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Smith County School District

Audited Financial Statements
For the Year Ended June 30, 2014

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, 2014, 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.

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, 2014, 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 and budgetary comparison information on pages 8 to 15 and 47 to 50 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 the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), 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 the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) 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 September 19, 2014, 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 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 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
September 19, 2014

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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 2014 decreased \$129,835, including a prior period adjustment of \$285,061, which represents less than a 1% decrease from fiscal year 2013. Total net position for 2013 decreased \$1,260,937, including a prior period adjustment of (\$90,488), which represents a 4% decrease from fiscal year 2012.
- General revenues and extraordinary items for fiscal year 2014 amounted to \$18,733,316 and \$1,639,559, respectively, or 81% of all revenues for fiscal year 2014. General revenues for fiscal year 2013 amounted to \$18,332,441, or 79% of all revenues for fiscal year 2013. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,752,045, or 19% of total revenues for 2014, and \$4,913,133, or 21% of total revenues for 2013.
- The District had \$25,539,816 and \$24,416,023 in expenses for fiscal years 2014 and 2013; only \$4,752,045 for 2014 and \$4,913,133 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$18,733,316 and extraordinary items of \$1,639,559 for 2014 and general revenues of \$18,332,441 for 2013 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$18,428,221 in revenues and \$20,617,904 in expenditures for 2014, and \$18,293,623 in revenues and \$18,731,489 in expenditures in 2013. The General Fund's fund balance decreased by \$5,191,700, including a prior period adjustment of (\$5,220,141), from 2013 to 2014, and decreased by \$1,028,065, including a prior period adjustment of \$14,052, from 2012 to 2013. A prior period adjustment was needed in 2014 to reclassify the prior year fund balance of the Sixteenth Section Interest Fund and to record a shortfall related to the prior year.
- Capital assets, net of accumulated depreciation, increased by \$27,494 for 2014 and decreased by \$730,077 for 2013. The increase for 2014 was due to the addition to construction in progress, improvements other than buildings, mobile equipment and furniture and equipment, less the disposal of mobile equipment and furniture and equipment and the increase in accumulated depreciation.
- Long-term debt increased by \$150,061 for 2014 and decreased by \$130,000 for 2013. The increase for 2014 was due primarily to the issuance of a shortfall note during the fiscal year, less principal payments made on existing long-term debt. The liability for compensated absences decreased by \$9,533 for 2014 and decreased by \$34,531 for 2013.

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.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's nonfiduciary assets and liabilities, with the differences between the two 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 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.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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 as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 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, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$30,216,549 as of June 30, 2014.

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, 2014 and June 30, 2013.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 10,586,005	\$ 9,950,390	6.39 %
Restricted assets	6,990,003	7,745,584	(9.75) %
Capital assets, net	16,373,833	16,346,339	0.17 %
Total assets	<u>33,949,841</u>	<u>34,042,313</u>	(0.27) %
Current liabilities	160,389	263,554	(39.14) %
Long-term debt outstanding	3,572,903	3,432,375	4.09 %
Total liabilities	<u>3,733,292</u>	<u>3,695,929</u>	1.01 %
Net position:			
Net investment in capital assets	13,248,833	13,086,339	1.24 %
Restricted	13,728,157	8,553,258	60.50 %
Unrestricted	3,239,559	8,706,787	(62.79) %
Total net position	<u>\$ 30,216,549</u>	<u>\$ 30,346,384</u>	(0.43) %

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 \$27,494.
- Proceeds from the issuance of a shortfall note in the amount of \$285,061.
- The principal retirement of \$135,000 of long-term debt.

Changes in net position

The District's total revenues, including extraordinary items, for the fiscal years ended June 30, 2014 and June 30, 2013 were \$25,124,920 and \$23,245,574, respectively. The total cost of all programs and services was \$25,539,816 for 2014 and \$24,416,023 for 2013.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,020,536	\$ 1,201,014	(15.03) %
Operating grants and contributions	3,731,509	3,712,119	0.52 %
General revenues:			
Property taxes	4,523,824	4,233,477	6.86 %
Grants and contributions not restricted	13,369,350	13,373,980	(0.03) %
Investment earnings	161,541	86,209	87.38 %
Sixteenth section sources	586,795	617,501	(4.97) %
Other	91,806	21,274	331.54 %
Total revenues	23,485,361	23,245,574	1.03 %
Extraordinary items	1,639,559	-	
Total revenues and extraordinary items	25,124,920	23,245,574	8.08 %
Expenses:			
Instruction	14,039,303	13,799,941	1.73 %
Support services	9,497,310	8,648,283	9.82 %
Non-instructional	1,701,149	1,709,704	(0.50) %
Sixteenth section	90,498	64,880	39.49 %
Interest on long-term liabilities	211,556	193,215	9.49 %
Total expenses	25,539,816	24,416,023	4.60 %
Increase (Decrease) in net position	(414,896)	(1,170,449)	(64.55) %
Net Position, July 1, as previously reported	30,346,384	31,607,321	(3.99) %
Prior Period Adjustment	285,061	(90,488)	415.03 %
Net Position, July 1, as restated	30,631,445	31,516,833	(2.81) %
Net Position, June 30	\$ 30,216,549	\$ 30,346,384	(0.43) %

