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Philadelphia Public School District

Audited Financial Statements
For the Year Ended June 30, 2014

Fortenberry & Ballard, PC
Certified Public Accountants

Philadelphia Public School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Philadelphia Public School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Philadelphia Public School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District, as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 to 18 and 51 to 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Philadelphia Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2014, on our consideration of the Philadelphia Public School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Philadelphia Public School District's internal control over financial reporting and compliance.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 16, 2014

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

The following discussion and analysis of Philadelphia Public School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2014. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2014 decreased \$196,828, including a prior period adjustment of \$50,994, which represents a 3% decrease from fiscal year 2013. Total net position for 2013 increased \$32,018, which represents .49% increase from fiscal year 2012.
- General revenues amounted to \$8,295,946 and \$8,261,224, or 78.91% and 79.26% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,217,450, or 21.09% of total revenues for 2014, and \$2,161,926, or 20.74% of total revenues for 2013.
- The District had \$10,761,218 and \$10,391,132 in expenses for fiscal years 2014 and 2013; only \$2,217,450 for 2014 and \$2,161,926 for 2013 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$8,295,946 for 2014 were not adequate to provide for these programs. However, general revenues of \$8,261,224 for 2013 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$7,626,397 in revenues and \$8,297,437 in expenditures for 2014, and \$7,709,861 in revenues and \$8,346,883 in expenditures for 2013. The General Fund's fund balance decreased by \$572,705, including a prior period adjustment of (\$79,977), from 2013 to 2014, and decreased by \$645,144, from 2012 to 2013.
- Capital assets, net of accumulated depreciation, decreased by \$173,872 for 2014 and increased by \$101,896 for 2013. The decrease for 2014 was due to the disposal of furniture and equipment coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$402,255 for 2014 and decreased by \$448,117 for 2013. This decrease for 2014 was due primarily to principal payments on outstanding long-term debt. In addition, the liability for compensated absences increased by \$554 for 2014 and decreased by \$965 for 2013.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$6,334,174 as of June 30, 2014.

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

Table 1 presents a summary of the District's net position at June 30, 2014 and June 30, 2013.

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Table 1
Condensed Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 1,104,283	1,740,498	(37)%
Restricted assets	1,105,394	958,901	15%
Capital assets, net	<u>7,859,010</u>	<u>8,032,882</u>	(2)%
Total assets	<u>10,068,687</u>	<u>10,732,281</u>	(6)%
Current liabilities	159,767	224,832	(29)%
Long-term debt outstanding	<u>3,574,746</u>	<u>3,976,447</u>	(10)%
Total liabilities	<u>3,734,513</u>	<u>4,201,279</u>	(11)%
Net position:			
Net investment in capital assets	4,334,678	4,084,407	6%
Restricted	1,254,228	1,251,283	0%
Unrestricted	<u>745,268</u>	<u>1,195,312</u>	(38)%
Total net position	<u>\$ 6,334,174</u>	<u>6,531,002</u>	(3)%

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

- Decrease in capital assets in the amount of \$173,872.
- The principal retirement of \$469,587 of long-term debt.
- Proceeds from the issuance of shortfall note in the amount of \$67,332.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$10,513,396 and \$10,423,150, respectively. The total cost of all programs and services was \$10,761,218 for 2013 and \$10,391,132 for 2013.

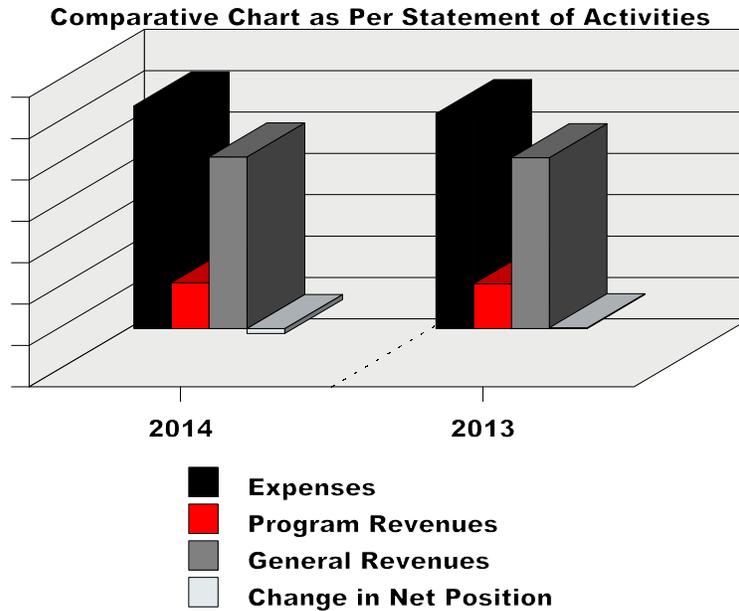
Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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

