Mobile equipment	1,639,745	1,577,736	3.93 %
Furniture and equipment	60,027	88,212	(31.95) %
Total	\$ 14,733,121	\$ 14,653,979	0.54 %

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 \$5,835,753 in outstanding long-term debt, of which \$131,988 is due within one year. During the fiscal year, the District made principal payments totaling \$180,647 on outstanding long-term debt. The liability for compensated absences increased

**SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2020**

\$7,812 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Percentage Change</u>
Three mill notes payable	\$ 2,620,000	\$ 2,700,000	(2.96) %
Shortfall notes payable	38,106	138,753	(72.54) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	177,647	169,835	4.60 %
Total	<u>\$ 5,835,753</u>	<u>\$ 6,008,588</u>	(2.88) %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Smith County School District, P.O. Box 308, Raleigh, MS 39153.

FINANCIAL STATEMENTS

SMITH COUNTY SCHOOL DISTRICT

**Statement of Net Position
June 30, 2020**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 7,789,317
Cash with fiscal agents	229,463
Investments	2,694,364
Due from other governments	504,619
Accrued interest receivable	12,423
Inventories	28,259
Restricted assets	9,544,376
Capital assets, non-depreciable:	
Land	276,690
Construction in progress	132,588
Capital assets, net of accumulated depreciation:	
Buildings	11,575,002
Building improvements	574,755
Improvements other than buildings	474,314
Mobile equipment	1,639,745
Furniture and equipment	60,027
Total Assets	<u>35,535,942</u>
Deferred Outflows of Resources	
Deferred outflows - pensions	2,612,970
Deferred outflows - OPEB	294,707
Total Deferred Outflows of Resources	<u>2,907,677</u>
Liabilities	
Accounts payable and accrued liabilities	21,040
Interest payable on long-term liabilities	159,330
Long-term liabilities, due within one year:	
Capital related liabilities	85,000
Non-capital related liabilities	46,988
Net OPEB liability	94,810
Long-term liabilities, due beyond one year:	
Capital related liabilities	5,535,000
Non-capital related liabilities	168,765
Net pension liability	34,036,422
Net OPEB liability	2,346,259
Total Liabilities	<u>42,493,614</u>
Deferred Inflows of Resources	
Deferred inflows - pensions	1,907,825
Deferred inflows - OPEB	205,362
Total Deferred Inflows of Resources	<u>2,113,187</u>
Net Position	
Net investment in capital assets	10,170,084
Restricted for:	
Expendable:	
School-based activities	529,697
Debt service	1,568,958
Forestry improvements	52,359
Unemployment benefits	48,755
Non-expendable:	
Sixteenth section	8,413,631
Unrestricted	(26,946,666)
Total Net Position (Deficit)	<u>\$ (6,163,182)</u>

SMITH COUNTY SCHOOL DISTRICT

Statement of Activities

Exhibit B

For the Year Ended June 30, 2020

		Program Revenues		Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 12,491,120	\$ 428,226	\$ 1,873,950	\$ (10,188,944)
Support services	7,231,932	-	1,207,365	(6,024,567)
Non-instructional	1,446,324	315,957	1,099,329	(31,038)
Sixteenth section	66,592	40,753	-	(25,839)
Pension expense	2,614,655	-	-	(2,614,655)
OPEB expense	130,574	-	-	(130,574)
Interest on long-term liabilities	320,845	-	-	(320,845)
Total Governmental Activities	\$ 24,302,042	\$ 784,936	\$ 4,180,644	\$ (19,336,462)

General Revenues:

Taxes:

General purpose levies 4,992,575

Debt purpose levies 515,519

Unrestricted grants and contributions:

State 13,069,314

Federal 479,870

Unrestricted investment earnings 536,916

Sixteenth section sources 429,126

Other 10,417

Total General Revenues 20,033,737

Change in Net Position 697,275

Net Position (Deficit) - Beginning, as previously reported (6,860,531)

Prior Period Adjustments 74

Net Position (Deficit) - Beginning, as restated (6,860,457)

Net Position (Deficit) - Ending \$ (6,163,182)

SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2020

Exhibit C

	Major Funds			
	General	Sixteenth	Other	Total
	Fund	Section Principal	Governmental	Governmental
	Fund	Fund	Funds	Funds
Assets				
Cash and cash equivalents	\$ 6,787,419	\$ 722,671	\$ 2,058,861	\$ 9,568,951
Cash with fiscal agents	229,463	53,337	13,982	296,782
Investments	2,694,364	6,428,923	1,268,500	10,391,787
Due from other governments	254,893	-	243,463	498,356
Accrued interest receivable	-	-	12,423	12,423
Due from other funds	376,064	-	-	376,064
Advance to other funds	-	1,371,603	-	1,371,603
Inventories	-	-	28,259	28,259
Total assets	\$ 10,342,203	\$ 8,576,534	\$ 3,625,488	\$ 22,544,225
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 18,512	\$ -	\$ 2,528	\$ 21,040
Due to other funds	-	162,903	206,898	369,801
Advances from other funds	1,371,603	-	-	1,371,603
Total Liabilities	1,390,115	162,903	209,426	1,762,444
Fund Balances:				
Nonspendable:				
Inventory	-	-	28,259	28,259
Permanent fund principal	-	7,042,028	-	7,042,028
Advances	-	1,371,603	-	1,371,603
Restricted:				
Debt service	-	-	1,728,288	1,728,288
Capital projects	-	-	1,056,963	1,056,963
Forestry improvement purposes	-	-	52,359	52,359
Grant activities	-	-	501,438	501,438
Unemployment benefits	-	-	48,755	48,755
Assigned:				
School activities	234,108	-	-	234,108
Facility improvements	897,583	-	-	897,583
Unassigned	7,820,397	-	-	7,820,397
Total Fund Balances	8,952,088	8,413,631	3,416,062	20,781,781
Total Liabilities and Fund Balances	\$ 10,342,203	\$ 8,576,534	\$ 3,625,488	\$ 22,544,225

SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020**

Exhibit C-1

Total fund balances for governmental funds \$ 20,781,781

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

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

Land	\$ 276,690	
Construction in progress	132,588	
Buildings	21,120,200	
Building improvements	863,571	
Improvements other than buildings	1,155,264	
Mobile equipment	4,905,167	
Furniture and equipment	1,278,985	
Accumulated depreciation	<u>(14,999,344)</u>	14,733,121

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

Net pension liability	(34,036,422)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	2,612,970	
Deferred inflows of resources related to pensions	<u>(1,907,825)</u>	(33,331,277)

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

Net OPEB liability	(2,441,069)	
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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	294,707	
Deferred inflows of resources related to OPEB	<u>(205,362)</u>	(2,351,724)

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

Qualified school construction bonds payable	(3,000,000)	
Notes payable	(2,658,106)	
Compensated absences	(177,647)	
Accrued interest payable	<u>(159,330)</u>	(5,995,083)

Net Position of governmental activities		\$ <u>(6,163,182)</u>
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SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Exhibit D

For the Year Ended June 30, 2020

	Major Funds			
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Local sources	\$ 5,497,311	\$ -	\$ 876,950	\$ 6,374,261
State sources	13,563,472	-	684,363	14,247,835
Federal sources	485,743	-	2,996,250	3,481,993
Sixteenth section sources	520,029	333,441	41,758	895,228
Total Revenues	20,066,555	333,441	4,599,321	24,999,317
Expenditures:				
Instruction	11,749,243	-	2,000,294	13,749,537
Support services	6,606,883	-	1,208,895	7,815,778
Noninstructional services	-	-	1,515,191	1,515,191
Sixteenth section	10,805	-	55,787	66,592
Facilities acquisition and construction	-	-	520,944	520,944
Debt service:				
Principal	-	-	180,647	180,647
Interest	201,669	-	119,197	320,866
Other	-	-	2,442	2,442
Total Expenditures	18,568,600	-	5,603,397	24,171,997
Excess (Deficiency) of Revenues over (under) Expenditures	1,497,955	333,441	(1,004,076)	827,320
Other Financing Sources (Uses):				
Payments held by escrow agent	-	-	292,000	292,000
Payment to QSCB debt escrow agent	-	-	(292,000)	(292,000)
Operating transfers in	210,906	-	1,235,358	1,446,264
Operating transfers out	(708,567)	(162,903)	(574,794)	(1,446,264)
Total Other Financing Sources (Uses)	(497,661)	(162,903)	660,564	-
Net Change in Fund Balances	1,000,294	170,538	(343,512)	827,320
Fund Balances:				
July 1, 2019, as previously reported	7,951,720	8,243,093	3,745,529	19,940,342
Prior period adjustments	74	-	-	74
July 1, 2019, as restated	7,951,794	8,243,093	3,745,529	19,940,416
Increase (Decrease) in inventory	-	-	14,045	14,045
June 30, 2020	\$ 8,952,088	\$ 8,413,631	\$ 3,416,062	\$ 20,781,781

SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ 827,320

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

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

Capital outlay	\$ 870,392	
Depreciation expense	<u>(790,933)</u>	79,459

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (317)

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

Payments of debt principal	180,647	
Accrued interest payable	<u>2,463</u>	183,110

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

Pension expense	(2,614,655)	
Contributions subsequent to the measurement date	<u>2,257,761</u>	(356,894)

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

OPEB expense	(130,574)	
Contributions subsequent to the measurement date	<u>88,938</u>	(41,636)

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

Change in compensated absences	(7,812)	
Change in inventory	<u>14,045</u>	6,233

Change in Net Position of governmental activities	\$	<u>697,275</u>
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SMITH COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Net Position
June 30, 2020

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ -	\$ 885,284
Investments	3,081	-
Total Assets	<u>3,081</u>	<u>\$ 885,284</u>
Liabilities		
Accounts payable and accrued liabilities	-	\$ 783,569
Due to other funds	-	6,263
Due to student clubs	-	95,452
Total Liabilities	<u>-</u>	<u>\$ 885,284</u>
Net Position		
Held in trust	<u>3,081</u>	
Total Net Position	<u>\$ 3,081</u>	

SMITH COUNTY SCHOOL DISTRICT

Fiduciary Funds

**Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2020**

Exhibit F

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ -
Contributions and donations from private sources	-
Total Additions	-
Deductions	
Scholarships awarded	-
Total Deductions	-
Change in Net Position	-
Net Position	
July 1, 2019	3,081
June 30, 2020	\$ 3,081

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2020

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

B. Government-wide and Fund Financial Statements

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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

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

The school district reports the following major governmental funds:

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

Sixteenth Section Principal Fund - This is a permanent fund used to account for the nonexpendable resources generated from the sale of non-renewable resources on sixteenth section lands.

