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HOLMES COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2015

WATKINS, WARD & STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

HOLMES COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITORS' REPORT

WATKINS, WARD & STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



WATKINS, WARD AND STAFFORD

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INDEPENDENT AUDITORS' REPORT

Superintendent and School Board
Holmes 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 Holmes County School District as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the Holmes County School District's basic financial statements as listed in the 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.

Auditors' 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 auditors' 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 auditors' considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 Holmes County School District, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's

discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 5-12, 42-44, 45 and 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holmes County School District's 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 information 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 March 31, 2016, on our consideration of the Holmes 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 Holmes County School District's internal control over financial reporting and compliance.

Watkins, Ward & Stafford PLLC
Jackson, Mississippi
March 31, 2016

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Holmes County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. 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 financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased 28,468,280, including a prior period adjustment of (29,884,031), which represents a 171% decrease from fiscal year 2014. Total net position for 2014 increased \$777,508, including a prior period adjustment of (\$44,590), which represents a 5% increase from fiscal year 2013.
- General revenues amounted to \$20,213,798 and \$20,080,679, or 74% and 71% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,098,054 or 26% of total revenues for 2015, and \$8,336,332, or 29% of total revenues for 2014
- The District had \$25,896,101 and \$27,594,913 in expenses for fiscal years 2015 and 2014; only \$7,098,054 for 2015 and only \$8,336,332 for 2014 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$20,213,798 for 2015 and \$20,080,679 for 2014 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$19,111,409 in revenues and \$18,263,945 in expenditures for 2015, and \$17,578,729 in revenues and \$17,758,974 in expenditures for 2014. The General Fund's fund balance decreased by \$633,050 from 2014 to 2015, and decreased by \$572,028 from 2013 to 2014.
- Capital assets, net of accumulated depreciation, increased by \$3,567 for 2015 and increased by \$714,075 for 2014. The increase for 2015 was primarily due to the additions to construction in progress, mobile equipment, and furniture and equipment.
- Long-term debt decreased by \$575,000 for 2015 and decreased by \$560,000 for 2014. This decrease for 2015 was due to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$29,467 for 2015 and decreased by \$6,231 for 2014.

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 financial statements. This report also contains required supplementary information, supplementary information, and other information.

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities and deferred inflows of resources, 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

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 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 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. Additionally, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District Contributions are presented in this section.

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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$11,814,695 as of June 30, 2015.

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, 2015 and June 30, 2014.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Current assets	\$ 4,863,930	\$ 3,608,559	34.79 %
Restricted assets	1,611,254	2,598,585	(38) %
Capital assets, net	19,060,703	19,057,136	0.02 %
Total assets	<u>25,535,887</u>	<u>25,264,280</u>	1.08 %
Deferred outflows of resources	<u>2,683,753</u>	<u>-</u>	N/A %
Current liabilities	283,158	484,363	(42) %
Long-term debt outstanding	7,521,865	8,126,332	(7) %
Net pension liability	28,148,414	-	N/A %
Total liabilities	<u>35,953,437</u>	<u>8,610,695</u>	318 %
Deferred inflows of resources	<u>4,080,898</u>	<u>-</u>	N/A %
Net position:			
Net investment in capital assets	11,645,703	11,067,136	5.23 %
Restricted	2,503,179	3,914,380	(36) %
Unrestricted	(25,963,577)	1,672,069	(1,653) %
Total net position (deficit)	<u>\$ (11,814,695)</u>	<u>\$ 16,653,585</u>	(171) %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (25,963,577)
Less unrestricted deficit in net position resulting from recognition of the net pension Liability	29,545,556
Unrestricted net position (deficit), exclusive of the net pension liability effect	<u>\$ 3,581,979</u>

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

- Decrease in net capital assets in the amount of \$3,567.
- Implementation of GASB Statement No. 68 which required the recording of a liability for the proportionate share of the school district as well as the recording of deferred outflows/inflows of resources on the Statement of Net Position.
- The principal retirement of \$575,000 of long-term debt.
- The net pension liability in the amount of \$28,148,414.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$27,311,852 and \$28,417,011, respectively. The total cost of all programs and services was \$25,896,101 for 2014 and \$27,594,913 for 2014.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

**Table 2
Changes in Net Position**

	Year Ended June 30, 2015	Year Ended June 30, 2014	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 194,807	\$ 249,698	(21.98) %
Operating grants and contributions	6,903,247	8,086,634	(14.63) %
General revenues:			
Property taxes	4,426,313	4,363,066	1.45 %
Grants and contributions not restricted	14,761,280	14,146,252	4.35 %
Investment earnings	43,793	6,805	543.54 %
Increase (Decrease) in fair market value	-	6,014	(100.00) %
Sixteenth section sources	812,920	1,133,032	(28.25) %
Other	169,492	425,510	(60.17) %
Total revenues	27,311,852	28,417,011	(3.89) %
Expenses:			
Instruction	10,882,352	12,985,436	(16.20) %
Support services	10,630,836	12,002,404	(11.43) %
Non-instructional	2,116,073	2,411,039	(12.23) %
Sixteenth section	142,150	162,895	(12.74) %
Pension expense	1,906,174	-	N/A %
Interest on long-term liabilities	218,516	33,139	559.39 %
Total expenses	25,896,101	27,594,913	(6.16) %
Increase (Decrease) in net position	1,415,751	822,098	72.21 %
Net Position, July 1, as previously reported	16,653,585	15,876,077	4.90 %
Prior Period Adjustment	(29,884,031)	(44,590)	66,919.58 %
Net Position, July 1, as restated	(13,230,446)	15,831,487	(183.57) %
Net Position (deficit), June 30	\$ (11,814,695)	\$ 16,653,585	(170.94) %

