
FERGUSON REORGANIZED SCHOOL DISTRICT R-2

***FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORTS
AND SUPPLEMENTARY INFORMATION***

JUNE 30, 2016

Contents

	Page
INDEPENDENT AUDITORS' REPORT	1
BASIC FINANCIAL STATEMENTS:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Position - Modified Cash Basis	4
Statement of Activities - Modified Cash Basis	5
<i>Fund Financial Statements:</i>	
Balance Sheet - Modified Cash Basis - Governmental Funds	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	7
Statement of Fund Net Position - Modified Cash Basis - Proprietary Fund.....	9
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis - Proprietary Fund	10
<i>Notes to Basic Financial Statements</i>	11
SUPPLEMENTARY INFORMATION:	
Schedule of Revenues, Expenditures and Change in Fund Balance - Modified Cash Basis - Budget and Actual:	
General Fund	27
Special Revenue Fund	28
Debt Service Fund	29
Capital Projects Fund.....	30
Note to Budgetary Comparison Information.....	31
Schedule of Selected Statistics	32
Report on Compliance - State Requirements	35

Contents

Page

FEDERAL COMPLIANCE SECTION:

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 <i>Government Auditing Standards</i>	36
Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by The Uniform Guidance	38
Schedule of Expenditures of Federal Awards	41
Notes to the Schedule of Expenditures of Federal Awards.....	42
Schedule of Findings and Questioned Costs	43



SCHOWALTER & JABOURI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

11878 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 849-4999
FAX (314) 849-3486

FINANCIAL SERVICES
COMPUTER SOLUTIONS
ADMINISTRATIVE OFFICES

11777 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 842-2929
FAX (314) 842-3483

INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Education
Ferguson Reorganized School District R-2

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ferguson Reorganized School District R-2 (the "District") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

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 from 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 financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • MISSOURI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA GOVERNMENTAL AUDIT QUALITY CENTER • AICPA EMPLOYEE BENEFIT PLAN AUDIT QUALITY CENTER

"SCHOWALTER & JABOURI, P.C. IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS"

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position - modified cash basis, thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedules and related note and the schedule of selected statistics are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditure of federal awards is the responsibility of management and was derived from and relates 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The budgetary comparison schedule and related note and the schedule of selected statistics, except for the budgetary procedures, pupil attendance and pupil transportation records have 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 them.

Other Reporting Required Under Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated December 14, 2016 on our consideration of the 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 the District's internal control over financial reporting and compliance.


SCHOWALTER & ABOURI, P.C.

St. Louis, Missouri
December 14, 2016

Basic Financial Statements

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2016**

	<u>Governmental Activities</u>
-- ASSETS --	
Cash and investments	\$ 35,509,092
Restricted cash and investments	<u>442,277</u>
TOTAL ASSETS	<u>\$ 35,951,369</u>
-- LIABILITIES --	
Payroll withholdings	<u>\$ 3,485,912</u>
-- NET POSITION --	
Restricted for:	
Bond proceeds	3,584,363
Debt service	1,658,268
Teachers' salaries and benefits	206,544
Professional development	16,478
Food service	4,266,114
Unrestricted	<u>22,733,690</u>
Total Net Position	<u>32,465,457</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 35,951,369</u>

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Function/Program	Expenses	Program Revenues			Net (Expense)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total Governmental Activities
GOVERNMENTAL ACTIVITIES:					
Instruction	\$ 66,541,795	\$ 2,771,240	\$ 10,087,745	\$ 13,388	\$ (53,669,422)
Attendance	636,870	-	-	-	(636,870)
Guidance	4,448,511	-	-	-	(4,448,511)
Health services	1,429,698	-	-	-	(1,429,698)
Improvement of instruction	3,294,048	-	171,415	-	(3,122,633)
Professional development	517,181	-	-	-	(517,181)
Media services	3,878,111	-	-	-	(3,878,111)
Board of Education services	748,295	-	-	-	(748,295)
Executive administration	3,700,938	-	-	-	(3,700,938)
Building level administration	8,135,858	-	-	-	(8,135,858)
Operation of plant	14,519,251	599,789	-	-	(13,919,462)
Pupil transportation	3,539,986	196,671	511,738	-	(2,831,577)
Food services	5,333,081	234,170	6,807,135	1,600	1,709,824
Business and central services	1,903,324	-	-	-	(1,903,324)
Security services	1,403,225	-	-	-	(1,403,225)
Community services	3,990,385	445,069	82,793	-	(3,462,523)
Facilities	6,093,427	-	-	-	(6,093,427)
Debt service:					
Principal	2,139,822	-	-	-	(2,139,822)
Interest	1,070,718	-	-	-	(1,070,718)
Other	73,453	-	-	-	(73,453)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 133,397,977	\$ 4,246,939	\$ 17,660,826	\$ 14,988	(111,475,224)
General Revenues					
Taxes:					
Property 51,833,718					
Sales 10,328,099					
Other 4,831					
State aid 41,139,449					
State assessed utilities 1,605,465					
Grants and contributions not restricted					
to specific programs 78,394					
Fines and escheats 109,091					
Investment income 99,391					
TOTAL GENERAL REVENUES 105,198,438					
CHANGE IN NET POSITION (6,276,786)					
NET POSITION, BEGINNING OF YEAR 38,742,243					
NET POSITION, END OF YEAR \$ 32,465,457					

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**BALANCE SHEET - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
JUNE 30, 2016**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
-- ASSETS --					
Cash and investments	\$ 21,819,091	\$ 3,059,909	\$ 1,658,268	\$ 3,764,653	\$ 30,301,921
Restricted cash and investments	-	-	442,277	-	442,277
Due from other funds	110,569	331,708	-	-	442,277
TOTAL ASSETS	\$ 21,929,660	\$ 3,391,617	\$ 2,100,545	\$ 3,764,653	\$ 31,186,475
-- LIABILITIES AND FUND BALANCES --					
LIABILITIES:					
Payroll withholdings	\$ 317,317	\$ 3,168,595	\$ -	\$ -	\$ 3,485,912
Due to other funds	-	-	442,277	-	442,277
Total Liabilities	317,317	3,168,595	442,277	-	3,928,189
FUND BALANCES:					
Restricted for:					
Bond proceeds	-	-	-	3,584,363	3,584,363
Debt service	-	-	1,658,268	-	1,658,268
Teachers' salaries and benefits	-	206,544	-	-	206,544
Professional development	-	16,478	-	-	16,478
Food service	4,266,114	-	-	-	4,266,114
Assigned for:					
Student activities	4,553	-	-	-	4,553
Capital projects	-	-	-	180,290	180,290
Unassigned	17,341,676	-	-	-	17,341,676
Total Fund Balances	21,612,343	223,022	1,658,268	3,764,653	27,258,286
TOTAL LIABILITIES AND FUND BALANCES	\$ 21,929,660	\$ 3,391,617	\$ 2,100,545	\$ 3,764,653	\$ 31,186,475

Reconciliation to Statement of Net Position

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

Fund balances of governmental funds	\$ 27,258,286
Internal service funds are used by the District to charge the cost of insurance activities to individual funds. The net position of the internal service fund is included in governmental activities in the statement of net position.	5,207,171
Net position of governmental activities	<u>\$ 32,465,457</u>