Table 2
Changes in Net Position

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 309,936	258,944	20%
Operating grants and contributions	1,907,514	1,902,982	0%
Total program revenues	<u>2,217,450</u>	<u>2,161,926</u>	3%
General revenues:			
Property taxes	3,270,425	3,015,129	8%
Grants and contributions not restricted	4,922,728	5,152,605	(4)%
Unrestricted investment earnings	38,996	55,884	(30)%
Sixteenth section sources	14,459	12,636	14%
Other	49,338	24,970	98%
Total general revenues	<u>8,295,946</u>	<u>8,261,224</u>	0%
Total revenues	<u>10,513,396</u>	<u>10,423,150</u>	1%
Expenses:			
Instruction	5,960,117	5,337,369	12%
Support services	3,929,577	4,213,557	(7)%
Non-instructional	776,398	728,007	7%
Interest on long-term liabilities	95,126	112,199	(15)%
Total expenses	<u>10,761,218</u>	<u>10,391,132</u>	4%
Increase (Decrease) in net position	<u>(247,822)</u>	<u>32,018</u>	(874)%
Net Position, July 1, as previously reported	6,531,002	6,498,984	0%
Prior period adjustment	<u>50,994</u>		
Net Position, July 1, as restated	<u>6,581,996</u>	<u>6,498,984</u>	1%
Net Position, June 30	<u>\$ 6,334,174</u>	<u>6,531,002</u>	(3)%

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014



Governmental activities

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

Table 3
Net Cost of Governmental Activities

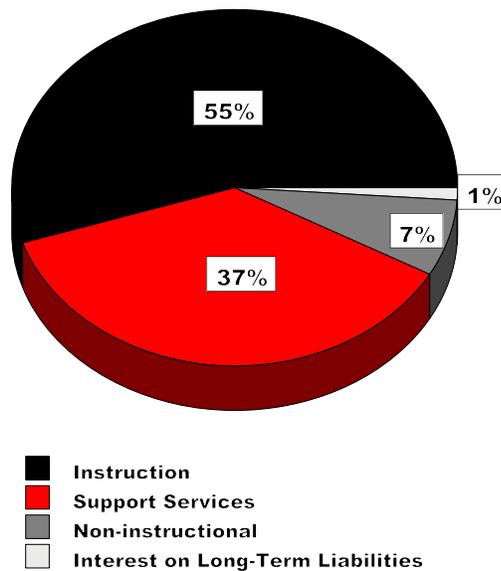
	Total Expenses		Percentage Change
	2014	2013	
Instruction	\$ 5,960,117	5,337,369	12%
Support services	3,929,577	4,213,557	(7)%
Non-instructional	776,398	728,007	7%
Interest on long-term liabilities	95,126	112,199	(15)%
Total expenses	\$ 10,761,218	10,391,132	4%

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

Net (Expense) Revenue

	2014	2013	Percentage Change
Instruction	\$ (4,915,870)	(4,392,928)	12%
Support services	(3,530,382)	(3,722,557)	(5)%
Non-instructional	(2,390)	(1,522)	57%
Interest on long-term liabilities	(95,126)	(112,199)	(15)%
Total net (expense) revenue	\$ (8,543,768)	(8,229,206)	4%

Chart of Expenses as Per Statement of Activities



- Net cost of governmental activities (\$8,543,768 for 2014 and \$8,229,206 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$3,270,425 for 2014 and \$3,015,129 for 2013) and state and federal revenues (\$4,922,728 for 2014 and \$5,152,605 for 2013). In addition, there was \$14,459 and \$12,636 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$38,996 for 2014 and \$55,884 for 2013.