Governmental activities

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

GASB 68 was implemented in fiscal year 2015. Prior year amounts do not reflect the implementation of GASB 68.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2015	2014	
Instruction	\$ 10,882,352	\$ 12,985,436	(16.20) %
Support services	10,630,836	12,002,404	(11.43) %
Non-instructional	2,116,073	2,411,039	(12.23) %
Sixteenth section	142,150	162,895	(12.74) %
Pension Expense	1,906,174	-	N/A %
Interest on long-term liabilities	218,516	33,139	559.39 %
Total expenses	\$ 25,896,101	\$ 27,594,913	(6.16) %

	Net (Expense) Revenue		Percentage Change
	2015	2014	
Instruction	\$ (9,036,017)	\$ (10,542,118)	(14.29) %
Support services	(7,629,677)	(8,347,017)	(8.59) %
Non-instructional	134,487	(257,816)	(152.16) %
Sixteenth section	(142,150)	(78,491)	81.10 %
Pension Expense	(1,906,174)	-	N/A %
Interest on long-term liabilities	(218,516)	(33,139)	559.39 %
Total net (expense) revenue	\$ (18,798,047)	\$ (19,258,581)	(2.39) %

- Net cost of governmental activities (\$18,798,047 for 2015 and \$19,258,581 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$4,426,313 for 2015 and \$4,363,066 for 2014) and state and federal revenues (\$14,761,280 for 2015 and \$14,146,252 for 2014). In addition, there was \$812,920 and \$1,133,032 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$43,793 for 2015 and \$6,805 for 2014.

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 \$6,216,784, an increase of \$468,605, which includes the decrease in inventory of \$14,266. \$2,391,050 or 38% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The remaining fund balance of \$3,825,734 or 62% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

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 \$505,325. The fund balance of Other Governmental Funds showed a decrease in the amount of \$274,568, which includes decreases in inventory of \$14,266 and residual equity of 127,725. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Basic Fund	no increase or decrease
S.V. Marshall Concession & Athletics Funds	905,716
QZAB Debt Retirement Fund	245,492
16TH Section Principal Fund	\$ 97,290

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 District's total revenues and expenditures.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$32,278,655, including land, construction in progress, school buildings, building improvements, improvements other than buildings, mobile equipment, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$3,567 from 2014. Total accumulated depreciation as of June 30, 2015, was \$13,217,952, and total depreciation expense for the year was \$792,384, resulting in total net capital assets of \$19,060,703.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 256,168	\$ 256,168	0.00 %
Construction in progress	138,579	825,595	(83.21) %
Buildings	16,448,626	15,652,501	5.09 %
Building improvements	251,476	274,802	(8.49) %
Improvements other than building	809,437	765,532	5.74 %
Mobile equipment	849,356	850,336	(0.12) %
Furniture and equipment	307,061	432,202	(28.95) %
Total	\$ 19,060,703	\$ 19,057,136	0.02 %

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

Debt Administration. At June 30, 2015, the District had \$7,521,865 in outstanding long-term debt, of which \$595,000 is due within one year. During the fiscal year, the District made a principal payment in the amount of \$575,000 on outstanding long-term debt. The liability for compensated absences decreased \$29,467 from the prior year.

HOLMES COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 60,000	\$ 120,000	(50.00) %
Limited obligation bonds payable	1,655,000	2,170,000	(23.73) %
Qualified zone academy bonds payable	2,500,000	2,500,000	0.00 %
Qualified school construction bonds payable	3,200,000	3,200,000	0.00 %
Compensated absences payable	106,865	136,332	(21.61) %
Total	<u>\$ 7,521,865</u>	<u>\$ 8,126,332</u>	(7.44) %

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

CURRENT ISSUES

The Holmes 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 Holmes County School District, P.O. Box 630, Lexington, MS 39095.

FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT

Statement of Net Position
June 30, 2015

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,752,566
Due from other governments	1,052,703
Other receivable	4,050
Inventories	54,611
Restricted assets	1,611,254
Capital assets, net of accumulated depreciation	19,060,703
Total Assets	<u>25,535,887</u>
Deferred Outflows of Resources	
Deferred outflow related to pensions	<u>2,683,753</u>
Total Deferred Outflows of Resources	<u>2,683,753</u>
Liabilities	
Accounts payable and accrued liabilities	258,400
Interest payable on long-term liabilities	24,758
Long-term liabilities, due within one year:	
Capital related liabilities	595,000
Non-capital related liabilities	
Long-term liabilities, due beyond one year:	
Capital related liabilities	6,820,000
Non-capital related liabilities	106,865
Net pension liability	28,148,414
Total Liabilities	<u>35,953,437</u>
Deferred Inflows of Resources	
Deferred inflow related to pensions	<u>4,080,898</u>
Total Deferred Inflows of Resources	<u>4,080,898</u>
Net Position	
Net investment in capital assets	11,645,703
Restricted for:	
Expendable:	
School-based activities	517,504
Debt service	636,250
Forestry improvements	81,909
Unemployment benefits	126,480
Non-expendable:	
Sixteenth section	1,141,036
Unrestricted	<u>(25,963,577)</u>
Total Net Position (deficit)	<u>\$ (11,814,695)</u>

The accompanying notes to financial statements are an integral part of these financial statements.