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	General	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES:					
Local sources:					
Property	\$ 21,412,820	\$ 28,066,745	\$ 2,354,153	\$ -	\$ 51,833,718
Sales	-	10,328,099	-	-	10,328,099
Investment income	49,981	7,486	5,818	36,106	99,391
Student activities	989,334	-	-	-	989,334
Food service	234,170	-	-	-	234,170
Other local	3,028,267	23,161	-	94,151	3,145,579
Total local	25,714,572	38,425,491	2,359,971	130,257	66,630,291
County sources:					
State assessed utilities	666,132	873,382	65,951	-	1,605,465
Fines and escheats	-	109,091	-	-	109,091
Total county	666,132	982,473	65,951	-	1,714,556
State sources:					
State aid	10,284,862	30,854,587	-	-	41,139,449
State grants and contributions	2,179,044	2,040,896	-	-	4,219,940
Total state	12,463,906	32,895,483	-	-	45,359,389
Federal sources	9,513,917	3,759,272	78,394	65,372	13,416,955
Total Revenues	48,358,527	76,062,719	2,504,316	195,629	127,121,191
EXPENDITURES:					
Current:					
Instruction	6,518,066	60,370,203	-	-	66,888,269
Attendance	637,225	3,942	-	-	641,167
Guidance	1,198,636	3,280,393	-	-	4,479,029
Health services	1,439,218	-	-	-	1,439,218
Improvement of instruction	1,468,918	1,839,218	-	-	3,308,136
Professional development	112,448	408,445	-	-	520,893
Media services	2,394,916	1,509,435	-	-	3,904,351
Board of Education services	748,261	-	-	-	748,261
Executive administration	1,887,524	1,821,565	-	-	3,709,089
Building level administration	2,740,360	5,443,587	-	-	8,183,947
Operation of plant	14,578,826	-	-	-	14,578,826
Pupil transportation	3,408,715	-	-	-	3,408,715
Food services	5,298,579	997	-	-	5,299,576
Business and central services	1,762,156	152,422	-	-	1,914,578
Security services	1,412,698	-	-	-	1,412,698
Community services	2,455,449	1,534,936	-	-	3,990,385
Capital outlay	-	-	-	6,412,212	6,412,212
Debt service:					
Principal	-	-	1,880,000	259,822	2,139,822
Interest	-	-	977,594	93,124	1,070,718
Other	-	-	1,378	72,075	73,453
Total Expenditures	48,061,995	76,365,143	2,858,972	6,837,233	134,123,343

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
NET CHANGES IN FUND BALANCES	296,532	(302,424)	(354,656)	(6,641,604)	(7,002,152)
FUND BALANCES, BEGINNING OF YEAR	21,315,811	525,446	2,012,924	10,406,257	34,260,438
FUND BALANCES, END OF YEAR	<u>\$ 21,612,343</u>	<u>\$ 223,022</u>	<u>\$ 1,658,268</u>	<u>\$ 3,764,653</u>	<u>\$ 27,258,286</u>

Reconciliation to Statement of Activities

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

Net change in fund balances for governmental funds	\$ (7,002,152)
Internal service funds are used by the District to charge the cost of insurance activities to individual funds. The change in net position of the internal service fund is included in governmental activities in the statement of activities.	<u>725,366</u>
Change in net position of governmental activities	<u>\$ (6,276,786)</u>

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**STATEMENT OF FUND NET POSITION - MODIFIED CASH BASIS -
PROPRIETARY FUND
JUNE 30, 2016**

	Governmental Activities - Internal Service Fund
CURRENT ASSETS	
Cash	<u>\$ 5,207,171</u>
NET POSITION	
Unrestricted	<u>\$ 5,207,171</u>

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ferguson Reorganized School District R-2 (the District), established under the Statutes of the State of Missouri, is governed by an elected seven-member board as described in Section 162.092 RSMo of the public school laws of Missouri. The Board of Education is the basic level of government that has financial accountability and control over all activities related to public school education in the District.

As discussed further in Note 1 under “Basis of Accounting,” these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP).

Principles Determining the Scope of Reporting Entity

The financial statements of the District consist only of the funds of the District. The District has no financial accountability for any other governmental entity, since no other entities are considered to be controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective board. In addition, the District is not aware of any entity which would exercise such oversight that would result in the District being considered a component unit of the entity.

Additionally, while the parent-teacher organizations of the District’s schools may be considered to be part of the financial reporting entity of the District under governmental standards, the balances and activities of such organizations have not been included in these financial statements due to their overall immateriality to the District.

Fund Accounting

The accounts of the District are organized on the basis of legally established funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund types are used by the District:

Governmental Funds

Governmental Funds are those through which all functions of the District are financed. The District’s expendable financial resources are accounted for through Governmental Funds. The measurement focus is upon determination of changes in the financial position rather than upon net income determination. The following are the District’s governmental fund types, each of which the District considers to be a major fund:

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

General Fund

The General Fund is the primary operating fund of the District and is used to account for expenditures for noncertified employees, pupil transportation costs, operation of plant, fringe benefits, student body activities, community services, the food service program, and any expenditures not required or permitted to be accounted for in other funds.

Special Revenue Fund

A Special Revenue Fund accounts for revenues derived from specific taxes or other earmarked revenue sources. The Special Revenue Fund accounts for expenditures for certified employees involved in administration and instruction, and includes revenues restricted by the state and local tax levy allocations for the payment of teacher salaries and certain benefits.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for the periodic payment of principal, interest and fiscal charges on long-term debt.

Capital Projects Fund

The Capital Projects Fund is used to account for resources to be used for the acquisition or construction of major capital assets.

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those found in the private sector. The measurement focus is on the determination of net income, changes in net position (or cost recovery), financial position and cash flows. The District's proprietary fund type is as follows:

Internal Service Fund

The Internal Service Fund accounts for premiums collected for the payment of claims associated with the District's self-insurance activities (primarily medical and dental benefits). Expenses include claims paid and administrative fees.

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities are generally financed through taxes, intergovernmental revenues, and other nonexchange transactions.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

The Statement of Net Position presents the financial condition of the governmental activities of the District at year end.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Amounts reported as *program revenues* include charges paid by the students for (a) goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as *program revenues* are presented as general revenues and include all property taxes. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements

The fund financial statements provide information about the District's funds. A balance sheet and statement of revenues, expenditures, and changes in fund balances are presented. The emphasis of fund financial statements is on *major* governmental funds, each displayed in a separate column. The District considers each of its funds to be major.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

The government-wide financial statements and fund financial statements are prepared using a modified cash basis of accounting. This basis of accounting recognizes assets, net position/fund equity, revenues, and expenditures/expenses when they result from cash transactions except that the purchase of investments are recorded as assets and payroll withholdings are recorded as liabilities. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets (such as accounts receivable and capital assets), certain revenues (such as revenue for billed or provided services not yet collected), certain liabilities (such as accounts payable and general obligation bonds payable and obligations under capital leases) and certain expenses (such as expenses for goods or services received but not yet paid) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the governmental fund financial statements would use the modified accrual basis of accounting, while the government-wide and proprietary fund financial statements would be presented on the accrual basis of accounting.

Property Taxes

Property taxes are levied annually in November based on the assessed valuation of all real and personal property located in the District as of the previous January 1 and are due and collectible on

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

December 31. Property taxes become delinquent and attach as an enforceable lien on property as of January 1 of the following year. St. Louis County collects the property tax and remits it to the District.

The assessed valuation of the tangible taxable property for the calendar years 2015 and 2014 for purposes of local taxation was \$881,611,230 and \$893,426,470.

The tax levy per \$100 of the assessed valuation of tangible taxable property for the calendar years 2015 and 2014 for purposes of local taxation was:

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
	<u>Adjusted</u>	<u>Adjusted</u>
General Fund	\$ 2.2500	\$ 2.2900
Special Revenue Fund	2.9500	2.9500
Debt Service Fund	0.3000	0.3000
Capital Projects Fund	-	-
Total	<u>\$ 5.5000</u>	<u>\$ 5.5400</u>

The receipts of current and delinquent property taxes during the fiscal year ended June 30, 2016, aggregated approximately 89.0% of the current assessment computed on the basis of the levy as shown above.