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

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

The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund serves as a clearing fund for payroll type transactions.

Student Club Funds - These funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Accounts Payable Clearing Fund - This fund serves as a clearing fund for non-payroll type transactions.

Evon Ford Trust Fund - This fund is used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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.

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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

FIDUCIARY FUNDS

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

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

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

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

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

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

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

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

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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 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-

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

The following schedule details the capitalization thresholds:

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

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 school district has incurred deferred outflows which are presented as deferred outflows related to pensions and deferred outflows related to OPEB. See Note 14 for further details.

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 school district has incurred deferred inflows which are presented as deferred inflows related to pensions and deferred inflows related to OPEB. See Note 14 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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. Currently there is no committed fund balance for this school district.

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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 District to maintain a minimum fund balance in the General Fund that is not less than 7% of total revenues in the 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.

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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 and fiduciary funds was \$10,740,635 (which includes \$1,171,684 of certificates of deposit with original maturities beyond three months and reported on the Balance Sheet as investments) and \$888,365 (which includes \$3,081 of certificates of deposit with original maturities beyond three months and reported on the Statement of Fiduciary Net Position as investments), respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2020, none of the district's bank balance of \$11,541,662 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$296,782.

Investments

As of June 30, 2020, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
U.S. Treasury SLGS Deposit	Not Rated	1 to 10 years	\$ 1,268,500
U.S. Treasury Note	AAA	Less than 1 year	1,339,374
Federal Farm Credit Bank	AAA/AA+	Less than 1 year	352,190
Federal Home Loan Bank	AAA/AA+	Less than 1 year	557,427
Federal Home Loan Bank	AAA/AA+	1 to 5 years	151,194
Federal Home Loan Mortgage	AAA/AA+	Less than 1 year	739,334
Federal National Mortgage Assoc.	AAA/AA+	Less than 1 year	400,431
Corporate bonds	A3	1 to 5 years	506,807
Certificates of deposit	Not Rated	1 to 5 years	5,076,530
Total			<u>\$ 10,391,787</u>

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

The district has the following recurring fair value measurements as of June 30, 2020:

- Level 1 type of investments of \$10,391,787 are valued using quoted market prices (Level 1 inputs)

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2020, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2020, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Trustmark National Bank	\$ 4,457,582	43%
Community Bank	618,948	6%
Total	<u>5,076,530</u>	<u>49%</u>

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Sixteenth Section Principal Fund	\$ 162,903
	Other governmental funds	206,898
	Fiduciary funds	<u>6,263</u>
Total		<u>\$ 376,064</u>

The purpose of the more significant inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments. An inter-fund loan was also reported to show expendable sixteenth section revenues due from the Sixteenth Section Principal Fund to the General Fund.

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	\$ 1,371,603
Total		<u>\$ 1,371,603</u>

Sixteenth section principal loans payable

The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances. The interest rate on the sixteenth section principal loans payable as of June 30, 2020 is four percent.

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

Year Ending June 30	Principal	Interest	Total
2021	\$ 158,733	\$ 54,865	\$ 213,598
2022	138,119	48,515	186,634
2023	115,620	42,990	158,610
2024	52,435	38,365	90,800
2025	54,532	36,268	90,800
2026 - 2030	307,178	146,822	454,000
2031 - 2035	373,729	80,271	454,000
2036 - 2037	171,257	10,343	181,600
Total	<u>\$ 1,371,603</u>	<u>\$ 458,439</u>	<u>\$ 1,830,042</u>

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 708,567
Sixteenth Section Principal Fund	General Fund	162,903
Other governmental funds	General Fund	48,003
	Other governmental funds	526,791
Total		<u>\$ 1,446,264</u>

The transfer out of the General Fund was primarily for the purpose of funding the vocational program and other programs in the Other Governmental Funds. The transfer out of the Sixteenth Section Principal Fund was for expendable sixteenth section sources transferred to the General Fund. The transfers from Other Governmental Funds to the General Fund were for indirect costs. The transfers between Other Governmental Funds were primarily for the purpose of funding various capital project funds from debt proceeds in the 3 Mill Loan Construction Fund, which is included in the Other Governmental Funds.