HOLMES COUNTY SCHOOL DISTRICT

Statement of Activities
For Year Ended June 30, 2015

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 10,882,352	119,088	1,727,247		(9,036,017)
Support services	10,630,836		3,001,159		(7,629,677)
Non-instructional	2,116,073	75,719	2,174,841		134,487
Sixteenth section	142,150				(142,150)
Pension expense	1,906,174				(1,906,174)
Interest on long-term liabilities	218,516				(218,516)
Total Governmental Activities	\$ 25,896,101	194,807	6,903,247	0	(18,798,047)
General Revenues:					
Taxes:					
					4,177,871
					248,442
Unrestricted grants and contributions:					
					14,577,503
					183,777
					43,793
					812,920
					169,492
					<u>20,213,798</u>
					<u>1,415,751</u>
					16,653,585
					<u>(29,884,031)</u>
					<u>(13,230,446)</u>
					<u>\$ (11,814,695)</u>

The accompanying notes to financial statements are an integral part of these financial statements.

**Balance Sheet
June 30, 2015**

**HOLMES COUNTY SCHOOL DISTRICT
Governmental Funds**

Exhibit C

	Major Funds							Total Governmental Funds
	General Fund	Title I Basic Fund	Concessions & Athletics Fund	S.V. Marshall Concessions & Athletics Fund	QZAB Debt Retirement Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Assets								
Cash and cash equivalents	\$ 1,789,275		976,088		148,436		987,203	3,901,002
Cash with fiscal agents				11,295			132,000	143,295
Investments				1,314,523			5,000	1,319,523
Due from other governments	226,513	260,727		2			564,484	1,051,726
Due from other funds	453,512				100		141,082	594,694
Advance to other funds	4,050				1,000,000			1,004,050
Inventories							54,611	54,611
Total assets	2,473,350	260,727	976,088	1,325,820	1,148,536		1,884,380	8,068,901
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	132,659	705	70,372		7,500		47,168	258,404
Due to other funds	37,615	260,022					296,076	593,713
Advances from other funds	1,000,000							1,000,000
Total Liabilities	1,170,274	260,727	70,372		7,500		343,244	1,852,117
Fund Balances:								
Nonspendable:								
Inventory							54,611	54,611
Permanent fund principal					139,335			139,335
Advances	4,050				1,000,000			1,004,050
Restricted:								
Debt service				661,008				661,008
Forestry improvement purposes							81,909	81,909
Unemployment benefits							126,480	126,480
Permanent fund interest					1,601			1,601
Child Nutrition							322,029	322,029
School Activities	2,668						592,804	595,473
Capital projects	706,546						127,721	834,267
Assigned:								
Activity funds	9,016						3	9,021
Unassigned								
	580,795		905,716	664,810	100		235,579	2,387,000
Total Fund Balances	1,303,076	-	905,716	1,325,820	1,141,036		1,541,136	6,216,784
Total Liabilities and Fund Balances	\$ 2,473,350	260,727	976,088	1,325,820	1,148,536		1,884,380	8,068,901

The accompanying notes to financial statements are an integral part of these financial statements.

HOLMES COUNTY SCHOOL DISTRICT
Governmental Funds
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

Exhibit C-1

Total fund balances for governmental funds \$ 6,216,784

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: 19,060,703

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

Net pension liability (28,148,414)

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

Deferred outflows of resources related to pensions 2,683,753
Deferred inflows of resources related to pensions (4,080,898) (29,545,559)

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

General Obligation bonds payable (60,000)
Limited Obligation bonds payable (1,655,000)
Qualified zone academy bonds payable (2,500,000)
Qualified school construction bonds payable (3,200,000)
Compensated absences (106,865)
Payable for bond interest payable (24,758) (7,546,623)

Net Position of governmental activities \$ (11,814,695)

The accompanying notes to financial statements are an integral part of these financial statements.