Sales Taxes

The District receives sales taxes collected by the state from a one cent state sales tax. The District is required to reduce its property tax levy by one-half the amount of sales tax estimated to be received in the subsequent calendar year. The District's taxpayers have voted to permanently waive this property tax rollback.

Cash and Investments

Cash resources from all funds, except the Debt Service Fund, are combined to form a pool of cash and temporary investments which is managed by the District Treasurer. State law requires that all deposits of the Debt Service Fund be kept separate from all other funds of the District. Interest income earned is allocated to contributing funds based on each funds' proportionate share of funds invested.

Under state law, the District may invest in United States Treasury-bills, notes, bonds, government agency and instrumentality obligations, repurchase agreements collateralized by government securities, time certificates of deposit, bankers acceptances issued by domestic commercial banks, and commercial paper issued by domestic corporations.

See Note 2 Cash and Investments.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

Restricted Cash and Investments

Restricted cash and investments represent amounts whose use is limited by legal requirements. In the Debt Service Fund, restricted cash and investments consist of amounts escrowed for future general obligation bond principal and interest payments in conjunction with the Missouri School District Direct Deposit Program as discussed in Note 2 and Note 3.

Governmental Fund Balances

In the governmental fund financial statements, the following classifications are used to define the governmental fund balances:

Nonspendable - includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact. The District has no nonspendable fund balances as of June 30, 2016.

Restricted - includes amounts legally restricted by outside parties or by law through constitutional provision or enabling legislation. As of June 30, 2016, the District's restricted fund balances includes amounts restricted for retirement of debt, the food service program, the payment of teachers' salaries and benefits, bond proceeds, and professional development.

Committed - includes amounts that can only be used for specific purposes as determined by formal action (resolution) of the Board of Education. Commitments may be modified or rescinded only through resolutions approved by the District's highest level of decision-making authority, the Board of Education. The District has no committed fund balances as of June 30, 2016.

Assigned - includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's adopted policy, amounts may be assigned by the Superintendent. As of June 30, 2016, the District's assigned fund balance consists of student activities and capital projects.

Unassigned - includes amounts that do not meet the definition of "nonspendable," "restricted," "committed," or "assigned."

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislation

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

adopted by the District or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments. All other net position is reported as unrestricted. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

At June 30, 2016, net position was restricted for debt service, the food service program, the payment of teachers' salaries and benefits, bond proceeds, and professional development.

Interfund Activity

Interfund transfers are reported as other financing sources (uses) in governmental funds. The District did not transfer any amounts between funds during the year ended June 30, 2016. Interfund receivables and payables are eliminated in the statement of net position to reduce the "grossing up" effect on assets and liabilities within the governmental activities column.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the year ended June 30, 2016.

Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

2. CASH AND INVESTMENTS

The District is governed by the deposit and investment limitations of State law, as described in Note 1.

The District participates in the Missouri Direct Deposit Program which is a mechanism for public school bond repayments through the Missouri Health and Educational Facilities Authority ("MOHEFA") Bond Program. It authorizes the direct deposit of a portion of the District's state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds. The direct deposits occur monthly and the balance is withdrawn every six months to pay the debt service requirement of the related bond issues. At June 30, 2016, the District had \$442,277 in this program, which has been classified as investments.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

The cash deposits and temporary investments are reported at cost and are summarized as follows at June 30, 2016:

<u>Type</u>	<u>Maturities</u>	<u>Credit Rating</u>	<u>Cost</u>
Deposits:			
Demand deposits	N/A	N/A	\$ 29,234,143
Cash on hand	N/A	N/A	4,245
Investments:			
Negotiable certificates of deposit	<1 year	Not rated	3,714,000
Federal agency bonds	<1 year	A-1+	2,556,704
Money market mutual funds	<1 year	AAAm	<u>442,277</u>
Total deposits and investments			<u><u>\$ 35,951,369</u></u>

Custodial Credit Risk - Deposits

For a deposit, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a custodial credit risk policy which requires funds to be collateralized at least one hundred percent (100%) or greater of the balance plus any demand deposit with the depository, less any insurance (FDIC or NCUSIF), as applicable. As of June 30, 2016, none of the District's bank balance of \$30,184,147 was exposed to custodial credit risk.

Custodial Credit Risk - Investments

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by the party who sold the security to the district or its agent, but not in the government's name. The District does not have a policy for custodial credit risk for investments. The District's investments were not exposed to custodial credit risk at year end.

Investment Interest Rate Risk

The District minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities. In accordance with state statute, investments in banker's acceptances and commercial paper shall mature in no more than 180 days from the purchase date and all other investments shall mature and become payable in no more than five (5) years from purchase date. Maturities of investments held at June 30, 2016 are summarized in the schedule above.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

Investment Credit Risk

Investment credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The credit ratings of the District's investments at June 30, 2016 are summarized in the schedule above.

Concentration of Investment Credit Risk

Concentration of credit risk is required to be disclosed by the District for any single investment that represents five percent (5%) or more of total investments (excluding investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds, investments in external investment pools and investments in other pooled investments). The District does not have a policy limiting the amount it may invest in any one issuer. At June 30, 2016, negotiable certificates of deposit comprised fifty-nine percent (59%) of investments subject to this disclosure, and federal agency bonds comprised forty-one percent (41%) of investments subject to this disclosure.

3. LONG-TERM DEBT

For the year ended June 30, 2016, the following changes occurred in long-term debt:

	Balance			Balance	Amounts
	July 1, 2015	Additions	Retirements	June 30, 2016	Due Within
					One Year
Bonds payable	\$ 26,170,000	\$ -	\$ 1,880,000	\$ 24,290,000	\$ 1,225,000
Capital leases payable	2,410,156	8,700	259,822	2,159,034	246,831
Totals	\$ 28,580,156	\$ 8,700	\$ 2,139,822	\$ 26,449,034	\$ 1,471,831

Payments of bonds payable are made from the Debt Service Fund. Payments of capital leases payable are made from the Capital Projects Fund.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

Bonds Payable

Bonds payable at June 30, 2016 consist of the following:

\$10,000,000 General Obligation Bonds Series 2010, due in varying installments through May 2029, interest at 4.7% to 5.1%	\$ 10,000,000
\$15,000,000 General Obligation Bonds Series 2012, due in varying installments through May 2024 interest at 2.0% to 5.0%	6,425,000
\$8,770,000 General Obligation Bonds Series 2015, due in varying installments through May 2035 interest at 2.0% to 4.0%	<u>7,865,000</u>
Total Bonds Payable	<u><u>\$ 24,290,000</u></u>

The annual requirements to amortize bonded debt outstanding as of June 30, 2016 are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 1,225,000	\$ 986,325	\$ 2,211,325
2018	900,000	961,825	1,861,825
2019	915,000	941,825	1,856,825
2020	930,000	921,525	1,851,525
2021	950,000	899,100	1,849,100
2022-2026	6,865,000	3,915,800	10,780,800
2027-2031	8,240,000	1,855,675	10,095,675
2032-2035	4,265,000	430,400	4,695,400
Total	<u><u>\$ 24,290,000</u></u>	<u><u>\$ 10,912,475</u></u>	<u><u>\$ 35,202,475</u></u>

Repayment of all bond issues is made through the Missouri Direct Deposit Program, as discussed in Note 2.