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

Note 4 – Restricted Assets

The restricted assets represent the cash balance, cash with fiscal agent balance, and investment balance, totaling \$722,671, \$53,337, and \$6,428,923, respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent the cash with fiscal agent balance and investment balance, totaling \$13,982 and \$1,268,500, respectively, of the QSCB Debt Retirement Fund. The restricted assets also represent the cash balance totaling \$1,056,963 of the 3 Mill Loan Construction Fund resulting from the unspent proceeds of long-term debt.

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	\$ 276,690	\$	\$	276,690
Construction-in-progress		132,588		132,588
Total non-depreciable capital assets	276,690	132,588	-	409,278
<u>Depreciable capital assets:</u>				
Buildings	20,731,844	388,356		21,120,200
Building improvements	863,571			863,571
Improvements other than buildings	1,155,264			1,155,264
Mobile equipment	4,555,719	349,448		4,905,167
Furniture and equipment	1,310,669		31,684	1,278,985
Total depreciable capital assets	28,617,067	737,804	31,684	29,323,187
<u>Less accumulated depreciation for:</u>				
Buildings	9,150,326	394,872		9,545,198
Building improvements	254,273	34,543		288,816
Improvements other than buildings	634,739	46,211		680,950
Mobile equipment	2,977,983	287,439		3,265,422
Furniture and equipment	1,222,457	27,868	31,367	1,218,958
Total accumulated depreciation	14,239,778	790,933	31,367	14,999,344
Total depreciable capital assets, net	14,377,289	(53,129)	317	14,323,843
Governmental activities capital assets, net	\$ 14,653,979	\$ 79,459	\$ 317	\$ 14,733,121

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 398,752
Support services	358,270
Non-instructional	33,911
Total depreciation expense	\$ 790,933

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

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

	Spent to June 30, 2020	Remaining Commitment
Governmental Activities:		
New Baseball Field - Taylorsville	\$ 132,588	\$ 2,010,212

Construction projects included in governmental activities are funded with proceeds from long-term debt in the 3 Mill Construction Fund (Capital Projects Fund).

Note 6 – Long-term Liabilities

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

	Balance 7/1/2019	Additions	Reductions	Balance 6/30/2020	Amounts due within one year
A. Three mill notes payable	\$ 2,700,000	\$	\$ 80,000	\$ 2,620,000	\$ 85,000
B. Shortfall notes payable	138,753		100,647	38,106	38,106
C. Qualified school construction bonds payable	3,000,000			3,000,000	-
D. Compensated absences payable	169,835	7,812		177,647	8,882
Total	\$ 6,008,588	\$ 7,812	\$ 180,647	\$ 5,835,753	\$ 131,988

A. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Three mill note, Series 2018	2.30%	8/29/2017	5/1/2027	\$ 560,000	\$ 405,000
2. Three mill note, Series 2018	3.60%	5/1/2018	6/1/2030	2,275,000	2,215,000
Total				\$ 2,835,000	\$ 2,620,000

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
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1. Three mill notes payable issued on August 29, 2017:

Year Ending June 30	Principal	Interest	Total
2021	\$ 50,000	\$ 9,315	\$ 59,315
2022	50,000	8,165	58,165
2023	50,000	7,015	57,015
2024	60,000	5,865	65,865
2025	55,000	4,485	59,485
2026 – 2027	140,000	4,830	144,830
Total	<u>\$ 405,000</u>	<u>\$ 39,675</u>	<u>\$ 444,675</u>

This debt will be retired from the Debt Service 3 Mill Note Fund.

2. Three mill notes payable issued on May 1, 2018:

Year Ending June 30	Principal	Interest	Total
2021	\$ 35,000	\$ 79,740	\$ 114,740
2022	40,000	78,480	118,480
2023	40,000	77,040	117,040
2024	35,000	75,600	110,600
2025	40,000	74,340	114,340
2026 – 2030	2,025,000	231,120	2,256,120
Total	<u>\$ 2,215,000</u>	<u>\$ 616,320</u>	<u>\$ 2,831,320</u>

This debt will be retired from the Debt Service 3 Mill Note Fund.

Total three mill notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
2021	\$ 85,000	\$ 89,055	\$ 174,055
2022	90,000	86,645	176,645
2023	90,000	84,055	174,055
2024	95,000	81,465	176,465
2025	95,000	78,825	173,825
2026 – 2030	2,165,000	235,950	2,400,950
Total	<u>\$ 2,620,000</u>	<u>\$ 655,995</u>	<u>\$ 3,275,995</u>

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

B. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall note, Series 2017	2.69%	8/4/2017	8/4/2020	\$ 111,354	\$ 38,106
Total				<u>\$ 111,354</u>	<u>\$ 38,106</u>

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

Year Ending June 30	Principal	Interest	Total
2021	\$ 38,106	\$ 1,028	\$ 39,134

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

C. 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, Series 2010A, 2010B, and 2010C	5.50%	12/8/2010	8/1/2025	\$ 3,000,000	\$ 3,000,000

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

Year Ending June 30	Principal	Interest	Total
2021	\$ -	\$ 165,000	\$ 165,000
2022	-	165,000	165,000
2023	-	165,000	165,000
2024	-	165,000	165,000
2025	-	165,000	165,000
2026	3,000,000	165,000	3,165,000
Total	<u>\$ 3,000,000</u>	<u>\$ 990,000</u>	<u>\$ 3,990,000</u>

This debt will be retired from the QSCB Issue Retirement Fund.