HOLMES COUNTY SCHOOL DISTRICT
Governmental Funds

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances
For Year Ended June 30, 2015

	Major Funds					Total Governmental Funds
	General Fund	Title I Basic Fund	S.V. Marshall Athletics Fund	GZAB Debt Retirement Fund	16 TH Section Principal Fund	
Revenues:						
Local sources	\$ 4,420,792			35,972		4,824,168
State sources	13,685,995					15,173,109
Federal sources	320,696	2,230,834				6,499,328
Sixteenth section sources	533,490				97,290	815,247
Total Revenues	19,111,409	2,230,834		35,972	97,290	27,311,852
Expenditures:						
Instruction	9,888,656	681,888				11,938,340
Support services	8,068,273	1,439,906				11,283,290
Noninstructional services	17,049	70,268				2,145,081
Sixteenth section	54,357					142,150
Facilities acquisition and construction	100,360		94,284			525,962
Debt service:						
Principal	132,000					575,000
Interest	3,250					80,530
Other						3,375
Total Expenditures	18,263,945	2,192,062	94,284			26,828,978
Excess (Deficiency) of Revenues over (under) Expenditures	847,464	38,772	(94,284)	35,972	97,290	482,874
Other Financing Sources (Uses):						
Operating transfers in	318,272		1,000,000			1,951,960
Other financing sources				209,520		275,520
Operating transfers out	(1,798,786)	(38,772)				(1,951,960)
Other financing uses						(275,523)
Total Other Financing Sources (Uses)	(1,480,514)	(38,772)	1,000,000	209,520		(3)
Net Change in Fund Balances	(633,050)		905,716	245,492	97,290	482,871
Fund Balances:						
July 1, 2014, as previously reported	1,808,401			1,080,328	1,043,746	5,748,179
Residual equity	127,725					(127,725)
July 1, 2014, as restated	1,936,126			1,080,328	1,043,746	5,748,179
Decrease in inventory						(14,266)
June 30, 2015	\$ 1,303,076		905,716	1,325,820	1,141,036	6,216,784

The accompanying notes to financial statements are an integral part of these financial statements.

HOLMES COUNTY SCHOOL DISTRICT
Governmental Funds

Exhibit D-1

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For Year Ended June 30, 2015

Net change in fund balances - total governmental funds \$ 482,871

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	\$ 796,824
Loss on disposal of assets	(873)
Depreciation expense	<u>(792,384)</u>
	3,567
2. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	575,000
Accrued interest payable	<u>640</u>
	575,640

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

Pension expense - current year	(1,906,174)
Deferred outflows - pensions resulting from contribution made subsequent to the measurement date.	<u>2,244,646</u>
	338,472

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	29,467
Change in inventory reserve	<u>(14,266)</u>
	15,201

Change in Net Position of governmental activities \$ 1,415,751

HOLMES COUNTY SCHOOL DISTRICT
Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2015

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 879,183
Total Assets	<u>\$ 879,183</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 869,046
Due to student clubs	5,106
Due to other funds	981
Advances from other funds	4,050
Total Liabilities	<u>\$ 879,183</u>

The accompanying notes to financial statements are an integral part of these financial statements.

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, Holmes 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. The inter-fund activity has been eliminated from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

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:

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.

Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial mathematics and reading services to low-income, program eligible students.

S.V. Marshall Concession & Athletics Fund - This is a capital project fund which is used to account for funds and the expenditures associated with S V Marshall Elementary.

QZAB Debt Retirement Fund - This is a debt service fund that accounts for annual deposits to be paid to the Qualified Zone Academy Bond Debt.

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

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

The school district also reports fiduciary funds (agency funds) which focus on assets and liabilities only. The District's fiduciary funds include the following:

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

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

Accounts Payable Clearing Fund - This fund is used as a clearing fund for non-payroll type 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

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

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

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

FIDUCIARY FUNDS

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

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

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

Capital acquisition and construction are reflected as expenditures in the Governmental

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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

The following schedule details the capitalization thresholds:

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

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow related to pensions. See Note 8 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The school district has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 8 for further details.

8. Compensated Absences

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

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

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

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

11. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is a resolution approved by the School Board. Currently there is 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 the Business Manager pursuant to authorization established by the District's approved fund balance policy.

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

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

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

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 7% of general revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

F. New Pronouncements

In June 2012, the GASB issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, note disclosure and required supplementary information requirements about pensions also are addressed. Also issued in conjunction to GASB 68 is GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to Measurement Date*. The objective of this Statement is to address an issue regarding the application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. These Statements are effective for fiscal years beginning after June 15, 2014.

Note 2 – Cash and Cash Equivalents and Investments

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

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

HOLMES COUNTY SCHOOL DISTRICT
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Federal Deposit Insurance Corporation.

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

cash and cash equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,901,002 and \$879,183, 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, 2015, none of the district's bank balance of \$5,694,522 was exposed to custodial credit risk.

cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$143,295.

Investments

As of June 30, 2015, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Hancock Horizon Treasury Securities	A	N/A	\$ 5,000
US Government Securities	AAA	1 to 5	<u>1,314,523</u>
Total			<u>\$ 1,319,523</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.

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

custodial credit risk - investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2015, the district did not have any investments to which this would apply.

concentration of credit risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

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	Title I Basic Fund	\$ 260,022
	Fiduciary Fund	981
	Other governmental funds	154,894
	General Fund	37,615
16TH Section Principal Fund	Other governmental funds	100
Other governmental funds	Other governmental funds	<u>141,082</u>
Total		<u>\$ 594,694</u>

The inter-fund loans were made mainly to cover the initial payments of reimbursable expenditures of federal and state programs.

B. Advances To/From Others Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fiduciary	\$ 4,050
16th Section Principal Fund	General Fund	<u>1,000,000</u>
Total		<u>\$ 1,004,050</u>

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,

HOLMES COUNTY SCHOOL DISTRICT
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Expenditures and Changes in Fund Balances.