The 2010 bonds were issued as “Build America Bonds” and as “qualified bonds under the Internal Revenue Code.” Accordingly, the District will receive a subsidy payment from the federal government equal to 35% of the amount of each interest payment on these taxable bonds.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

Legal Debt Margin

Article VI, Section 26(b) of the Constitution of Missouri, limits the outstanding amount of authorized general obligation bonds of the District to fifteen percent (15%) of the assessed valuation of the District (including state assessed railroad and utilities). The legal debt margin of the District, computed excluding the assessed valuation of state assessed railroad and utilities, at June 30, 2016, was:

Constitutional debt limit	\$ 132,241,685
General obligation bonds payable	(24,290,000)
Amount available in Debt Service Fund	1,658,268
	<u>\$ 109,609,953</u>

Defeased General Obligation Debt

During the fiscal year ended June 30, 2015, the District used excess debt service funds of \$1,617,301 to advance refund \$1,555,000 of the Series 2012 Bonded Debt. The funds were used to purchase U.S. government securities and to pay related expenses. The purchased securities were deposited into an irrevocable trust to provide for future debt service on the refunded portion of the Series 2012 Bonds. As a result, that portion of the Series 2012 Bonds is considered defeased, and the District has removed the liability from its accounts. At June 30, 2016, the amount of the defeased debt outstanding and removed from the District's books and records related to this transaction is \$1,555,000.

During the fiscal year ended June 30, 2014, the District used excess debt service funds to advance refund certain outstanding bonds of the Series 2012 Bonded Debt. The bonds are considered defeased, and the District has removed the liability from its accounts. At June 30, 2016, the amount of the defeased debt outstanding and removed from the District's books and records related to this transaction is \$1,345,000.

Capital Lease Agreements

At June 30, 2016, the District is obligated under three leases that are classified as capital leases.

During the year ended June 30, 2013, the District entered into a lease purchase agreement with a company for various energy savings equipment and related installation. The lease was for a total amount of \$2,620,373 and calls for quarterly payments of approximately \$43,673 at an interest rate of four percent (4.00%). The final payment under this lease is due in November 2027.

During the year ended June 30, 2015, the District entered into a lease purchase agreement with a company for various copier equipment. The lease was for a total amount of \$743,597 and calls for monthly payments of \$13,645 including interest at a rate of three and eighty-five hundredths percent (3.85%). The final payment under this lease is due in February 2020.

During the year ended June 30, 2016, the District entered into a lease purchase agreement with a company for copier equipment. The lease is for a total amount of \$8,700 and calls for monthly payments of \$145. The final payment under this lease is due in December 2020.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

Future minimum lease payments under the capital leases described above are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 326,526
2018	340,171
2019	340,171
2020	285,592
2021	175,562
2022-2026	873,458
2027-2028	<u>262,037</u>
Total future minimum lease payments	2,603,517
Less amount representing interest	<u>(444,483)</u>
Present value of future minimum lease payments	<u><u>\$ 2,159,034</u></u>

4. RETIREMENT PLANS

A. Public School Retirement System of Missouri ("PSRS")

Plan Description. PSRS is a mandatory cost-sharing multiple employer retirement system for all full-time certificated employees and certain part-time certificated employees of all public school districts in Missouri (except the school districts of St. Louis and Kansas City) and all public community colleges. PSRS also includes certificated employees of PSRS, Missouri State Teachers' Association, Missouri State High School Activities Association, and certain employees of the State of Missouri who elected to remain covered by PSRS under legislation enacted in 1986, 1987 and 1989.

The majority of PSRS members are exempt from Social Security contributions. In some instances, positions may be determined not to be exempt from Social Security contributions. Any PSRS member who is required to contribute to Social Security comes under the requirements of Section 169.070 (9) RSMo, known as the "2/3's statute." PSRS members required to contribute to Social Security are required to contribute two-thirds of the approved PSRS contribution rate and their employer is required to match the contribution. The members' benefits are further calculated at two-thirds the normal benefit amount. A Comprehensive Annual Financial Report ("CAFR") can be obtained at www.psr-peers.org.

Benefits Provided. PSRS is a defined benefit plan providing retirement, disability, and death/survivor benefits. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of 5 years of service, (b) have 30 years of service, or (c) qualify for benefits under the "Rule of 80" (service and age total at least 80) are entitled

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

to a monthly benefit for life, which is calculated using a 2.5% benefit factor. Beginning July 1, 2001, and ending July 1, 2014, a 2.55% benefit factor was used to calculate benefits for members who have 31 or more years of service. Actuarially age-reduced benefits are available for members with five (5) to 24.9 years of service at age 55. Members who are younger than age 55 and who do not qualify under the "Rule of 80" but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. A Summary Plan Description detailing the provisions of the plan can be found on PSRS' website at www.psr-peers.org.

Cost-of-Living Adjustments ("COLA"). The PSRS Board has established a policy of providing a 2.00% COLA for years in which the CPI increases between 0.00% and 5.00%. If the CPI increase is greater than 5.00%, the Board will provide a COLA of 5.00%. If the CPI decreases, no COLA is provided. For any PSRS member retiring on or after July 1, 2001, such adjustments commence on the second January after commencement of benefits and occur annually thereafter. The total of such increases may not exceed 80% of the original benefit for any member.

Contributions. PSRS members were required to contribute 14.5% of their annual covered salary during fiscal year 2016. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 1% of pay. Contributions for employees of the State of Missouri were made by the state in accordance with the actuarially determined contribution rate needed to fund current costs and prior service costs of state employees as authorized in Section 104.342.8 RSMo.

The District's contributions to PSRS were \$9,128,964 for the year ended June 30, 2016.

B. Public Education Employee Retirement System of Missouri ("PEERS")

Plan Description. PEERS is a mandatory cost-sharing multiple employer retirement system for all public school district employees (except the school districts of St. Louis and Kansas City), employees of the Missouri Association of School Administrators, and community college employees (except the Community College of St. Louis). Employees of covered districts who work 20 or more hours per week on a regular basis and who are not contributing members of the Public School Retirement System of Missouri (PSRS) must contribute to PEERS. Employees of PSRS who do not hold Missouri educator certificates also contribute to PEERS. PEERS was established as a trust fund by an Act of the Missouri General Assembly effective October 13, 1965. Statutes governing the System are found in Sections 169.600-169.715 and Sections 169.560-169.595 RSMo. The statutes place responsibility for the operation of PEERS on the Board of Trustees of the Public School Retirement System of Missouri. A Comprehensive Annual Financial Report ("CAFR") can be obtained at www.psr-peers.org.

Benefits Provided. PEERS is a defined benefit plan providing service retirement and disability benefits to its members. Members are vested for service retirement benefits after accruing five years of service. Individuals who (a) are at least age 60 and have a minimum of five years of service, (b)

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

have 30 years of service, or (c) qualify for benefits under the “Rule of 80” (service and age total at least 80) are entitled to a monthly benefit for life, which is calculated using a 1.61% benefit factor. Members qualifying for “Rule of 80” or “30-and-out” are entitled to an additional temporary 0.8% benefit multiplier until reaching minimum Social Security age (currently age 62). Actuarially age-reduced retirement benefits are available with five years of service at age 55. Members who are younger than age 55 and who do not qualify under the “Rule of 80” but have between 25 and 29.9 years of service may retire with a lesser benefit factor. Members that are three years beyond normal retirement can elect to have their lifetime monthly benefits actuarially reduced in exchange for the right to also receive a one-time partial lump sum (PLSO) payment at retirement equal to 12, 24, or 36 times the Single Life benefit amount. A Summary Plan Description detailing the provisions of the plan can be found on PEERS’ website at www.psr-peers.org.