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,067,757, a decrease of \$430,265, which includes a prior period adjustment of (\$79,977) and an increase in inventory of \$5,899. \$786,588, or 38% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted or assigned to specific purposes within the general fund. The remaining fund balance of \$1,281,169 or 62% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purpose to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$572,705, which includes a prior period adjustment of (\$79,977). The fund balance of Other Governmental Funds showed an increase in the amount of \$4,666. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Food Service Fund	\$ (6,843)
Title I Fund	no increase or decrease
QZAB Bond Retirement Fund	\$ 144,617

BUDGETARY HIGHLIGHTS

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

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

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$13,231,838, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$140,869 from 2013. Total accumulated depreciation as of June 30, 2014, was \$5,372,828 and total depreciation expense for the year was \$320,324, resulting in total net capital assets of \$7,859,010.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Land	\$ 178,943	178,943	0%
Buildings	6,827,060	7,023,857	(3)%
Improvements other than buildings	355,188	220,596	61%
Mobile equipment	388,045	449,514	(14)%
Furniture and equipment	109,774	159,972	(31)%
Total	\$ <u>7,859,010</u>	<u>8,032,882</u>	(2)%

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

Debt Administration. At June 30, 2014, the District had \$3,574,746 in outstanding long-term debt, of which \$443,828 is due within one year. During the fiscal year, the District received proceeds from the issuance of shortfall notes in the amount of \$67,332. The liability for compensated absences increased \$554 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 810,000	1,005,000	(19)%
Limited obligation bonds payable	795,000	945,000	(16)%
Certificates of participation payable	72,000	105,000	(31)%
Three mill notes payable	580,000	590,000	(2)%
Shortfall notes payable	67,332	60,667	11%
Qualified zone academy bonds payable	1,200,000	1,200,000	0%
Other loans payable	21,888	42,808	(49)%
Compensated absences payable	28,526	27,972	2%
Total	\$ <u>3,574,746</u>	<u>3,976,447</u>	(10)%

Philadelphia Public School District
Management's Discussion and Analysis
For the Year Ended June 30, 2014

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

CURRENT ISSUES

The Philadelphia Public School District is financially stable. The District is proud of its community support of its public schools.

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

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

Enrollment for the 2013-2014 school year decreased by 3% to 1,086 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Philadelphia Public School District, 248 Byrd Avenue, Philadelphia, MS 39350.

FINANCIAL STATEMENTS

PHILADELPHIA PUBLIC SCHOOL DISTRICT

**Statement of Net Position
June 30, 2014**

Exhibit A

	Governmental Activities
	<u> </u>
Assets	
Cash and cash equivalents	\$ 662,932
Due from other governments	423,799
Other receivables, net	8
Inventories	17,544
Restricted assets	1,105,394
Capital assets, non-depreciable:	
Land	178,943
Capital assets, net of accumulated depreciation:	
Buildings	6,827,060
Improvements other than buildings	355,188
Mobile equipment	388,045
Furniture and equipment	109,774
Total Assets	<u>10,068,687</u>
Liabilities	
Accounts payable and accrued liabilities	141,920
Interest payable on long-term liabilities	17,847
Long-term liabilities, due within one year:	
Capital related liabilities	421,940
Non-capital related liabilities	21,888
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,102,392
Non-capital related liabilities	28,526
Total Liabilities	<u>3,734,513</u>
Net Position	
Net investment in capital assets	4,334,678
Restricted for:	
Expendable:	
School-based activities	40,318
Debt service	1,189,030
Unemployment benefits	24,880
Unrestricted	745,268
Total Net Position	<u>\$ 6,334,174</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Instruction	\$ 5,960,117	\$ 197,833	\$ 846,414	\$ (4,915,870)
Support services	3,929,577		399,195	(3,530,382)
Non-instructional	776,398	112,103	661,905	(2,390)
Interest on long-term liabilities	95,126			(95,126)
Total Governmental Activities	\$ 10,761,218	\$ 309,936	\$ 1,907,514	\$ (8,543,768)
General Revenues:				
Taxes:				
				2,824,257
				446,168
Unrestricted grants and contributions:				
				4,860,358
				62,370
				38,996
				14,459
				49,338
				<u>8,295,946</u>
				<u>(247,822)</u>
				6,531,002
				<u>50,994</u>
				6,581,996
				<u>\$ 6,334,174</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT
Governmental Funds