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

D. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report is available at www.pers.ms.gov.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each 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 \$2,257,761, \$1,984,605 and \$2,048,900, 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 \$34,036,422 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

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 0.193477 percent, which was based on a measurement date of June 30, 2019. This was a decrease of 0.010234 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 \$2,614,655. At June 30, 2020 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,199	\$ 38,862
Net difference between projected and actual earnings on pension plan investments		421,442
Changes of assumptions	334,010	
Changes in proportion and differences between District contributions and proportionate share of contributions		1,447,521
District contributions subsequent to the measurement date	2,257,761	
Total	\$ <u>2,612,970</u>	\$ <u>1,907,825</u>

\$2,257,761 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	\$ (402,851)
2022	(1,049,762)
2023	(255,400)
2024	<u>155,397</u>
Total	\$ <u>(1,552,616)</u>

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

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Notes to the Financial Statements For Year Ended June 30, 2020

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	100	%		

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 44,742,055	\$ 34,036,422	\$ 25,199,882

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

Note 8 – 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 \$88,938 for the 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 \$2,441,069 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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

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 0.28767839 percent. This was a decrease of 0.00424227 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 \$130,574. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 3,691	\$ 34,941
Changes of assumptions	181,988	126,581
Net difference between projected and actual earnings on OPEB plan investments	46	
Changes in proportion and differences between District contributions and proportionate share of contributions	20,044	43,840
District contributions subsequent to the measurement date	88,938	
Total	\$ <u>294,707</u>	\$ <u>205,362</u>

\$88,938 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	\$ (8,668)
2022	(8,668)
2023	(8,668)
2024	(1,465)
2025	19,180
Thereafter	<u>8,696</u>
Total	\$ <u>407</u>

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
Municipal Bond Index Rate	
Measurement Date	3.50%
Prior Measurement Date	3.89%

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

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	\$ 2,711,602	\$ 2,441,069	\$ 2,209,603

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

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates Current	1% Increase
Net OPEB liability	\$ 2,262,027	\$ 2,441,069	\$ 2,643,894

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 9 – Sixteenth Section Lands

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

Year Ending June 30	Amount
2021	\$ 498,179
2022	464,361
2023	460,502
2024	449,087
2025	443,205
2026 – 2030	1,953,659
2031 – 2035	1,068,289
2036 – 2040	569,238
2041 – 2045	357,221
Thereafter	102,560
Total	<u>\$ 6,366,301</u>

Note 10 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
To correct prior year revenues at the governmental fund level	<u>\$ 74</u>

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2020

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

Fund	Explanation	Amount
General Fund	To correct prior year revenues	<u>\$ 74</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. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 56 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

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 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.

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2020, the subsidy payments amounted to \$140,700.

The school district makes equal annual payments into a sinking fund which is used to pay off 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 \$1,294,905, which includes accrued income of \$12,423. 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	\$ 292,000
2022	292,000
2023	292,000
2024	292,000
2025	292,500
2026	293,000
Total	<u>\$ 1,753,500</u>

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position (deficit) amount of (\$26,946,666) 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 pensions in the amount of \$2,257,761 resulting from the school district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. The \$355,209 balance of deferred outflow of resources related to pensions at June 30, 2020, will be recognized as an expense and will decrease the unrestricted net position over the next 4 years.

The unrestricted net position (deficit) amount of (\$26,946,666) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$1,907,825 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 3 years.

The unrestricted net position (deficit) amount of (\$26,946,666) 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 \$88,938 resulting from the school district contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. The \$205,769 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 (deficit) amount of (\$26,946,666) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from OPEB. The \$205,362 balance of deferred inflow of resources related to OPEB at June 30, 2020, will be recognized as revenue and will increase the

SMITH COUNTY SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2020

unrestricted net position over the next 6 years.

Note 15 – Other Commitments

Commitments under construction contracts are described in Note 5.

Note 16 – Other Matters

The onset of the recent COVID-19 pandemic has resulted in a volatile investment market currently. The resulting impact of this pandemic upon the operation of the District is uncertain at this time. We are uncertain of what ultimate impact it will have on the operations of the school district.

Note 17 – 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 Smith County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

The school district issued a \$69,364 shortfall note on August 12, 2020. It will mature on August 27, 2023 with a 2.29% interest rate.