Cost-of-Living Adjustments (COLA). The PEERS Board has established a policy of providing a 2.00% COLA for years in which the CPI increases between 0.00% and 5.00%. If the CPI increase is greater than 5.00%, the Board will provide a COLA of 5.00%. If the CPI decreases, no COLA is provided. For any member, such adjustments commence on the fourth January after commencement of benefits and occur annually thereafter. The total of such increases may not exceed 80% of the original benefit for any member.

Contributions. PEERS members were required to contribute 6.86% of their annual covered salary during fiscal year 2016. Employers were required to match the contributions made by employees. The contribution rate is set each year by the PSRS Board of Trustees upon the recommendation of the independent actuary within the contribution restrictions set in Section 169.030 RSMo. The annual statutory increase in the total contribution rate may not exceed 0.5% of pay.

The District’s contributions to PEERS were \$1,652,397 for the year ended June 30, 2016.

5. EMPLOYEE BENEFITS PLANS

The District offers its employees various tax-sheltered annuity programs created in accordance with Internal Revenue Code Section 403(b). The plans, available to all District employees, permit them to defer a portion of their salary for investment purposes. The District also offers a Section 125 Cafeteria Plan to all employees. Under this plan, the deferred portion can be used to purchase health insurance benefits and provider for reimbursement of qualified dependent care costs and medical expenses.

6. INSURANCE PROGRAM

The District, along with various other local school districts, participates in the Missouri United School Insurance Council (“MUSIC”), an insurance association for workers’ compensation, general liability and property and casualty insurance. The purpose of MUSIC is to distribute the cost of self-insurance over similar entities. MUSIC requires an annual premium payment to cover estimated claims payable and reserves for claims from each entity. The members of MUSIC have no legal interest in the assets, liabilities, or fund balances of the insurance association. However, the District retains a contingent liability to fund its pro rata share of any deficit incurred by

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

MUSIC should it cease operations at some future date. The District's premium assessment from MUSIC for the year ended December 31, 2016 was \$1,892,460. Settled claims have not exceeded insurance coverage in any of the past three years.

7. COMMITMENTS AND CONTINGENCIES

Grants

The District receives revenues under various federal and state grant programs which are required to be expended in accordance with regulatory restrictions. These grants are subject to audit by the granting agencies. Such audits could result in request for reimbursement to grantor agencies for expenditures disallowed under the terms of the grants. However, in the District's opinion, any adjustments or settlements that may arise from these audits would not have a material adverse effect on the overall financial position the District. In addition, while the District may have grant expenditures that have yet to be reimbursed or grant receipts that have yet to be expended at June 30, 2016, any related grant receivables or deferrals are not reflected in the accompanying financial statements.

Protested Taxes

Each year St. Louis County remits certain unresolved protested tax payments to the District. When the County refunds tax payments to those who are successful in their protests, it withholds the refunded amount from future distributions to taxing districts. Normal withholdings by the County are not material in relation to the District's financial position and results of operations.

Litigation

The District is involved in various lawsuits and any other legal matters at June 30, 2016. While in the District's opinion, based on consultation with legal counsel, these items will be resolved with no material adverse effect on the District, the results of the proceedings have yet to be finalized.

Construction

As of June 30, 2016, the District has entered into construction commitments totaling approximately \$1,574,000 of which approximately \$1,419,000 has been paid.

Separation Incentive Plan

During the year ended June 30, 2014, the District approved voluntary supplemental retirement plans for eligible (as defined) personnel. The compensation offered varies depending on the plan, and the plans call for different payment options which caused the payments to be paid out through the year ended June 30, 2016. During the year ended June 30, 2016, the District made payments of \$64,400 to eight retirees in accordance with these Plans. The District has no future obligations as of June 30, 2016.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

8. POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, the District allows employees who retire from the District to participate in the District's health, dental and life insurance plans. Upon meeting the retirement requirements per PSRS or PEERS, the employees can elect to participate in the District's plans. The retirees must pay for 100% of their coverage for each plan in which they elect to participate. The premiums are based on a single blended rate for both active employees and retirees. The blended rates provide an implicit rate subsidy for retirees because, on an actuarial basis, the current and future claims are expected to result in higher costs to the plan on average than those of active employees. The difference between the amount the retiree is required to pay and the actual cost to the District is considered to be a post-employment benefit.

The District has not established an irrevocable trust fund for the accumulation of resources for the future payment of benefits under the plan; benefits are paid on a pay-as-you-go basis. A stand alone financial report is not available for the plan. During the current year, retirees participating in the District's insurance plans paid premiums totaling approximately \$1,697,400.

9. SELF-INSURANCE PLAN

The District has self-insurance plans which cover participating employees' and retirees' medical and dental coverage. Both the members and the District contribute to a reserve maintained by an insurance administrator, which is used to pay claims. The District utilizes an internal service fund to account for the activity of the plans. A premium is charged to each fund that accounts for employees' salaries based on past trends and experience. Provisions are also made for unexpected and unusual claims. The District purchases stop loss insurance coverage to limit its exposure to catastrophic claims in excess of \$250,000 per individual.

10. RECENT ACCOUNTING PRONOUNCEMENTS

The accounting principles governing the reported amounts, presentation and related disclosures are subject to change from time to time based on new pronouncements and/or rules issued by various governing bodies. The Government Accounting Standards Board ("GASB") is responsible for establishing GAAP for state and local governments.

In June 2015, the GASB approved Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" and Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions." The objective of these Statements is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or "OPEB") and establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB. The requirements of Statement No. 74 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of Statement No. 75 are effective for fiscal years beginning after June 15, 2017.

In August 2015, the GASB approved Statement No. 77 "Tax Abatement Disclosures." Although many governments offer tax abatements and provide information to the public about them, they do

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Notes to Basic Financial Statements (continued)

not always provide the information necessary to assess how tax abatements affect their financial position and results of operations, including their ability to raise resources in the future. This statement requires disclosures of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of the Statement are effective for reporting periods beginning after December 15, 2015.

The effects on the District's financial statements as a result of the adoption of these new pronouncements are unknown.

11. SUBSEQUENT EVENTS

Subsequent to June 30, 2016, the District entered into a lease purchase agreement for \$9,600. The proceeds of the lease were used to purchase office equipment. The lease calls for annual payments of \$1,920 through August 2021.

Subsequent to June 30, 2016, the District issued General Obligation Bonds in the amount of \$4,790,000. The bonds call for annual payments in varying amounts through 2036 with interest at 2.00% - 4.00%. The bonds will be used for the purpose of acquiring, constructing, renovating, repairing, improving, furnishing and equipping school sites, buildings and related facilities in the District.