Governmental activities

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, 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, 2014

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2014	2013	
Instruction	\$ 14,039,303	\$ 13,799,941	1.73 %
Support services	9,497,310	8,648,283	9.82 %
Non-instructional	1,701,149	1,709,704	(0.50) %
Sixteenth section	90,498	64,880	39.49 %
Interest on long-term liabilities	211,556	193,215	9.49 %
Total expenses	\$ 25,539,816	\$ 24,416,023	4.60 %

	Net (Expense) Revenue		Percentage Change
	2014	2013	
Instruction	\$ (11,792,813)	\$ (11,616,555)	1.52 %
Support services	(8,703,431)	(7,628,642)	14.09 %
Non-instructional	(2,524)	(24,528)	(89.71) %
Sixteenth section	(77,447)	(39,950)	93.86 %
Interest on long-term liabilities	(211,556)	(193,215)	9.49 %
Total net (expense) revenue	\$ (20,787,771)	\$ (19,502,890)	6.59 %

- Net cost of governmental activities (\$20,787,771 for 2014 and \$19,502,890 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$4,523,824 for 2014 and \$4,233,477 for 2013) and state and federal revenues (\$13,369,350 for 2014 and \$13,373,980 for 2013). In addition, there was \$586,795 and \$617,501 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$161,541 for 2014 and \$86,209 for 2013.

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 \$17,572,300, a decrease of \$14,851, which includes a prior period adjustment of \$285,061 and an increase in inventory of \$5,484. \$2,307,484, or 13%, 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 or assigned to specific purposes within the general fund. The remaining fund balance of \$15,264,816, or 87%, is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$5,191,700, which includes a prior period adjustment of (\$5,220,141) to reclassify the prior year fund balance of the Sixteenth Section Interest Fund and to record a shortfall related to the prior year. The fund balance of Other Governmental Funds showed an increase in the amount of \$119,577, which includes a prior period adjustment of \$14,561 and an increase in inventory of \$5,484. 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 Interest Fund	\$ 4,840,525
Sixteenth Section Principal Fund	\$ 216,747

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 and major special revenue fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$27,349,200, including land, construction in progress, school buildings, building improvements and improvements other than buildings, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of \$506,073 from 2013, due primarily to the ongoing construction of a softball field and the purchase of twelve new school buses and various other items of mobile equipment and furniture and equipment. The District also disposed of eleven buses and other items of mobile equipment and furniture and equipment. Total accumulated depreciation as of June 30, 2014, was \$10,975,367, and total depreciation expense for the year was \$802,992, resulting in total net capital assets of \$16,373,833.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 266,690	\$ 266,690	0.00 %
Construction in progress	65,634	-	
Buildings	13,643,878	14,046,730	(2.87) %
Building improvements	129,780	141,832	(8.50) %
Improvements other than buildings	433,739	459,136	(5.53) %
Mobile equipment	1,593,560	1,177,736	35.31 %
Furniture and equipment	240,552	254,215	(5.37) %
Total	\$ 16,373,833	\$ 16,346,339	0.17 %

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

**SMITH COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

Debt Administration. At June 30, 2014, the District had \$3,572,903 in outstanding long-term debt, of which \$226,565 is due within one year. The District received proceeds from the issuance of a shortfall note in the amount of \$285,061. The District made principal payments of \$135,000 on outstanding long-term debt during the fiscal year. The liability for compensated absences decreased \$9,533 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Three mill notes payable	\$ 125,000	\$ 260,000	(51.92) %
Shortfall notes payable	285,061	-	
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	162,842	172,375	(5.53) %
Total	<u>\$ 3,572,903</u>	<u>\$ 3,432,375</u>	4.09 %

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, 2014

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,278,143
Cash with fiscal agents	952
Investments	3,631,348
Due from other governments	639,023
Accrued interest receivable	1,612
Inventories	34,927
Restricted assets	6,990,003
Capital assets, non-depreciable:	
Land	266,690
Construction in progress	65,634
Capital assets, net of accumulated depreciation:	
Buildings	13,643,878
Building improvements	129,780
Improvements other than buildings	433,739
Mobile equipment	1,593,560
Furniture and equipment	240,552
Total Assets	33,949,841
 Liabilities	
Accounts payable and accrued liabilities	2,797
Unearned revenue	911
Interest payable on long-term liabilities	156,681
Long-term liabilities, due within one year:	
Capital related liabilities	125,000
Non-capital related liabilities	101,565
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,000,000
Non-capital related liabilities	346,338
Total Liabilities	3,733,292
 Net Position	
Net investment in capital assets	13,248,833
Restricted for:	
Expendable:	
School-based activities	5,649,508
Debt service	340,765
Forestry improvements	5,951
Unemployment benefits	48,505
Non-expendable:	
Sixteenth section	7,683,428
Unrestricted	3,239,559
Total Net Position	\$ 30,216,549