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
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	\$ 5,868,974	\$ 5,497,311	\$ 5,497,311	\$ (371,663)	\$ -
State sources	13,488,751	13,563,472	13,563,472	74,721	-
Federal sources	144,650	485,743	485,743	341,093	-
Sixteenth section sources	212,000	520,029	520,029	308,029	-
Total Revenues	19,714,375	20,066,555	20,066,555	352,180	-
Expenditures:					
Instruction	12,261,924	11,749,243	11,749,243	512,681	-
Support services	6,993,961	6,606,883	6,606,883	387,078	-
Sixteenth section	15,100	10,805	10,805	4,295	-
Debt service:					
Principal	153,000	-	-	153,000	-
Interest	201,700	201,669	201,669	31	-
Other	5,000	-	-	5,000	-
Total Expenditures	19,630,685	18,568,600	18,568,600	1,062,085	-
Excess (Deficiency) of Revenues over (under) Expenditures	83,690	1,497,955	1,497,955	1,414,265	-
Other Financing Sources (Uses):					
Operating transfers in	3,091,209	2,884,704	210,906	(206,505)	(2,673,798)
Operating transfers out	(3,589,156)	(3,382,365)	(708,567)	206,791	2,673,798
Total Other Financing Sources (Uses)	(497,947)	(497,661)	(497,661)	286	-
Net Change in Fund Balances	(414,257)	1,000,294	1,000,294	1,414,551	-
Fund Balances:					
July 1, 2019, as previously reported	14,636,835	8,137,720	7,951,720	(6,499,115)	(186,000)
Prior period adjustments	-	(185,926)	74	(185,926)	186,000
July 1, 2019, as restated	14,636,835	7,951,794	7,951,794	(6,685,041)	-
June 30, 2020	\$ 14,222,578	\$ 8,952,088	\$ 8,952,088	\$ (5,270,490)	\$ -

Smith 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 proportionate share of the net pension liability	\$ 34,036,422	33,883,192	34,115,028	37,056,822	32,485,973	25,190,828
District's proportion of the net pension liability	0.193477%	0.203711%	0.205223%	0.207456%	0.210156%	0.207534%
District's covered payroll	12,600,667	13,008,889	13,165,156	13,271,435	13,129,340	12,681,384
District's proportionate share of the net pension liability as a percentage of its covered payroll	270.1160%	260.4618%	259.1312%	279.2224%	247.4304%	198.6441%
Plan fiduciary net position as a percentage of the total pension liability	61.588%	62.535%	61.490%	57.468%	61.704%	67.208%

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 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.

Smith County School District
Schedule of District Contributions
PERS
Last 10 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 2,257,761	1,984,605	2,048,900	2,073,512	2,090,251	2,067,871
Contributions in relation to the contractually required contribution	2,257,761	1,984,605	2,048,900	2,073,512	2,090,251	2,067,871
Contribution deficiency (excess)	\$ <u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
District's covered payroll	14,334,990	12,600,667	13,008,889	13,165,156	13,271,435	13,129,340
Contributions as a percentage of covered payroll	15.75%	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 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

Smith County School District

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

OPEB

Last 10 Fiscal Years*

	2020	2019	2018
District's proportionate share of the net OPEB liability	\$ 2,441,069	2,258,152	2,262,693
District's proportion of the net OPEB liability	0.28767839%	0.29192066%	0.28838473%
District's covered - employee payroll	13,174,019	13,203,373	12,956,333
District's proportionate share of the net OPEB liability as a percentage of its covered - employee payroll	18.53%	17.10%	17.46%
Plan fiduciary net position as a percentage of the total OPEB liability	0.12%	0.13%	0.00%

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.

Smith County School District
Schedule of District Contributions
OPEB
Last 10 Fiscal Years

	2020	2019	2018
Actuarially determined contribution	\$ 88,938	\$ 97,846	\$ 96,462
Contributions in relation to the actuarially determined contribution	88,938	97,846	96,462
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered - employee payroll	14,334,990	12,600,667	13,008,889
Contributions as a percentage of covered - employee payroll	0.62%	0.78%	0.74%

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 75 was implemented in 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).

Smith 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%.

Smith County School District

Notes to the Required Supplementary Information For the Year Ended June 30, 2020

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%.

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

Smith County School District

Notes to the Required Supplementary Information (Continued) For the Year Ended June 30, 2020

OPEB Schedules

(1) Changes of assumptions

2017:

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

2018:

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

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 calculation 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%

Smith County School District

Notes to the Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Initial health care cost trend rates	
Medicare Supplement Claims	
Pre-Medicare	7.25%

Ultimate health care cost trend rates	
Medicare Supplement Claims	
Pre-Medicare	4.75%

Year of ultimate trend rates	
Medicare Supplement Claims	
Pre-Medicare	2028

Long-term investment rate of return, net of	
OPEB plan investment expense,	
including price inflation	3.89%