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 49,941	\$ 40,000	\$ 89,941
2017	51,939	38,002	89,941
2018	54,016	35,925	89,941
2019	56,177	33,764	89,941
2020	58,424	31,517	89,941
2021 - 2025	329,101	120,604	449,705
2026 - 2030	400,402	49,303	449,705
Total	\$ 1,000,000	\$ 349,115	\$ 1,349,115

This note shall be payable at the office of the Superintendent of Education of the Holmes County School District, or at such other place as the holder hereof may designate in writing. The note may be paid in whole or in part at any time at the option of the District.

C. Inter-fund Transfers

Transfers In	Transfers Out	Amount
S.V. Marshall Concession & Athletics	General Fund	\$ 1,000,000
General Fund	Title I Fund	38,772
	Other Governmental Fund	114,402
	General Fund	165,098
Other governmental funds	General Fund	633,688
Total		\$ 1,951,960

The primary purpose of the inter-fund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is for the sinking fund payment to the QSCB escrow agent.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$148,436, 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 investment balance totaling \$5,000, MAEP Limited Obligation Bond/Note Fund.

HOLMES COUNTY SCHOOL DISTRICT
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In addition, the restricted assets represent the cash with fiscal agents balance, totaling \$132,000, of the QSCB Debt Retirement Fund.

In addition, the restricted assets represent the cash with fiscal agents and investment balances, totaling \$11,295 and \$1,314,523, respectively, of the QZAB Debt Retirement Fund.

Note 5 – Capital Assets

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

	Balance 7/1/2014	Increases	Decreases	Adjustments	Balance 6/30/2015
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 256,168				\$ 256,168
Construction in progress	825,595	525,961	(1,212,977)		138,579
Total non-depreciable capital assets	<u>1,081,763</u>	<u>525,961</u>	<u>(1,212,977)</u>		<u>394,747</u>
<u>Depreciable capital assets:</u>					
Buildings	22,164,185		1,212,977	(873)	23,376,289
Building Improvements	583,157				583,157
Improvements other than Buildings	1,930,514	115,959			2,046,473
Mobile equipment	3,761,305	127,585			3,888,890
Furniture and equipment	1,961,780	27,319			1,989,099
Total depreciable capital assets	<u>30,400,941</u>	<u>270,863</u>	<u>1,212,977</u>	<u>(873)</u>	<u>31,883,908</u>
<u>Less accumulated depreciation for:</u>					
Buildings	6,511,684	415,979			6,927,663
Building Improvements	308,355	23,326			331,681
Improvements other than Buildings	1,164,982	72,054			1,237,036
Mobile equipment	2,910,969	128,565			3,039,534
Furniture and equipment	1,529,578	152,460			1,682,038
Total accumulated depreciation	<u>12,425,568</u>	<u>792,384</u>	<u>-</u>		<u>13,217,952</u>
Total depreciable capital assets, net	<u>17,975,373</u>	<u>(521,521)</u>	<u>1,212,977</u>	<u>(873)</u>	<u>18,665,956</u>
Governmental activities capital assets, net	<u>\$ 19,057,136</u>	<u>\$ 4,440</u>	<u>\$ -</u>	<u>(873)</u>	<u>\$ 19,060,703</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 521,003
Support services	128,565
Non-instructional	142,816
Total depreciation expense - Governmental activities	<u>\$ 792,384</u>

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Construction in progress is composed of:

William Dean Junior Elementary Gym School Project expenditure spent as of June 30, 2015 \$138,579 with a \$417,533 remaining commitment. Construction projects included in governmental activities are funded from the QSCB Construction Funds and District Maintenance Funds.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
A. General obligation bonds payable	\$ 120,000		\$ 60,000	\$ 60,000	\$ 60,000
B. Limited obligation bond payable	2,170,000		515,000	1,655,000	535,000
C. Qualified zone academy bonds payable	2,500,000			2,500,000	
D. Qualified school construction bonds payable	3,200,000			3,200,000	
E. Compensated absences payable	136,332		29,467	106,865	
Total	<u>\$ 8,126,332</u>	<u>\$ -</u>	<u>\$ 604,467</u>	<u>\$ 7,521,865</u>	<u>\$ 595,000</u>

A. General Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Bonds, Refunding Series 2003	1.4-4.4%	7/1/2003	4/15/2016	\$ 2,580,000	\$ 60,000
Total				<u>\$ 2,580,000</u>	<u>\$ 60,000</u>

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 60,000	\$ 2,640	\$ 62,640
Total	<u>\$ 60,000</u>	<u>\$ 2,640</u>	<u>\$ 62,640</u>

This debt will be retired from the District Maintenance Fund and the Buildings and Buses Fund.

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

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Miss. Code Ann. (1972) have been met. As of June 30, 2015, the amount of outstanding bonded indebtedness was equal to 0.12% of property assessments as of October 1, 2014.