SMITH COUNTY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2014**

Exhibit B

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$ 14,039,303	\$ 540,970	\$ 1,705,520	\$ (11,792,813)	
Support services	9,497,310	1,010	792,869	(8,703,431)	
Non-instructional	1,701,149	465,505	1,233,120	(2,524)	
Sixteenth section	90,498	13,051	-	(77,447)	
Interest on long-term liabilities	211,556	-	-	(211,556)	
Total Governmental Activities	\$ 25,539,816	\$ 1,020,536	\$ 3,731,509	\$ (20,787,771)	

General Revenues:

Taxes:

General purpose levies	4,333,561
Debt purpose levies	190,263

Unrestricted grants and contributions:

State	12,935,377
Federal	433,973
Unrestricted investment earnings	161,541
Sixteenth section sources	586,795
Other	91,806

Total General Revenues	18,733,316
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Extraordinary items	1,639,559
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Total General Revenues and Extraordinary Items	20,372,875
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Change in Net Position	(414,896)
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Net Position - Beginning, as previously reported	30,346,384
Prior Period Adjustments	285,061
Net Position - Beginning, as restated	30,631,445
Net Position - Ending	\$ 30,216,549

SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2014

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds		
Assets						
Cash and cash equivalents	\$ 2,360,911	\$ 2,778,450	\$ 1,163,056	\$ 1,138,782		7,441,199
Cash with fiscal agents	-	952	6,301	1,781		9,034
Investments	1,570,225	2,061,123	5,659,365	159,500		9,450,213
Due from other governments	436,629	-	-	202,394		639,023
Accrued interest receivable	-	-	-	1,612		1,612
Due from other funds	177,200	-	-	-		177,200
Advance to other funds	-	-	854,706	-		854,706
Inventories	-	-	-	34,927		34,927
Total assets	\$ 4,544,965	\$ 4,840,525	\$ 7,683,428	\$ 1,538,996		\$ 18,607,914
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 2,797	\$ -	\$ -	\$ -		2,797
Due to other funds	-	-	-	177,200		177,200
Advances from other funds	854,706	-	-	-		854,706
Deferred revenue - federal programs	-	-	-	911		911
Total Liabilities	857,503	-	-	178,111		1,035,614
Fund Balances:						
Nonspendable:						
Inventory	-	-	-	34,927		34,927
Permanent fund principal	-	-	6,828,722	-		6,828,722
Advances	-	-	854,706	-		854,706
Restricted:						
Debt service	-	-	-	497,446		497,446
Forestry improvement purposes	-	-	-	5,951		5,951
Grant activities	-	-	-	774,056		774,056
Unemployment benefits	-	-	-	48,505		48,505
Sixteenth section	-	4,840,525	-	-		4,840,525
Assigned:						
School activities	252,560	-	-	-		252,560
Facility improvements	1,127,418	-	-	-		1,127,418
Unassigned	2,307,484	-	-	-		2,307,484
Total Fund Balances	3,687,462	4,840,525	7,683,428	1,360,885		17,572,300
Total Liabilities and Fund Balances	\$ 4,544,965	\$ 4,840,525	\$ 7,683,428	\$ 1,538,996		\$ 18,607,914

SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014**

Exhibit C-1

Total fund balances for governmental funds \$ 17,572,300

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	\$ 266,690	
Construction in progress	65,634	
Buildings	20,796,844	
Building improvements	301,302	
Improvements other than buildings	840,400	
Mobile equipment	3,870,227	
Furniture and equipment	1,208,103	
Accumulated depreciation	<u>(10,975,367)</u>	16,373,833

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

Other bonds payable	(3,000,000)	
Notes payable	(410,061)	
Compensated absences	(162,842)	
Accrued interest payable	<u>(156,681)</u>	(3,729,584)