SUPPLEMENTARY INFORMATION

SMITH COUNTY SCHOOL DISTRICT

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/ Pass-through Grantor/ Program Title/	Pass-through Entity Identifying Number	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U. S. Department of Agriculture</u>			
Passed-through the Mississippi Department of Education:			
Child Nutrition Cluster:			
School Breakfast Program	205MS326N1099	10.553	\$ 290,442
National School Lunch Program	205MS326N1099	10.555	887,866
Total Child Nutrition Cluster			1,178,308
Total passed-through the Mississippi Department of Education			1,178,308
Passed-through Smith County, Mississippi			
Schools and Roads - Grants to States	N/A	10.665	295,606
Total passed-through Smith County, Mississippi			295,606
Total U.S. Department of Agriculture			1,473,914
<u>U. S. Department of Education</u>			
Passed-through the Mississippi Department of Education:			
Title I Grants to Local Educational Agencies	ES010A190024	84.010	923,774
Career and Technical Education - Basic Grants to States	V048A190024	84.048	36,613
Rural Education	ES3588190024	84.358	34,726
Supporting Effective Instruction State Grants	ES367A190023	84.367	101,684
School Improvement Grants	ES377A170025	84.377	95,566
Student Support and Academic Enrichment Program	S424A190025	84.424	17,927
Subtotal			1,210,290
Special Education Cluster:			
Special Education - Grants to States	H027A180108	84.027	600,316
Special Education - Preschool Grants	H173A180113	84.173	7,329
Total Special Education Cluster			607,645
Total passed-through the Mississippi Department of Education			1,817,935
Total U.S. Department of Education			1,817,935
<u>U. S. Department of Health and Human Services</u>			
Passed-through the Mississippi Department of Education:			
Medical Assistance Program	2005MS5ADM	93.778	5,873
Total passed-through the Mississippi Department of Education			5,873
Total U.S. Department of Health and Human Services			5,873
<u>U. S. Department of Social Security Administration</u>			
Passed-through the Mississippi Department of Education:			
Social Security Disability Insurance	04-20-04MSDI00	96.001	364
Total passed-through the Mississippi Department of Education			364
Total U.S. Department of Social Security Administration			364
Total for All Federal Awards			\$ 3,298,086

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

Smith County School District

Notes to the Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2020

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the 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 presented on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the financial statements; however, the expenditures include transfers out. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(3) Indirect Cost Rate

The school district did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

(4) Other Items

Donated commodities of \$120,495 are included in the National School Lunch Program.

SMITH 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 \$	18,110,474	14,103,231	865,299	1,341,303	1,800,641
Other	6,061,523	1,450,074	176,554	12,559	4,422,336
Total \$	<u>24,171,997</u>	<u>15,553,305</u>	<u>1,041,853</u>	<u>1,353,862</u>	<u>6,222,977</u>
Total number of students *	<u>2,577</u>				
Cost per student \$	<u>9,380</u>	<u>6,035</u>	<u>404</u>	<u>525</u>	<u>2,415</u>

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

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

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

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

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

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

OTHER INFORMATION

SMITH 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	\$ 5,497,311	5,595,150	5,798,786	5,515,192
State sources	13,563,472	13,227,917	13,176,279	12,939,898
Federal sources	485,743	334,618	227,810	188,125
Sixteenth section sources	520,029	533,718	425,603	351,464
Total Revenues	20,066,555	19,691,403	19,628,478	18,994,679
Expenditures:				
Instruction	11,749,243	11,444,463	11,710,437	11,715,471
Support services	6,606,883	6,375,098	6,149,888	6,467,179
Sixteenth section	10,805	18,150	80	8,700
Debt service:				
Interest	201,669	206,489	212,134	166,008
Other			1,313	954
Total Expenditures	18,568,600	18,044,200	18,073,852	18,358,312
Excess (Deficiency) of Revenues over (under) Expenditures	1,497,955	1,647,203	1,554,626	636,367
Other Financing Sources (Uses):				
Bonds and notes issued				186,000
Insurance recovery				11,111
Payment to QSCB debt escrow agent		(213,246)		
Sale of transportation equipment			3325	5,368
Sale of other property			756	875
Operating transfers in	210,906	182,873	181,050	161,562
Other financing sources			11,163	469
Operating transfers out	(708,567)	(708,795)	(1,473,565)	(675,532)
Other financing uses		(385)		
Total Other Financing Sources (Uses)	(497,661)	(739,553)	(1,277,271)	(310,147)
Net Change in Fund Balances	1,000,294	907,650	277,355	326,220
Fund Balances:				
Beginning of period, as previously reported	7,951,720	7,044,029	6,766,674	6,439,710
Prior period adjustment	74	41		744
Beginning of period, as restated	7,951,794	7,044,070	6,766,674	6,440,454
End of period	\$ 8,952,088	7,951,720	7,044,029	6,766,674