B. Limited Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement	3.0-				
Refunding Bonds, Series 2009	4.0%	10/1/2009	2/1/2018	\$ 4,395,000	\$ 1,655,000
Total				\$ 4,395,000	\$ 1,655,000

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 535,000	\$ 58,100	\$ 593,100
2017	550,000	42,050	592,050
2018	570,000	22,800	592,800
Total	\$ 1,655,000	\$ 122,950	\$ 1,777,950

This debt will be retired from the MAEP Bond Issue Fund.

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

C. Qualified Zone Academy Bonds Payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds. Debt currently outstanding is as follows:

HOLMES COUNTY SCHOOL DISTRICT
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Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified zone academy bonds payable	0%	7/23/2008	7/15/2020	\$ 2,500,000	\$ 2,500,000
Total				<u>\$ 2,500,000</u>	<u>\$ 2,500,000</u>

D. 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 payable	0.40%	12/17/2010	12/1/2025	\$ 2,200,000	\$ 2,200,000
Qualified school construction bonds payable	0.17%	12/7/2012	12/15/2027	1,000,000	1,000,000
Total				<u>\$ 3,200,000</u>	<u>\$ 3,200,000</u>

E. Compensated absences payable

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

Note 7 – Other Commitments

Commitments under construction contracts are described in Note 5

Note 8 - Defined Benefit Pension Plan

General Information about the Pension Plan

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

benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the

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entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 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, 2015, 2014 and 2013 were \$2,244,646, \$2,231,953 and \$2,020,150, respectively, which equaled the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the school district reported a liability of \$28,148,414 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 0.231914 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,906,174. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$ 439,107	\$
Net difference between projected and actual earnings on pension plan investments		4,080,319
Change in proportionate share		579
District contributions subsequent to the measurement date	2,244,646	
Total	<u>\$ 2,683,753</u>	<u>\$ 4,080,898</u>

HOLMES COUNTY SCHOOL DISTRICT
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\$2,244,646 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (862,336)
2017	(862,336)
2018	(897,039)
2019	(1,020,080)

actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will

HOLMES COUNTY SCHOOL DISTRICT
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be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

sensitivity of the district's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$ 38,374,682	\$ 28,148,414	\$ 19,618,186

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

Note 9 – 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 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

HOLMES COUNTY SCHOOL DISTRICT
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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
2016	\$ 193,108
2017	193,108
2018	161,286
2019	32,179
2020-2024	1,587
2025-2029	1,587
2030-2034	1,587
2035-2039	1,587
Total	<u>\$ 586,029</u>

Note 11 – Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Trustmark Bank, has entered into such an arrangement dated July 23, 2008.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 22nd of each year. The amount on deposit at June 30, 2015 was \$1,325,819. The amount accumulated in the sinking fund at the end of the ten 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.

Year Ending June 30	Amount
2016	\$ 150,000
2017	150,000
2018	150,000
2019	150,000
2020-2021	227,000
Total	<u>\$ 827,000</u>

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

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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 supplementary interest, and such supplementary interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplementary 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 supplementary 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 \$132,000. 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.

Year Ending June 30	Amount
2016	\$ 66,000
2017	116,000
2018	116,000
2019	253,000
2020-2024	1,577,000
2025-2028	940,000
Total	<u>\$ 3,068,000</u>

Note 13 – 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.

HOLMES COUNTY SCHOOL DISTRICT
Note to Financial Statements

Note 14 – Prior Period Adjustments

A summary of the prior period adjustment to Net Position/Fund Balance is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>		<u>Amount</u>
Implementation of GASB 68 and 71:		
Net pension liability (measurement date)	\$ (32,115,984)	
Deferred outflows - contributions made during fiscal year 2014	<u>2,231,953</u>	
Total prior period adjustment related to GASB 68 and 71		<u>\$ (29,884,031)</u>
Total		<u>\$ (29,884,031)</u>

Note 15 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Holmes County School District evaluated the activity of the district through March 31, 2016, and determined that there were no subsequent events that should be noted in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,387,763	\$ 4,420,788	\$ 4,420,792	\$ 33,025	\$ 4
State sources	13,155,180	13,680,546	13,685,995	525,366	5,449
Federal sources	298,200	320,696	320,696	22,496	-
Sixteenth section sources	-	6,286	683,926	6,286	677,640
Total Revenues	17,841,143	18,428,316	19,111,409	587,173	683,093
Expenditures:					
Instruction	9,762,617	9,943,566	9,888,656	(180,949)	54,910
Support services	8,185,572	8,054,553	8,068,273	131,019	(13,720)
Non-instructional services	-	17,049	17,049	(17,049)	-
Sixteenth section	-	-	54,357	-	(54,357)
Facilities acquisition and construction	-	44,296	100,360	(44,296)	(56,064)
Debt service:					
Principal	-	-	-	-	-
Interest	132,000	132,000	132,000	-	-
Other	5,000	3,250	3,250	1,750	-
Total Expenditures	18,085,189	18,194,714	18,263,945	(109,525)	(69,231)
Excess (Deficiency) of Revenues over (under) Expenditures	(244,046)	233,602	847,464	477,648	613,862
Other Financing Sources (Uses):					
Operating transfers in	1,263,226	318,272	318,272	(944,954)	-
Operating transfers out	(1,489,013)	(1,648,786)	(1,798,786)	(159,773)	(150,000)
Other financing uses	-	(13,720)	-	(13,720)	13,720
Total Other Financing Sources (Uses)	(225,787)	(1,344,234)	(1,480,514)	(1,118,447)	(136,280)
Net Change in Fund Balances	(469,833)	(1,110,632)	(633,050)	(640,799)	477,582
Fund Balances:					
July 1, 2014, as previously reported	2,675,909	1,808,401	1,808,401	(867,508)	-
Fund reclassification	-	-	127,725	-	127,725
July 1, 2014, as restated	2,675,909	1,808,401	1,936,126	(867,508)	127,725
June 30, 2015	\$ 2,206,076	\$ 697,769	\$ 1,303,076	\$ (1,508,307)	\$ 605,307