Net Position of governmental activities \$ 30,216,549

SMITH COUNTY SCHOOL DISTRICT

Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014**

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Sixteenth Section Interest Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 4,995,785	\$ -	\$ -	\$ 637,890	\$ 5,633,675
State sources	12,998,464	-	-	780,060	13,778,524
Federal sources	433,972	-	-	2,888,363	3,322,335
Sixteenth section sources	-	178,190	536,403	35,005	749,598
Total Revenues	18,428,221	178,190	536,403	4,341,318	23,484,132
Expenditures:					
Instruction	11,734,786	-	-	1,933,170	13,667,956
Support services	8,712,064	-	-	1,216,015	9,928,079
Noninstructional services	1,235	-	-	1,628,140	1,629,375
Sixteenth section	2,000	16,346	-	72,152	90,498
Facilities acquisition and construction	65,634	-	-	-	65,634
Debt service:					
Principal	-	-	-	135,000	135,000
Interest	101,685	-	-	107,421	209,106
Other	500	-	-	-	500
Total Expenditures	20,617,904	16,346	-	5,091,898	25,726,148
Excess (Deficiency) of Revenues over (under) Expenditures	(2,189,683)	161,844	536,403	(750,580)	(2,242,016)
Other Financing Sources (Uses):					
Notes issued	270,500	-	-	14,561	285,061
Insurance recovery	1,010	-	-	-	1,010
Payments held by escrow agent	-	-	-	61,000	61,000
Payment to QSCB debt escrow agent	-	-	-	(61,000)	(61,000)
Sale of transportation equipment	10,571	-	-	-	10,571
Sale of other property	200	-	-	-	200
Operating transfers in	1,149,656	-	-	870,249	2,019,905
Other financing sources	219	-	-	-	219
Operating transfers out	(853,591)	(811,960)	(319,656)	(34,698)	(2,019,905)
Total Other Financing Sources (Uses)	578,565	(811,960)	(319,656)	850,112	297,061
Extraordinary items	1,639,559	-	-	-	1,639,559
Net Change in Fund Balances	28,441	(650,116)	216,747	99,532	(305,396)
Fund Balances:					
July 1, 2013, as previously reported	8,879,162	-	7,466,681	1,241,308	17,587,151
Prior period adjustments	(5,220,141)	5,490,641	-	14,561	285,061
July 1, 2013, as restated	3,659,021	5,490,641	7,466,681	1,255,869	17,872,212
Increase (Decrease) in inventory	-	-	-	5,484	5,484
June 30, 2014	\$ 3,687,462	\$ 4,840,525	\$ 7,683,428	\$ 1,360,885	\$ 17,572,300

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, 2014**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (305,396)

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	\$ 874,234	
Depreciation expense	<u>(802,992)</u>	71,242

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. (43,748)

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 issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	(285,061)	
Payments of debt principal	135,000	
Accrued interest payable	<u>(1,950)</u>	(152,011)

4. 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	9,533	
Change in inventory	<u>5,484</u>	15,017

Change in Net Position of governmental activities \$ (414,896)

SMITH COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2014

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 1,273,492
Total Assets	<u>\$ 1,273,492</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,166,401
Due to student clubs	107,091
Total Liabilities	<u>\$ 1,273,492</u>

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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 and liabilities, 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.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Sixteenth Section Interest Fund - This is a special revenue fund that accounts for expendable revenues derived from the use of sixteenth section lands held in trust by the school district and from investment of sixteenth section funds.

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 District's fiduciary funds include the following:

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Student Club Funds - These funds are used to account for the transaction of student clubs.

Payroll Clearing Fund - This fund is used as a clearing account for payroll and payroll related transactions.

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.

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

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

FIDUCIARY FUNDS

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

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

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are 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*

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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*, 2003, 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, 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

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

either “due to/from other funds” (i.e. the current portion of inter-fund loans) or “advances to/from other funds” (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

assets are reported in the governmental column in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

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

The following schedule details the capitalization thresholds:

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

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

7. 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).

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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.

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

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

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

9. 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.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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.

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 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 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 the revenues of the General Fund.

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

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,441,199 and \$1,273,492, 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. However, the Mississippi State Treasurer manages that risk on behalf of the district. 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, 2014, none of the district's bank balance of \$11,589,151 was exposed to custodial credit risk.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2014

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$9,034.

Investments

As of June 30, 2014, the district had the following investments.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
U. S. Treasury Notes	AAA	1 to 5	\$ 3,042,548
U.S. Treasury SLGS Deposit	Not Rated	More than one year	159,500
Federal Farm Credit Bank Bond	AAA	1 to 5	300,015
Federal Home Loan Bank Bond	AAA	5 to 10	963,144
Certificates of Deposit	Not Rated	Less than one year	2,091,540
Certificates of Deposit	Not Rated	1 year	431,202
Certificates of Deposit	Not Rated	1 to 5	2,462,264
			<u>\$ 9,450,213</u>

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.

Concentration of Credit Risk. Disclosures 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.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2014, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Trustmark National Bank - Certificates of Deposit	\$ 4,985,006	53%

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ <u>177,200</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.

B. Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sixteenth Section Principal Fund	General Fund	\$ <u>854,706</u>

Sixteenth section principal loans payable

Note: 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.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 88,609	34,189	122,798
2016	92,154	30,644	122,798
2017	95,840	26,958	122,798
2018	99,674	23,124	122,798
2019	103,661	19,137	122,798
2020 - 2023	374,768	34,463	409,231
Total	\$ 854,706	168,515	1,023,221

C. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Sixteenth Section Interest Fund	\$ 800,000
	Other Governmental Funds	30,000
	Sixteenth Section Principal Fund	319,656
Other Governmental Funds	Sixteenth Section Interest Fund	11,960
	Other Governmental Funds	4,698
	General Fund	853,591
Total		\$ 2,019,905

The transfer out of the General Fund was for the purpose of funding the vocational program, workers' compensation and construction fund in the Other Governmental Funds. The transfer from other governmental funds to the general fund was for indirect cost. The transfer within the Other Governmental Funds was to fund a construction project.

Note 4 - Restricted Assets

The restricted assets represent the cash, cash with fiscal agents and investment balances, totaling \$1,163,056, \$6,301 and \$5,659,365, 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 agents and investment balances, totaling \$1,781 and \$159,500, respectively, of the QSCB Debt Retirement Fund.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 5- Capital Assets

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

	Balance 7-1-2013	Additions	Retirements	Balance 6-30-2014
<u>Non-depreciable capital assets:</u>				
Land	\$ 266,690			266,690
Construction in progress		65,634		65,634
Total non-depreciable capital assets	<u>266,690</u>	<u>65,634</u>	<u>0</u>	<u>332,324</u>
<u>Depreciable capital assets:</u>				
Buildings	20,796,844			20,796,844
Building improvements	301,302			301,302
Improvements other than buildings	832,181	8,219		840,400
Mobile equipment	3,460,246	733,161	323,180	3,870,227
Furniture and equipment	1,185,864	67,220	44,981	1,208,103
Total depreciable capital assets	<u>26,576,437</u>	<u>808,600</u>	<u>368,161</u>	<u>27,016,876</u>
<u>Less accumulated depreciation for:</u>				
Buildings	6,750,114	402,852		7,152,966
Building improvements	159,470	12,052		171,522
Improvements other than buildings	373,045	33,616		406,661
Mobile equipment	2,282,510	274,039	279,882	2,276,667
Furniture and equipment	931,649	80,433	44,531	967,551
Total accumulated depreciation	<u>10,496,788</u>	<u>802,992</u>	<u>324,413</u>	<u>10,975,367</u>
Total depreciable capital assets, net	<u>16,079,649</u>	<u>5,608</u>	<u>43,748</u>	<u>16,041,509</u>
Governmental activities capital assets, net	<u>\$ 16,346,339</u>	<u>71,242</u>	<u>43,748</u>	<u>16,373,833</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 386,239
Support services	339,018
Non-instructional	77,735
Total depreciation expense	<u>\$ 802,992</u>

Construction in progress is composed of:

	Spent to June 30, 2014	Remaining Commitment
Taylorville Softball Field	\$ 65,634	250,000

Construction projects included in governmental activities are funded from the Building Repair Fund.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 6 - Long-term liabilities

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

	Balance 7-1-2013	Additions	Reductions	Balance 6-30-2014	Amounts due within one year
A. Three mill notes payable	260,000		135,000	125,000	125,000
B. Shortfall notes payable		285,061		285,061	93,423
C. Qualified school construction bonds payable	3,000,000			3,000,000	
D. Compensated absences payable	172,375		9,533	162,842	8,142
Total	\$ 3,432,375	285,061	144,533	3,572,903	226,565

A. Three Mill Notes Payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes, Series 2006	3.9%	11-06-06	08-01-14	\$ <u>910,000</u>	<u>125,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ <u>125,000</u>	<u>2,437</u>	<u>127,437</u>

This debt will be retired from the Three Mill Note Fund

B. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes, Series 2013	1.7%	08-06-13	08-06-16	\$ <u>285,061</u>	<u>285,061</u>

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

Year Ending June 30		Principal	Interest	Total
2015	\$	93,423	4,846	98,269
2016		95,011	3,258	98,269
2017		96,627	1,643	98,270
Total	\$	<u>285,061</u>	<u>9,747</u>	<u>294,808</u>

This debt will be retired from the Shortfall Note Fund.

C. Qualified school construction bonds payable

As more fully explained in Note 12, 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	5.5%	12-08-10	08-01-25	\$ <u>3,000,000</u>	<u>3,000,000</u>

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

Year Ending June 30		Principal	Interest	Total
2015	\$		165,000	165,000
2016			165,000	165,000
2017			165,000	165,000
2018			165,000	165,000
2019			165,000	165,000
2020 - 2024			825,000	825,000
2025 - 2026		3,000,000	330,000	3,330,000
Total	\$	<u>3,000,000</u>	<u>1,980,000</u>	<u>4,980,000</u>

This debt will be retired from the QSCB Debt Retirement Fund (Debt Service Fund). The district will make annual payments to a sinking fund maintained by the paying agent (see Note 12). At the end of the term the amount available in the sinking fund will be sufficient to make the balloon payment on the debt.