Supplementary Information

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
MODIFIED CASH BASIS - BUDGET AND ACTUAL - GENERAL FUND - UNAUDITED
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local	\$ 28,210,550	\$ 28,210,550	\$ 25,714,572	\$ (2,495,978)
County	621,425	621,425	666,132	44,707
State	11,940,731	11,940,731	12,463,906	523,175
Federal	7,683,662	7,683,662	9,513,917	1,830,255
Total Revenues	48,456,368	48,456,368	48,358,527	(97,841)
EXPENDITURES:				
Current:				
Instruction	6,566,636	6,566,636	6,518,066	48,570
Attendance	679,294	679,294	637,225	42,069
Guidance	1,181,745	1,181,745	1,198,636	(16,891)
Health services	1,508,778	1,508,778	1,439,218	69,560
Improvement of instruction	697,127	697,127	1,468,918	(771,791)
Professional development	100,000	100,000	112,448	(12,448)
Media services	2,301,371	2,301,371	2,394,916	(93,545)
Board of Education services	188,250	188,250	748,261	(560,011)
Executive administration	1,233,001	1,233,001	1,887,524	(654,523)
Building level administration	3,173,673	3,173,673	2,740,360	433,313
Operation of plant	15,638,722	15,638,722	14,578,826	1,059,896
Pupil transportation	3,929,838	3,929,838	3,408,715	521,123
Food services	6,262,669	6,262,669	5,298,579	964,090
Business and central services	2,110,832	2,110,832	1,762,156	348,676
Security services	1,349,890	1,349,890	1,412,698	(62,808)
Community services	2,524,704	2,524,704	2,455,449	69,255
Total Expenditures	49,446,530	49,446,530	48,061,995	1,384,535
NET CHANGE IN FUND BALANCE	\$ (990,162)	\$ (990,162)	296,532	\$ 1,286,694
FUND BALANCE, BEGINNING OF YEAR			<u>21,315,811</u>	
FUND BALANCE, END OF YEAR			<u>\$ 21,612,343</u>	

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
MODIFIED CASH BASIS - BUDGET AND ACTUAL - SPECIAL REVENUE FUND - UNAUDITED
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local	\$ 41,466,111	\$ 41,466,111	\$ 38,425,491	\$ (3,040,620)
County	921,295	921,295	982,473	61,178
State	33,104,353	33,104,353	32,895,483	(208,870)
Federal	3,194,847	3,194,847	3,759,272	564,425
Total Revenues	<u>78,686,606</u>	<u>78,686,606</u>	<u>76,062,719</u>	<u>(2,623,887)</u>
EXPENDITURES:				
Current:				
Instruction	63,142,517	63,142,517	60,370,203	2,772,314
Attendance	-	-	3,942	(3,942)
Guidance	3,099,390	3,099,390	3,280,393	(181,003)
Improvement of instruction	992,842	992,842	1,839,218	(846,376)
Professional development	275,000	275,000	408,445	(133,445)
Media services	1,583,862	1,583,862	1,509,435	74,427
Executive administration	1,098,121	1,098,121	1,821,565	(723,444)
Building level administration	5,395,292	5,395,292	5,443,587	(48,295)
Food services	-	-	997	(997)
Business and central services	-	-	152,422	(152,422)
Community services	2,054,986	2,054,986	1,534,936	520,050
Total Expenditures	<u>77,642,010</u>	<u>77,642,010</u>	<u>76,365,143</u>	<u>1,276,867</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,044,596</u>	<u>\$ 1,044,596</u>	<u>(302,424)</u>	<u>\$ (1,347,020)</u>
FUND BALANCE, BEGINNING OF YEAR			<u>525,446</u>	
FUND BALANCE, END OF YEAR			<u>\$ 223,022</u>	

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
MODIFIED CASH BASIS - BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local	\$ 2,587,938	\$ 2,587,938	\$ 2,359,971	\$ (227,967)
County	89,280	89,280	65,951	(23,329)
Federal	165,000	165,000	78,394	(86,606)
Total Revenues	<u>2,842,218</u>	<u>2,842,218</u>	<u>2,504,316</u>	<u>(337,902)</u>
EXPENDITURES:				
Debt service:				
Principal	1,890,000	1,890,000	1,880,000	10,000
Interest	1,400,000	1,400,000	977,594	422,406
Other	25,000	25,000	1,378	23,622
Total Expenditures	<u>3,315,000</u>	<u>3,315,000</u>	<u>2,858,972</u>	<u>456,028</u>
NET CHANGE IN FUND BALANCE	<u>\$ (472,782)</u>	<u>\$ (472,782)</u>	<u>(354,656)</u>	<u>\$ 118,126</u>
FUND BALANCE, BEGINNING OF YEAR			<u>2,012,924</u>	
FUND BALANCE, END OF YEAR			<u>\$ 1,658,268</u>	

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE -
MODIFIED CASH BASIS - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local	\$ 50,000	\$ 50,000	\$ 130,257	\$ 80,257
Federal	-	-	65,372	65,372
Total Revenues	<u>50,000</u>	<u>50,000</u>	<u>195,629</u>	<u>145,629</u>
EXPENDITURES:				
Capital outlay	7,010,000	7,010,000	6,412,212	597,788
Debt service:				
Principal	-	-	259,822	(259,822)
Interest	-	-	93,124	(93,124)
Other	-	-	72,075	(72,075)
Total Expenditures	<u>7,010,000</u>	<u>7,010,000</u>	<u>6,837,233</u>	<u>172,767</u>
NET CHANGE IN FUND BALANCE	<u>\$ (6,960,000)</u>	<u>\$ (6,960,000)</u>	<u>(6,641,604)</u>	<u>\$ 318,396</u>
FUND BALANCE, BEGINNING OF YEAR			<u>10,406,257</u>	
FUND BALANCE, END OF YEAR			<u>\$ 3,764,653</u>	

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**NOTE TO BUDGETARY COMPARISON INFORMATION
JUNE 30, 2016**

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Chapter 67 RSMo, the District adopts a budget for each fund.
2. Prior to July, the Superintendent, who serves as the budget officer, submits to the Board of Education a proposed budget for the fiscal year beginning on the following July 1. The proposed budget includes estimated revenues and proposed expenditures for all District funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
3. A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Education, the budget document is available for public inspection.
4. Prior to July 1, the budget is legally enacted by a vote of the Board of Education. The budget for the year ended June 30, 2016 was adopted on June 10, 2015.
5. Subsequent to its formal approval of the budget, the Board of Education has the authority to make necessary adjustments to the budget by formal vote of the Board. The District did not make any adjustments to the budget during the year ended June 30, 2016.
6. Budgets are adopted on the modified cash basis of accounting for all governmental funds.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF SELECTED STATISTICS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. Calendar

A. Standard day length (SDL) - The total number of hours between the starting time of the first class and the dismissal time of the last class, minus the time allowed for lunch and one passing time, and minus Channel One time. Reported with 4 decimal places:

Grades K-6	<u>6.2500</u>	SDL
Grades 7-8	<u>6.6000</u>	SDL
Grades 9-12	<u>6.6000</u>	SDL

B. The number of actual calendar hours classes were in session and pupils were under the direction of teachers during this school year was as follows:

Grades K-6	<u>1,070.0000</u>	Hours
Halls Ferry Elementary, Grades K-6	<u>1,057.5000</u>	Hours
Grades 7-8	<u>1,091.2000</u>	Hours
Grades 9-12	<u>1,091.2000</u>	Hours

C. The number of actual calendar days classes were in session and pupils were under the direction of teachers during this school year was as follows:

Grades K-6	176	Days
Halls Ferry Elementary, Grades K-6	174	Days
Grades 7-8	176	Days
Grades 9-12	176	Days

2. Average Daily Attendance (ADA)

Regular Term	Full-Time & Part-Time	Remedial	Deseg In	Federal Lands	Total	Deseg Out
Grades K-6	5,132.2130	4.0481	-	-	5,136.2611	-
Grades 7-8	1,420.2311	1.0877	-	-	1,421.3188	-
Grades 9-12	2,818.8008	-	-	-	2,818.8008	-
Subtotal Regular Term	<u>9,371.2449</u>	<u>5.1358</u>	-	-	<u>9,376.3807</u>	-
		<u>Resident</u>	<u>Deseg In</u>	<u>Federal Lands</u>	<u>Total</u>	<u>Deseg Out</u>
Summer School Subtotal		<u>32.1806</u>	-	-	<u>32.1806</u>	-
		<u>Total Regular Term Plus Summer School ADA</u>			<u>9,408.5613</u>	-

Notes _____

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Schedule of Selected Statistics (continued)

3. September Membership

	<u>Full-Time & Part-Time</u>	<u>Deseg In</u>	<u>Total</u>	<u>Deseg Out</u>
September Membership FTE Count	<u>10,520.28</u>	<u>-</u>	<u>10,520.28</u>	<u>-</u>

Notes: _____

4. Free and Reduced Priced Lunch FTE Count (Section 163.011(6), RSMo)

		<u>Full-Time & Part-Time</u>	<u>Deseg In</u>	<u>Total</u>
State FTE Total	Free	<u>10,486.33</u>	<u>-</u>	<u>10,486.33</u>
	Reduced	<u>-</u>	<u>-</u>	<u>-</u>
	Total	<u>10,486.33</u>	<u>-</u>	<u>10,486.33</u>

5. Finance

Fill in the blank with the appropriate response of true, false, or N/A unless otherwise noted.