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

HOLMES COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
Title I Part A Fund
For Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	2,895,696	2,230,834	2,895,696	(664,862.00)
Total Revenues	-	2,895,696	2,230,834	2,895,696	(664,862.00)
Expenditures:					
Instruction	-	958,476	681,888	(958,476)	276,588
Support services	-	1,775,956	1,439,906	(1,775,956)	336,050
Noninstructional services	-	105,620	70,268	(105,620)	35,352
Total Expenditures	-	2,840,052	2,192,062	(2,840,052)	647,990
Excess (Deficiency) of Revenues over (under) Expenditures	-	55,644	38,772	55,644	(16,872)
Other Financing Sources (Uses):					
Operating transfers out	(25,976)	(21,661)	(38,772)	4,315	(17,111)
Total Other Financing Sources (Uses)	(25,976)	(21,661)	(38,772)	4,315	(17,111)
Net Change in Fund Balances	(25,976)	33,983	-	59,959	(33,983)
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ (25,976)	33,983	-	59,959	(33,983.00)

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

HOLMES COUNTY SCHOOL DISTRICT
Required Supplementary Information
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PERS
Last 10 Fiscal Years*

	2015
District's proportion of the net pension liability (asset)	0.232%
District's proportionate share of the net pension liability (asset)	\$ 28,148,414
District's covered-employee payroll	14,171,130
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	198.63%
Plan fiduciary net position as a percentage of the total pension liability	67%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

HOLMES COUNTY SCHOOL DISTRICT
Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS
PERS
Last 10 Fiscal Years*

	<u>2015</u>
Contractually required contribution	\$ 2,244,646
Contributions in relation to the contractually required contribution	\$ 2,244,646
Contribution deficiency (excess)	<u>\$ 0</u>
District's covered-employee payroll	14,251,721
Contributions as a percentage of covered-employee payroll	15.75%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

HOLMES COUNTY SCHOOL DISTRICT
Note to Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Supplementary Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 663,100
National school lunch program	10.555	1,482,356
Summer food service program for children	10.559	21,713
Total child nutrition cluster		<u>2,167,169</u>
Total passed-through Mississippi Department of Education		<u>2,167,169</u>
Total U.S. Department of Agriculture		<u>2,167,169</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	183,777
Total Federal Communications Commission		<u>183,777</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
School Improvement Grant	84.377	382,273
Total School Improvement Grant		<u>382,273</u>
Title I grants to local educational agencies	84.010	2,577,801
Career and technical education - basic grants to states	84.048	44,742
Rural education	84.358	12,912
Improving teacher quality-State Grants	84.367	400,582
Subtotal		<u>3,036,037</u>
Special education cluster:		
Special education - grants to states	84.027	609,874
Special education - preschool grants	84.173	21,753
Total special education cluster		<u>631,627</u>
Total passed-through Mississippi Department of Education		<u>4,049,937</u>
Total U.S. Department of Education		<u>4,049,937</u>
Total for All Federal Awards		<u>\$ 6,400,883</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, 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.

HOLMES COUNTY SCHOOL DISTRICT
Supplementary Information
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For Year Ended June 30, 2015

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 20,102,887	14,176,715	1,303,029	1,381,193	3,241,950
Other	6,726,091	1,447,991	345,338	14,122	4,918,640
Total	<u>\$ 26,828,978</u>	<u>15,624,706</u>	<u>1,648,367</u>	<u>1,395,315</u>	<u>8,160,590</u>
Total number of students *	<u>2,893</u>				
Cost per student	<u>\$ 9,274</u>	<u>5,401</u>	<u>570</u>	<u>482</u>	<u>2,821</u>