Balance Sheet
June 30, 2014

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Food Service Fund	Title I Fund	QZAB Bond Retirement Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$ 566,163	\$ 52,825	\$	\$ 4,625	\$ 39,319	\$ 662,932
Cash with fiscal agents					87,413	87,413
Investments				1,017,981		1,017,981
Due from other governments	156,618		125,586		141,595	423,799
Due from other funds	134,537	4,259				138,796
Other receivables	8					8
Inventories		17,544				17,544
Total assets	<u>\$ 857,326</u>	<u>\$ 74,628</u>	<u>\$ 125,586</u>	<u>\$ 1,022,606</u>	<u>\$ 268,327</u>	<u>\$ 2,348,473</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 61,644	\$ 1,565	\$ 77,412	\$	\$ 1,299	\$ 141,920
Due to other funds		45,000	48,174		45,622	138,796
Total Liabilities	<u>61,644</u>	<u>46,565</u>	<u>125,586</u>		<u>46,921</u>	<u>280,716</u>
Fund Balances:						
Nonspendable:						
Inventory		17,544				17,544
Restricted:						
Debt service				1,022,606	184,271	1,206,877
Unemployment benefits					24,880	24,880
Other purposes		10,519			12,255	22,774
Assigned:						
Special education	28					28
Activity funds	9,066					9,066
Unassigned						
	786,588					786,588
Total Fund Balances	<u>795,682</u>	<u>28,063</u>		<u>1,022,606</u>	<u>221,406</u>	<u>2,067,757</u>
Total Liabilities and Fund Balances	<u>\$ 857,326</u>	<u>\$ 74,628</u>	<u>\$ 125,586</u>	<u>\$ 1,022,606</u>	<u>\$ 268,327</u>	<u>\$ 2,348,473</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position Exhibit C-1
June 30, 2014**

Total fund balances for governmental funds \$ 2,067,757

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

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

Land	\$ 178,943	
Buildings	10,633,001	
Improvements other than buildings	698,539	
Mobile equipment	1,138,999	
Furniture and equipment	582,356	
Accumulated depreciation	<u>(5,372,828)</u>	7,859,010

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

Long-term Liabilities	(3,546,220)	
Compensated absences	(28,526)	
Accrued interest payable	<u>(17,847)</u>	(3,592,593)

Net position of governmental activities \$ 6,334,174

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

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

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Food Service Fund	Title I Fund	QZAB Bond Retirement Fund	Other Governmental Funds	
Revenues:						
Local sources	\$ 2,815,465	\$ 112,063	\$ 70,130	\$ 38,296	\$ 603,778	\$ 3,639,732
State sources	4,748,562	7,855			275,724	5,032,141
Federal sources	62,370	658,842	672,850		404,036	1,798,098
Sixteenth section sources					14,461	14,461
Total Revenues	7,626,397	778,760	742,980	38,296	1,297,999	10,484,432
Expenditures:						
Instruction	4,841,726		534,837		405,118	5,781,681
Support services	3,424,055	67,491	145,461		178,126	3,815,133
Noninstructional services	8,866	689,011	50,915		10,808	759,600
Facilities acquisition and construction					15,538	15,538
Debt service:						
Principal	20,920				448,667	469,587
Interest	1,870				96,134	98,004
Other					2,730	2,730
Total Expenditures	8,297,437	756,502	731,213		1,157,121	10,942,273
Excess (Deficiency) of Revenues over (under) Expenditures	(671,040)	22,258	11,767	38,296	140,878	(457,841)
Other Financing Sources (Uses):						
Notes issued					67,332	67,332
Insurance recovery	35,102					35,102
Payment held by QZAB debt escrow agent				106,321		106,321
Payment to QZAB debt escrow agent				(107,101)		(107,101)
Operating transfers in	145,158		3,647	107,101	1,948	257,854
Operating transfers out	(1,948)	(35,000)	(15,414)		(205,492)	(257,854)
Total Other Financing Sources (Uses)	178,312	(35,000)	(11,767)	106,321	(136,212)	101,654
Net Change in Fund Balances	(492,728)	(12,742)		144,617	4,666	(356,187)
Fund Balances:						
July 1, 2013, as previously reported	1,368,387	34,906	0	877,989	216,740	2,498,022
Prior period adjustments	(79,977)					(79,977)
July 1, 2013, as restated	1,288,410	34,906	0	877,989	216,740	2,418,045
Increase in inventory		5,899				5,899
June 30, 2014	\$ 795,682	\$ 28,063	0	1,022,606	\$ 221,406	\$ 2,067,757

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2014**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (356,187)

Amounts reported for governmental activities in the statement of activities are

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

Capital outlay	\$ 15,538	
Capital assets retired, net	(57)	
Depreciation expense	<u>(320,324)</u>	(304,843)