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

D. Compensated absences payable

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

Note 7 - Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 - Defined Benefit Pension Plan

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. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. 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, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013, and 2012 were \$1,997,323, \$1,921,891, and \$1,592,807, respectively, which equaled the required contributions for each year.

Note 9 - 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 94

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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 up 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 10 - 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
2015	\$	78,746
2016		75,703
2017		73,519
2018		73,519
2019		57,844
2020 - 2024		268,895
2025 - 2029		210,750
2030 - 2034		148,065
2035 - 2039		148,065
2040 - 2044		43,153
2045 - 2049		11,493
2050 - 2054		1,650
Total	\$	<u>1,191,402</u>

Smith County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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 - 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.

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.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. Annual sinking fund deposit amounts are inclusive of any interest earnings for the prior 12 months. The indicated deposit amount will be reduced by the amount of the prior 12 months' interest earnings. The amount on deposit at June 30, 2014 was \$161,281. The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2014

<u>Year Ending June 30</u>		<u>Amount</u>
2015	\$	76,000
2016		142,500
2017		142,500
2018		142,500
2019		292,000
2020 - 2024		1,460,000
2025 - 2026		585,500
Total	\$	<u>2,841,000</u>

Note 13 - Insurance Loss Recoveries

The Smith County School District received \$1,010 in insurance loss recoveries related to a refund due to the removal of buses from insurance coverage during the 2013-2014 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as support services and allocated among the expense functions based on the following percentages:

Note 14 - Prior Period Adjustments

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

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. See below	\$ <u>285,061</u>

Smith County School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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

Fund	Explanation	Amount
General Fund	Adjustments were made due to the fund balance of the Sixteenth Section Interest Fund was reported in the General Fund.	\$ (5,490,641)
General Fund	An entry was made to record a receivable related to the 2013 shortfall in which proceeds were received in fiscal year 2014.	270,500
Sixteenth Section Interest Fund	Adjustments were made due to the fund balance of the Sixteenth Section Interest Fund was reported in the General Fund.	5,490,641
Other Governmental Funds	Adjustments were made to correctly record the shortfall proceeds received during the year.	14,561
	Total	<u>\$ 285,061</u>

Note 15 - Economic Dependency

The school district is significant economically dependent on an ad valorem tax payer which generates approximately 19% of the district's ad valorem taxes. In the event of a loss of ad valorem taxes, the district would encounter an economic hardship.

Note 16 - Extraordinary Items

An amount of \$1,639,559 was treated as an extraordinary item inflow. This was insurance recovery related to roof damages due to a hailstorm.

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 that no subsequent events have occurred requiring disclosure in the notes to the financial statement.

REQUIRED SUPPLEMENTARY INFORMATION

SMITH COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,717,177	\$ 5,266,285	\$ 4,995,785	\$ 549,108	\$ (270,500)
State sources	12,862,659	12,998,464	12,998,464	135,805	-
Federal sources	316,860	433,972	433,972	117,112	-
Total Revenues	17,896,696	18,698,721	18,428,221	802,025	(270,500)
Expenditures:					
Instruction	11,661,452	11,734,786	11,734,786	(73,334)	-
Support services	8,643,779	8,712,064	8,712,064	(68,285)	-
Noninstructional services	21,214	1,235	1,235	19,979	-
Sixteenth section	-	2,000	2,000	(2,000)	-
Facilities acquisition and construction	300,000	65,634	65,634	234,366	-
Debt service:					
Interest	202,682	101,685	101,685	100,997	-
Other	1,400	500	500	900	-
Total Expenditures	20,830,527	20,617,904	20,617,904	212,623	-
Excess (Deficiency) of Revenues over (under) Expenditures	(2,933,831)	(1,919,183)	(2,189,683)	1,014,648	(270,500)
Other Financing Sources (Uses):					
Notes issued	-	-	270,500	-	270,500
Insurance recovery	500,000	1,640,569	1,010	1,140,569	(1,639,559)
Sale of transportation equipment	-	10,571	10,571	10,571	-
Sale of other property	-	200	200	200	-
Operating transfers in	5,529,598	3,687,075	1,149,656	(1,842,523)	(2,537,419)
Other financing sources	250	219	219	(31)	-
Operating transfers out	(3,495,398)	(3,301,743)	(853,591)	193,655	2,448,152
Total Other Financing Sources (Uses)	2,534,450	2,036,891	578,565	(497,559)	(1,458,326)
Extraordinary items	-	-	1,639,559	-	1,639,559
Net Change in Fund Balances	(399,381)	117,708	28,441	517,089	(89,267)
Fund Balances:					
July 1, 2013, as previously reported	3,221,565	3,388,521	8,879,162	166,956	5,490,641
Prior period adjustments	-	-	(5,220,141)	-	(5,220,141)
July 1, 2013, as restated	3,221,565	3,388,521	3,659,021	166,956	270,500
June 30, 2014	\$ 2,822,184	\$ 3,506,229	\$ 3,687,462	\$ 684,045	\$ 181,233