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

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

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

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

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

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

OTHER INFORMATION

**HOLMES COUNTY SCHOOL DISTRICT
Other Information**

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

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 4,420,792	\$ 4,446,902	\$ 4,102,401	\$ 3,962,851
State sources	13,685,995	12,908,159	12,951,992	13,203,295
Federal sources	320,696	223,668	700,359	300,605
Sixteenth section sources	683,926			
Total Revenues	19,111,409	17,578,729	17,754,752	17,466,751
Expenditures:				
Instruction	9,888,656	9,768,216	9,555,001	10,486,088
Support services	8,068,273	7,981,217	7,819,323	7,716,951
Non-instructional services	17,049	5,041	2,899	2,538
Sixteenth section	54,357		1,681	1,785
Facilities acquisition and construction	100,360			
Debt service:				
Principal	-	-	67,015	71,961
Interest	132,000	-	148,223	150,546
Other	3,250	4,500	3,000	3,000
Total Expenditures	18,263,945	17,758,974	17,597,142	18,432,869
Excess (Deficiency) of Revenues over (under) Expenditures	847,464	(180,245)	157,610	(966,118)
Other Financing Sources (Uses):				
Insurance recovery				
Operating transfers in	318,272	471,770	22,850	49,986
Operating transfers out	(1,798,786)	(731,507)	(276,126)	(2,887,287)
Other financing uses		(132,046)		(22,570)
Total Other Financing Sources (Uses)	(1,480,514)	(391,783)	(253,276)	(2,859,871)
Net Change in Fund Balances	(633,050)	(572,028)	(95,666)	(3,825,989)
Fund Balances:				
Beginning of period,	1,808,401	2,380,429	2,476,095	6,302,084
Fund reclassification	127,725	-	-	-
	1,936,126	2,380,429	2,476,095	6,302,084
End of Period	\$ 1,303,076	\$ 1,808,401	\$ 2,380,429	\$ 2,476,095

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLMES COUNTY SCHOOL DISTRICT
Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years
UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 4,824,168	\$ 4,791,869	\$ 4,502,437	\$ 4,426,971
Increase (decrease) in fair market value	-	6,014	(38,442)	-
State sources	15,173,109	14,485,773	14,393,579	14,692,507
Federal sources	6,499,328	7,746,113	8,175,668	9,760,268
Sixteenth section sources	815,247	1,217,436	893,643	1,331,524
Total Revenues	27,311,852	28,247,205	27,926,885	30,211,270
Expenditures:				
Instruction	11,938,340	12,290,423	12,392,289	14,020,217
Support services	11,283,290	11,991,497	11,377,496	12,223,998
Noninstructional services	2,145,081	2,177,756	2,341,711	2,434,306
Sixteenth section	142,150	162,895	288,811	179,249
Facilities acquisition and construction	525,962	1,418,582	4,215,713	3,055,217
Debt service:				
Principal	575,000	560,000	695,000	685,000
Interest	212,530	96,470	251,473	268,046
Other	6,625	7,875	6,434	5,625
Total Expenditures	26,828,978	28,705,498	31,568,927	32,871,658
Excess (Deficiency) of Revenues over (under) Expenditures	482,874	(458,293)	(3,642,042)	(2,660,388)
Other Financing Sources (Uses):				
Bonds issued			1,000,000	
Insurance recovery				
Payments held by escrow agent		235,805	890,159	
Operating transfers in	1,951,960	1,762,011	3,127,375	2,946,760
Other financing sources	275,520			628,000
Operating transfers out	(1,951,960)	(1,762,011)	(3,127,375)	(2,946,760)
Payment to QZAB and QSCB debt escrow agent	-	(235,805)	(890,159)	
Other financing uses	(275,523)	(133,359)		(864,348)
Total Other Financing Sources (Uses)	(3)	(133,359)	1,000,000	(236,348.00)
Net Change in Fund Balances	482,871	(591,652)	(2,642,042)	(2,896,736)
Fund Balances:				
Beginning of period,	5,748,179	6,322,182	8,953,434	11,853,482
Increase (Decrease) in reserve for inventory	(14,266)	17,648	10,790	(3,312)
End of Period	\$ 6,216,784	\$ 5,748,178	\$ 6,322,182	\$ 8,953,434

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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

Superintendent and School Board
 Holmes 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 Holmes County School District, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise Holmes County School District's basic financial statements, and have issued our report thereon dated March 31, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Holmes County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Holmes County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Holmes County School District's internal control. A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Holmes 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*.

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.

Watkins, Ward & Stafford PLLC
Jackson, Mississippi
March 31, 2016

Watkins Ward and Stafford, PLLC



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**Independent Auditors' Report
 on Compliance For Each Major Federal Program; Report on Internal Control Over Compliance
 Required by OMB Circular A-133**

Superintendent and School Board
 Holmes County School District

Report on Compliance for Each Major Federal Program

We have audited Holmes 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 Holmes County School District's major federal programs for the year ended June 30, 2015. Holmes County School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Holmes County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 Holmes County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Holmes County School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Holmes 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, 2015.

Report on Internal Control Over Compliance

Management of Holmes County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Holmes 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 Holmes County School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Watkins, Ward & Stafford PLLC
Jackson, Mississippi
March 31, 2016

Watkins Ward and Stafford, P.C.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS



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**INDEPENDENT AUDITORS' REPORT
 ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Superintendent and School Board
 Holmes County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2015, which collectively comprise Holmes County School District's basic financial statements and have issued our report thereon dated March 31, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported a zero balance 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 insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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

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

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

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

Watkins, Ward & Stafford PLLC
 Jackson, Mississippi
 March 31, 2016

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Holmes County School District
 Schedule of Findings and Questioned Costs
 For Year Ended June 30, 2015

Section I: Summary of Auditors' Results

Financial Statements:

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | |
|---|---|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified? | None reported |
| 5. Type of auditors' 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: | |
| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
| 84.027; 84.173 | Special Education Cluster |
| 84.010 | Title I |
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as low-risk auditee? | No |

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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