*SOURCE - PRIOR YEAR AUDIT REPORTS

SMITH 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	\$ 6,374,261	6,433,909	6,514,217	6,067,234
State sources	14,247,835	13,900,666	13,809,765	14,129,702
Federal sources	3,481,993	3,142,708	3,212,873	3,130,863
Sixteenth section sources	895,228	940,601	571,820	516,699
Total Revenues	24,999,317	24,417,884	24,108,675	23,844,498
Expenditures:				
Instruction	13,749,537	13,060,888	13,555,162	13,670,904
Support services	7,815,778	7,897,460	8,530,344	7,840,778
Noninstructional services	1,515,191	1,617,735	1,644,217	1,655,783
Sixteenth section	66,592	63,296	86,181	47,544
Facilities acquisition and construction	520,944	259,322	302,947	37,164
Debt service:				
Principal	180,647	178,125	115,476	96,627
Interest	320,866	331,488	250,791	193,600
Other	2,442	25,335	10,316	3,553
Total Expenditures	24,171,997	23,433,649	24,495,434	23,545,953
Excess (Deficiency) of Revenues over (under) Expenditures	827,320	984,235	(386,759)	298,545
Other Financing Sources (Uses):				
Bonds and notes issued			2,835,000	186,000
Insurance recovery				11,111
Payment to QSCB escrow agent	292,000	292,000	137,121	134,079
Payment to QSCB debt escrow agent	(292,000)	(292,000)	(137,121)	(134,079)
Sale of transportation equipment			3,325	5,368
Sale of other property			756	875
Operating transfers in	1,446,264	1,303,557	1,973,686	837,094
Other financing sources			11,163	469
Operating transfers out	(1,446,264)	(1,303,557)	(1,973,686)	(837,094)
Other financing uses		(385)		
Total Other Financing Sources (Uses)	-	(385)	2,850,244	203,823
Net Change in Fund Balances	827,320	983,850	2,463,485	502,368
Fund Balances:				
Beginning of period, as previously reported	19,940,342	18,962,029	16,486,039	16,008,162
Prior period adjustment	74	41		744
Beginning of period, as restated	19,940,416	18,962,070	16,486,039	16,008,906
Increase (decrease) in inventory	14,045	(5,578)	12,505	(25,235)
End of period	\$ 20,781,781	19,940,342	18,962,029	16,486,039

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Smith County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Smith 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 Smith County School District's basic financial statements, and have issued our report thereon dated December 4, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the school district's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 4, 2020

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Smith County School District

Report on Compliance for Each Major Federal Program

We have audited Smith 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 Smith County School District's major federal program for the year ended June 30, 2020. The Smith County School District's major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Smith 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 its major federal program for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Smith County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Smith County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
December 4, 2020

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Smith County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Smith County School District as of and for the year ended June 30, 2020, which collectively comprise Smith County School District's basic financial statements and have issued our report thereon dated December 4, 2020. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Finding 1

Criteria:

Section 25-11-127(4), Miss. Code Ann. (1972) states, “Notice shall be given in writing to the executive director, setting forth the facts upon which the employment is being made, and notice shall be given within five (5) days from the date of employment and also from the date of termination of the employment.”

PERS Board Regulation 34, Section 105, states “To lawfully employ a PERS service retiree under Section 103, the employer must notify PERS in writing of the terms of the eligible employment within five (5) days from the date of employment and also from the date of termination on a form prescribed by the Board. Failure by the employer to timely notify PERS may result in the assessment of a \$300 penalty per occurrence payable by the employer.”

Condition:

During our testing of seven (7) retired and rehired service employees’ form 4Bs, we noted two (2) were not filed within five (5) days of rehire date.

Cause:

The school district did not have a system in place to ensure compliance with Section 25-11-127(4), Miss. Code Ann. (1972), and PERS Board Regulation 34, Section 105.

Effect:

Failure to file Form 4B as required by PERS and comply with 25-11-127(4) could result in overpayment of a retiree and the school district being assessed penalties by PERS.

Recommendation:

The Payroll Clerk should strengthen controls to ensure compliance with Section 25-11-127(4), Miss. Code Ann. (1972), and PERS Board Regulation 34, Section 105, by properly completing and filing the Form 4Bs within five (5) days of rehire and paying employees properly.

Response:

Smith County School District will review its controls regarding proper compliance with filing PERS Form 4Bs to ensure all forms are filed within five (5) days of rehire. An increased emphasis will be placed on getting Form 4Bs into hands of employees before they are rehired each year to provide adequate time to comply with state statute.

Finding 2

Criteria:

Section 27-105-5, Miss. Code Ann. (1972) requires a public depositor to file an annual report with the State Treasurer that contains the name of the public depositor, its tax identification number and provide a list of all bank accounts that held by that depositor within 30 days of fiscal year end.

Condition:

The school district failed to file an annual report with the State Treasurer within 30 days of fiscal year end.

Cause:

Cause unknown.

Effect:

The district was not in compliance with the Section 27-105-5, Miss. Code Ann. (1972).

Recommendation:

We recommend the district comply with Section 27-105-5, Miss. Code Ann. (1972) which requires a public depositor to file an annual report with the State Treasurer that contains the name of the public depositor, its tax identification number and provide a list of all bank accounts that are held by that depositor within 30 days of fiscal year end.

Response:

The Business Manager will ensure that the annual depositor report due to the State Treasurer is filed within the 30-day time frame, at the conclusion of the fiscal year.

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

The Smith County School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 4, 2020

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Smith 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: Unmodified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

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

CFDA Numbers:	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000.
9. Auditee qualified as low-risk auditee? Yes.
10. Prior fiscal year audit findings(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2 CFR 200.511(b). No.

Section II: Financial Statements Findings

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

Section III: Federal Awards Findings and Questioned Costs

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