SMITH COUNTY SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Sixteenth Section Interest Fund

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	\$ 200,000	\$ 178,190	\$ 178,190	\$ (21,810)	\$ -
Total Revenues	200,000	178,190	178,190	(21,810)	-
Expenditures:					
Sixteenth section	7,000	16,346	16,346	(9,346)	-
Total Expenditures	7,000	16,346	16,346	(9,346)	-
Excess (Deficiency) of Revenues over (under) Expenditures	193,000	161,844	161,844	(31,156)	-
Other Financing Sources (Uses):					
Operating transfers out	(2,759,012)	(811,960)	(811,960)	1,947,052	-
Total Other Financing Sources (Uses)	(2,759,012)	(811,960)	(811,960)	1,947,052	-
Net Change in Fund Balances	(2,566,012)	(650,116)	(650,116)	1,915,896	-
Fund Balances:					
July 1, 2013, as previously reported	5,490,641	5,490,641	-	-	(5,490,641)
Prior period adjustments	-	-	5,490,641	-	5,490,641
July 1, 2013, as restated	5,490,641	5,490,641	5,490,641	-	-
June 30, 2014	\$ 2,924,629	\$ 4,840,525	\$ 4,840,525	\$ 1,915,896	\$ -

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Smith County School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2014

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTARY INFORMATION

SMITH COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2014

Federal Grantor/ Pass-through Grantor/ Program Title/	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	10.553	\$ 331,016
National School Lunch Program	10.555	1,015,807
Total Child Nutrition Cluster		<u>1,346,823</u>
Total passed-through the Mississippi Department of Education		<u>1,346,823</u>
Total U.S. Department of Agriculture		<u>1,346,823</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The School and Libraries Program of the Universal Service Fund	32.xxx	93,240
Total Federal Communications Commission		<u>93,240</u>
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	714,000
Career and Technical Education - Basic Grants to States	84.048	32,273
Rural Education	84.358	66,860
Improving Teacher Quality - State Grants	84.367	150,872
Subtotal		<u>964,005</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	557,927
Special Education - Preschool Grants	84.173	19,607
Total Special Education Cluster		<u>577,534</u>
Total passed-through the Mississippi Department of Education		<u>1,541,539</u>
Total U.S. Department of Education		<u>1,541,539</u>
Total for All Federal Awards		<u>\$ 2,981,602</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and significant accounting policies, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

SMITH COUNTY SCHOOL DISTRICT

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2014

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits \$	17,534,729	13,591,956	740,094	1,430,197	1,772,482
Other	8,191,419	1,727,017	141,644	19,117	6,303,641
Total	\$ 25,726,148	15,318,973	881,738	1,449,314	8,076,123
Total number of students *	2,765				
Cost per student \$	9,304	5,540	319	524	2,921

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

OTHER INFORMATION

SMITH COUNTY SCHOOL DISTRICT

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

"UNAUDITED"

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 4,995,785	4,605,585	4,350,559	4,299,951
State sources	12,998,464	12,913,454	13,410,448	12,998,284
Federal sources	433,972	462,302	288,909	343,006
Sixteenth section sources	-	312,282	484,661	-
Total Revenues	<u>18,428,221</u>	<u>18,293,623</u>	<u>18,534,577</u>	<u>17,641,241</u>
Expenditures:				
Instruction	11,734,786	11,506,075	11,237,849	9,854,262
Support services	8,712,064	7,031,316	5,956,134	6,037,233
Noninstructional services	1,235	8,302	1,021	-
Sixteenth section	2,000	3,000	8,000	-
Facilities acquisition and construction	65,634	-	-	-
Debt service:				
Principal	-	-	2,175,365	180,961
Interest	101,685	181,396	171,283	118,894
Other	500	1,400	3,800	935
Total Expenditures	<u>20,617,904</u>	<u>18,731,489</u>	<u>19,553,452</u>	<u>16,192,285</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(2,189,683)</u>	<u>(437,866)</u>	<u>(1,018,875)</u>	<u>1,448,956</u>
Other Financing Sources (Uses):				
Notes issued	270,500	-	-	-
Insurance recovery	1,010	202,522	-	21,155
Sales of transportation equipment	10,571	-	14,737	-
Sale of other property	200	855	-	18,488
Operating transfers in	1,149,656	30,000	6,411,688	30,000
Other financing sources	219	271	10,835	-
Operating transfers out	(853,591)	(837,899)	(600,921)	(685,145)
Other financing uses	-	-	(454)	(23,160)
Total Other Financing Sources (Uses)	<u>578,565</u>	<u>(604,251)</u>	<u>5,835,885</u>	<u>(638,662)</u>
Extraordinary items	<u>1,639,559</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>28,441</u>	<u>(1,042,117)</u>	<u>4,817,010</u>	<u>810,294</u>
Fund Balances:				
July 1, as previously reported	8,879,162	9,907,227	5,090,217	4,279,923
Prior period adjustments	<u>(5,220,141)</u>	<u>14,052</u>	<u>-</u>	<u>-</u>
July 1, as restated	<u>3,659,021</u>	<u>9,921,279</u>	<u>5,090,217</u>	<u>4,279,923</u>
June 30,	<u>\$ 3,687,462</u>	<u>8,879,162</u>	<u>9,907,227</u>	<u>5,090,217</u>