- A. As required by Section 162.401, RSMo, a bond was purchased for the District's treasurer in the total amount of: \$50,000
and
\$50,000

- B. The District's deposits were secured during the year as required by Sections 110.010 and 110.020, RSMo. True

- C. The District maintained a separate bank account for the Debt Service Fund in accordance with Section 165.011, RSMo. True

- D. Salaries reported for educators in the October Core Data cycle are supported by payroll/contract records. True

- E. If a \$162,326 or 7% x SAT x WADA transfer was made in excess of adjusted expenditures, the Board approve a resolution to make the transfer, which identified the specific projects to be funded by the transfer and an expected expenditure date for the projects to be undertaken. N/A

- F. The District published a summary of the prior year's audit report within thirty days of the receipt of the audit pursuant to Section 165.121, RSMo. True

- G. The District has a professional development committee plan adopted by the board with the professional development committee plan identifying the expenditures of seventy-five percent (75%) of one percent (1%) of the current year basic formula apportionment. True

- H. The amount spent for approved professional development committee plan activities was: \$417,209



SCHOWALTER & JABOURI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

11878 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 849-4999
FAX (314) 849-3486

FINANCIAL SERVICES
COMPUTER SOLUTIONS
ADMINISTRATIVE OFFICES

11777 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 842-2929
FAX (314) 842-3483

REPORT ON COMPLIANCE - STATE REQUIREMENTS

To the Members of the Board of Education
Ferguson Reorganized School District R-2

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ferguson Reorganized School District R-2 (the "District") as of and for the year ended June 30, 2016, and have issued our report thereon dated December 14, 2016. Our report on the financial statements disclosed that, as described in Note 1 to the financial statements, the District prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As required by the Revised Statutes of the State of Missouri, we have performed auditing procedures to test compliance with the budgetary statute (Chapter 67 RSMo) and the methods of maintaining pupil attendance and pupil transportation records for the year ended June 30, 2016. The management of the District is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the District's budgetary and disbursements procedures were in compliance, in all material respects, with the budgetary statute (Chapter 67 RSMo) for the year ended June 30, 2016. It is further our opinion that the pupil attendance and pupil transportation records are so maintained as to accurately disclose, in all material respects, the average daily attendance; resident membership on the last Wednesday of September; average number of pupils transported on a regular basis; mileage; and allowable costs for pupil transportation in compliance with state law and administrative rules for the year ended June 30, 2016.

We noted certain other compliance and transportation matters that we reported to management of the District in a separate letter dated December 14, 2016.

This report is intended for the information and use of the Board of Education, District management, the Missouri Department of Elementary and Secondary Education and other audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

Schowalter & Jabouri, P.C.
SCHOWALTER & JABOURI, P.C.

St. Louis, Missouri
December 14, 2016

Federal Compliance Section



SCHOWALTER & JABOURI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

11878 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 849-4999
FAX (314) 849-3486

FINANCIAL SERVICES
COMPUTER SOLUTIONS
ADMINISTRATIVE OFFICES

11777 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 842-2929
FAX (314) 842-3483

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*

To the Members of the Board of Education
Ferguson Reorganized School District R-2

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 aggregate remaining fund information of the Ferguson Reorganized School District R-2 (the "District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2016. Our report on the basic financial statements disclosed that, as described in Note 1 to the financial statements, the District prepares its financial statements on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness and certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • MISSOURI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA GOVERNMENTAL AUDIT QUALITY CENTER • AICPA EMPLOYEE BENEFIT PLAN AUDIT QUALITY CENTER

"SCHOWALTER & JABOURI, P.C. IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS"

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness (2016-001).

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2016-002 and 2016-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 that are required to be reported under *Government Auditing Standards*.

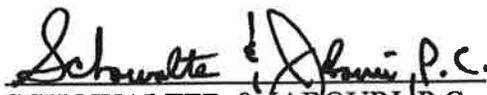
We noted certain other matters that we reported to management of the District in a separate letter dated December 14, 2016.

The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


SCHOWALTER & LABOURI, P.C.

St. Louis, Missouri
December 14, 2016



SCHOWALTER & JABOURI, P.C.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

11878 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 849-4999
FAX (314) 849-3486

FINANCIAL SERVICES
COMPUTER SOLUTIONS
ADMINISTRATIVE OFFICES

11777 GRAVOIS ROAD
ST. LOUIS, MISSOURI 63127
(314) 842-2929
FAX (314) 842-3483

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

To the Members of the Board of Education
Ferguson Reorganized School District R-2

Report on Compliance for Each Major Federal Program

We have audited the Ferguson Reorganized School District R-2's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2016. The 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

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

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

MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • MISSOURI SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
AICPA GOVERNMENTAL AUDIT QUALITY CENTER • AICPA EMPLOYEE BENEFIT PLAN AUDIT QUALITY CENTER

"SCHOWALTER & JABOURI, P.C. IS A MEMBER OF NEXIA INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTING AND CONSULTING FIRMS"

Basis for Qualified Opinion on Child Nutrition Cluster and Title I Grants to Local Education Agencies

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding CFDA 10.553 and 10.555 – Child Nutrition Cluster as described in finding number 2016-002 for Reporting and regarding CFDA #84.010 – Title I Grants to Local Education Agencies as described in finding number 2016-003 for Activities Allowed or Unallowed and Allowable Costs/Cost Principles. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to these programs.

Qualified Opinion on Child Nutrition Cluster and Title I Grants to Local Education Agencies

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Child Nutrition Cluster and the Title I Grants to Local Education Agencies Program for the year ended June 30, 2016.

Other Matters

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-002 and 2016-003 to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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


SCHOWALTER & ABOURI, P.C.