*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"

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 5,633,675	5,243,881	4,922,375	4,864,379
State sources	13,778,524	13,724,435	14,218,427	13,553,813
Federal sources	3,322,335	3,361,664	3,377,946	4,922,818
Sixteenth section sources	749,598	712,801	906,089	1,087,047
Total Revenues	<u>23,484,132</u>	<u>23,042,781</u>	<u>23,424,837</u>	<u>24,428,057</u>
Expenditures:				
Instruction	13,667,956	13,438,203	13,386,372	13,412,675
Support services	9,928,079	8,365,358	7,459,725	7,385,515
Noninstructional services	1,629,375	1,656,621	1,577,577	1,592,596
Sixteenth section	90,498	64,880	46,813	87,427
Facilities acquisition and construction	65,634	-	465,911	1,876,122
Debt service:				
Principal	135,000	130,000	2,465,000	380,875
Interest	209,106	194,071	188,931	140,929
Other	500	1,400	3,800	935
Total Expenditures	<u>25,726,148</u>	<u>23,850,533</u>	<u>25,594,129</u>	<u>24,877,074</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(2,242,016)</u>	<u>(807,752)</u>	<u>(2,169,292)</u>	<u>(449,017)</u>
Other Financing Sources (Uses):				
Bonds and notes issued	285,061	-	-	3,000,000
Insurance recovery	1,010	202,522	-	21,155
Payment to escrow agent	61,000	-	-	-
Payment to QSCB debt escrow agent	(61,000)	-	-	-
Sale of transportation equipment	10,571	-	14,737	-
Sale of other property	200	855	5,008	18,488
Operating transfers in	2,019,905	929,899	7,092,209	715,145
Other financing sources	219	271	10,835	-
Operating transfers out	(2,019,905)	(929,899)	(7,092,209)	(715,145)
Other financing uses	-	-	(454)	(23,160)
Total Other Financing Sources (Uses)	<u>297,061</u>	<u>203,648</u>	<u>30,126</u>	<u>3,016,483</u>
Extraordinary items	<u>1,639,559</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>(305,396)</u>	<u>(604,104)</u>	<u>(2,139,166)</u>	<u>2,567,466</u>
Fund Balances:				
July 1, as previously reported	17,587,151	18,180,258	20,322,273	17,748,907
Prior Period Adjustment	285,061	14,052	-	-
July 1, as restated	<u>17,872,212</u>	<u>18,194,310</u>	<u>20,322,273</u>	<u>17,748,907</u>
Increase (Decrease) in inventory	5,484	(3,055)	(2,849)	5,900
June 30,	<u>\$ 17,572,300</u>	<u>17,587,151</u>	<u>18,180,258</u>	<u>20,322,273</u>

*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 THE 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, 2014, 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 September 19, 2014.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

This report is intended solely for the information and use of management, the school board, others within the entity, and entities with accreditation overview, and federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
September 19, 2014

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Smith County School District's major federal program for the year ended June 30, 2014. The Smith County School District's major federal programs are 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 each major federal program. However, our audit does not provide a legal determination on the school district's compliance.

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

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 each of its major federal programs for the year ended June 30, 2014.

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 type 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 OMB Circular A-133, 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 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 out testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

This report is intended solely for the information and use of management, the school board, others within the entity, entities with accreditation overview, and federal awarding agencies 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
September 19, 2014

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, 2014, which collectively comprise Smith County School District's basic financial statements and have issued our report thereon dated September 19, 2014. 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. The district reported \$6,458 of classroom supply funds carried over from previous years.

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 did not disclose any instances of noncompliance with other state laws and regulations.

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

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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
September 19, 2014

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, 2014

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 Section 510(a) of OMB Circular A-133? No.
7. Identification of major programs:

CFDA Numbers:	Name of Federal Program or Cluster
10.553 & 10.555	Child Nutrition Cluster
84.027 & 84.173	Special Education Cluster
84.010	Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? Yes.

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.