St. Louis, Missouri
December 14, 2016

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

Program Title	Federal CFDA Number	Pass-Through Identification Number	Expenditures
<u>U.S. Department of Education:</u>			
Passed through Missouri Department of Elementary and Secondary Education:			
21st Century Community Learning Center	84.287	096-089	\$ 50,675
Title I Grants to Local Education Agencies	84.010	096-089	3,704,783
Title I School Improvement 1003(a)	84.010	096-089	436,611
Subtotal CFDA 84.010			<u>4,141,394</u>
Title IIA Improving Teacher Quality State Grants	84.367	096-089	861,241
Title III English Language Acquisition Grants	84.365	096-089	46,813
IDEA Grants	84.027	096-089	15,378
Early Childhood Special Education	84.027	096-089	189,020
Subtotal Special Education Cluster			<u>204,398</u>
Education for Homeless Children and Youth	84.196	096-089	199,739
Career and Technical Education	84.048	096-089	194,941
Total U.S. Department of Education			<u>5,699,201</u>
<u>U.S. Department of Agriculture:</u>			
Passed through Missouri Department of Elementary and Secondary Education:			
School Breakfast Program	10.553	096-089	2,134,733
National School Lunch Program	10.555	096-089	4,372,037
Donated Foods	10.555	096-089	227,556
After School Snack Program	10.555	096-089	19,626
Subtotal Child Nutrition Cluster			<u>6,753,952</u>
Subtotal CFDA 10.553			2,134,733
Subtotal CFDA 10.555			<u>4,619,219</u>
Child Nutrition Discretionary Grants - Equipment Grant	10.579	096-089	1,600
Fresh Fruits and Vegetables Program	10.582	096-089	227,228
Total U.S. Department of Agriculture			<u>6,982,780</u>
<u>U.S. Department of Health and Human Services:</u>			
Passed through YWCA of Metro St. Louis:			
Head Start	93.600	n/a	<u>171,415</u>
Total U.S. Department of Health and Human Services			<u>171,415</u>
<u>U.S. Department of Defense, Department of the Army:</u>			
Direct Program:			
Junior Reserve Officer Training Corps	12.000	MO101187	<u>59,665</u>
Total U.S. Department of Defense, Department of the Army			<u>59,665</u>
TOTAL			<u>\$ 12,913,061</u>

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the fiscal year ended June 30, 2016. The information reported in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 2 - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is a summary of the cash activity of the District's federal award programs and does not present transactions that would be included in financial statements of the District presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Note 3 - Indirect Cost Rate

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

Note 4 - Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed by the District during the year ended June 30, 2016.

Note 5 - Insurance

The District did not have any federal insurance in effect during the fiscal year ended June 30, 2016.

Note 6 - Loan/Loan Guarantees

The District did not have any loans or loan guarantees outstanding as of June 30, 2016.

Note 7 - Subrecipients

The District did not provide federal awards to any subrecipients during the fiscal year ended June 30, 2016.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: Unmodified on the modified cash basis
of accounting

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified

not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements
noted? Yes No

Federal Awards

Internal control over major programs:

Material weakness(es) identified: Yes No

Significant deficiency(ies) identified

not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance
for major programs:

Qualified – Child Nutrition Cluster

Qualified – Title I Grants to Local
Education Agencies

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR Section 200.516(a)? Yes No

Identification of major programs:

CFDA Number(s)

10.553, 10.555

84.010

Name of Federal Program or Cluster

Child Nutrition Cluster

Title I Grants to Local Education Agencies

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?

Yes No

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Schedule of Findings and Questioned Costs (continued)

2. FINANCIAL STATEMENT FINDINGS

Reference

2016-001 Finding Type: Material weakness

Criteria: To establish proper internal controls over the District's general ledger and accounting records, bank reconciliations should be performed timely and be reviewed and approved by someone other than the preparer. Requiring bank reconciliations will help ensure that reconciling items are reasonable and that there are no unidentified differences.

Condition: During our audit, we noted that bank reconciliations were not being prepared completely. The monthly reconciliations summarize the cash transactions that have occurred during the month and a listing of outstanding checks is prepared and included with the reconciliation; however, this listing does not include the details of the identified outstanding checks, other than the check number and amounts. The monthly reconciliations do not take into consideration any other types of reconciling items, such as deposits in transit and other adjustments. Finally, the ending bank balance is not compared to the actual general ledger cash balance on these monthly reconciliations. The process for reconciling the bank balances to the general ledger was not performed in a timely manner.

Cause: Although current procedures require that bank reconciliations be performed timely and be reviewed and approved; this review was either not performed or was ineffective as the bank reconciliations were not being prepared correctly.

Effect: Errors or irregularities in bank reconciliations could occur and go undetected. Opportunities could exist for the concealment of fraudulent financial activity.

Recommendation: We recommend that the District make improvements to its bank reconciliation procedures such that the monthly bank reconciliations are properly performed. This includes preparing a complete listing of outstanding checks and all other types of reconciling items, such as deposits in transit, and reconciling the ending cash to the general ledger.

In addition, we recommend that the reconciliation of the bank balance to the general ledger cash balance be performed on a monthly basis during the year, and any unreconciled variances be investigated and resolved timely.

We also recommend that the District develop and implement procedures that require all bank reconciliations to be reviewed for accuracy and approved by someone other than the preparer. The reviewer should document this review by signing and dating the reconciliations to document that the review has occurred, that the review was performed timely, and to indicate final approval.

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Schedule of Findings and Questioned Costs (continued)

Management's Response: *Because the Finance Office was understaffed, bank reconciliations were not reviewed and approved in a timely manner. The Director of Finance will review and approve all bank reconciliations on a monthly basis and will submit a monthly cash report to the Chief Financial Officer for review.*

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding Number: 2016-002

Repeat Finding: No

Original Year Reported: N/A

Federal Program: CFDA #10.553, 10.555 – Child Nutrition Cluster

FAIN: 2015IN109943, 2016N109943

Pass Through Entity: Missouri Department of Elementary and Secondary Education

Compliance Requirement: Reporting

Criteria: According to 7 CFR § 210.8, every school year, each school food authority with more than one school shall perform no less than one on-site review of the lunch counting and claiming system employed by each school under its jurisdiction. The on-site review shall take place prior to February 1 of each school year.

Condition: The District did not perform the required on-site reviews timely for all attendance sites.

Questioned Costs: None.

Context: Of the District's twenty-five (25) eligible attendance sites, on-site reviews were performed late for two (2) attendance sites.

Effect: This condition increases the risk that any problems with a school's meal counting or claiming procedures may not be detected and corrected on a timely basis.

Cause: Adequate procedures were not in place to ensure that the required on-site reviews were completed timely.

Recommendation: We recommend the District implement procedures to ensure that all on-site reviews are completed prior to the statutory deadline.

Management's Response: *The District will implement procedures to ensure that on-site reviews are completed prior to the statutory deadline.*

FERGUSON REORGANIZED SCHOOL DISTRICT R-2

Schedule of Findings and Questioned Costs (continued)

Finding Number: 2016-003

Repeat Finding: No

Original Year Reported: N/A

Federal Program: CFDA #84.010 – Title I Grants to LEA’s

FAIN: S010A140025, S010A150025

Pass Through Entity: Missouri Department of Elementary and Secondary Education

Compliance Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principals

Criteria: 2 CFR Part 200 “Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards” (the Uniform Guidance) requires that when employees work on multiple activities, the distribution of their salaries or wages must be supported by personnel activity reports or a statistical sampling system that has been approved by the cognizant federal agency. The Uniform Guidance also requires that where employees are expected to work solely on a single funding award, charges for their salaries must be supported by at least semi-annual certifications that they worked solely on that program for the period covered by the certification.

Condition: The District did not correctly document the distribution of salaries and wages to the program. During the year ended June 30, 2016, the District completed the bi-annual certifications prior to the completion of the applicable time frames. Certifications are required to be completed “after the fact.”

Questioned Costs: None.

Context: A sample of twenty (20) individuals was selected for audit. Of the twenty (20) individuals selected for testing, bi-annual certifications were completed too early for fifteen (15) individuals.

Effect: This condition increases the risk that the District could report incorrect or unallowable expenditures on its expenditure reports, which may be subject to disallowance by the cognizant oversight agency.

Cause: Adequate procedures were not in place to ensure that required administrative responsibilities, including ensuring that bi-annual certifications were completed timely, were being completed.

Recommendation: We recommend the District implement procedures to ensure that all bi-annual certifications are completed for the appropriate timeframe.

Management’s Response: *The District will implement procedures to ensure that bi-annual certifications are completed for the appropriate timeframe.*