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

Notes issued	(67,332)	
Payments of debt principal	469,587	
Accrued interest payable	<u>5,608</u>	407,863

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

Change in compensated absences	(554)	
Change in inventory	<u>5,899</u>	5,345

Change in net position of governmental activities \$ (247,822)

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2014

Exhibit E

	Agency Funds
Assets	
Cash and cash equivalents	\$ 383,502
Total Assets	<u>\$ 383,502</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 343,192
Due to student clubs	40,301
Other payables	9
Total Liabilities	<u>\$ 383,502</u>

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

Philadelphia Public School District

Notes to the Financial Statements
June 30, 2014

Philadelphia Public School District

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

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Philadelphia since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Government-wide and Fund Financial Statements

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

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

Philadelphia Public School District

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

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

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

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

The school district reports the following major governmental funds:

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

Food Service Fund - This is a special revenue fund that accounts for the federal and state revenue received and expenditures incurred related to the food service operation for the regular school year.

Title I Fund - This is a special revenue fund that accounts for the federal revenue received and expenditures incurred related to the Title I grants to local education agencies program.

QZAB Bond Retirement Fund - This is a debt service fund accounts for QZAB bond revenue and expenditures.

Philadelphia Public School District

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

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

The District's fiduciary funds include the following:

Payroll Clearing Fund - This is the District's clearing fund used for payments of payroll and benefits.

Club Fund - This is the District's activity fund to record assets and liabilities of the District's various student clubs.

Accounts Payable Clearing Fund - This is the District's clearing fund used to pay claims of the District.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

FIDUCIARY FUNDS

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

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

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

Philadelphia Public School District

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

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

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

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

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

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

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

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

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

Philadelphia Public School District

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

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

D. Encumbrances

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

E. Assets, liabilities, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

Philadelphia Public School District

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

Philadelphia Public School District

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building Improvements	25,000	20 years
Improvements other than Buildings	25,000	20 years
Mobile Equipment	5,000	5-10 years
Furniture and Equipment	5,000	3-7 years
Leased Property Under Capital Leases	*	*

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

7. Compensated Absences

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

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

8. Long-term Liabilities and Bond Discounts/Premiums

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized

Philadelphia Public School District

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

and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

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

9. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. Currently there is no committed fund balance for the District.

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

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific

Philadelphia Public School District

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

purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

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

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 8% of general revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security

Philadelphia Public School District

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

repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$662,932 and \$383,502, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2014, none of the district's bank balance of \$1,152,332 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$87,413.

Investments

As of June 30, 2014, the district had the following investments in a sinking fund restricted for the payment of its Qualified Zone Academy Bonds described in Note 12.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities in (years)</u>	<u>Fair Value</u>
Federal Home Loan Bank	not rated	less than one year	\$ 1,017,981

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

Philadelphia Public School District

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

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

Note 3 - Interfund Receivables, Payables, and Transfers

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Title I Fund	\$ 48,174
	Food Service Fund	45,000
	Other Governmental Funds	41,363
Food Service Fund	Other Governmental Funds	<u>4,259</u>
Total		<u>\$ 138,796</u>

The purpose of the inter-fund receivables and payables is to close-out federal program funds at year end. All inter-fund receivables and payables are expected to be repaid within one year.

B. Interfund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Food Service Fund	\$ 35,000
	Title I Fund	15,414
	Other Governmental Funds	94,744
Title I Fund	Other Governmental Funds	3,647
Other Governmental Funds	General Fund	1,948
QZAB Bond Retirement Fund	Other Governmental Funds	<u>107,101</u>
Total		<u>\$ 257,854</u>

Philadelphia Public School District

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

The purpose of the inter-fund transfers is to transfer federal program indirect cost to the General Fund and to close out federal program funds at year end. A transfer was made from an other governmental fund to QZAB Debt Service Fund to make a note payment.

Note 4 - Restricted Assets

The restricted assets represent cash with fiscal agents and investment balance, totaling \$4,625 and \$1,017,981, respectively, of the QZAB Bond Retirement Fund. In addition, the restricted assets represent the cash with fiscal agents balance, totaling \$82,788 of the MAEP Limited Obligation Bond/Note Fund.

Note 5 - Capital Assets

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

	Balance 7-1-2013	Additions	Retirements	Adjustments	Balance 6-30-2014
<u>Non-depreciable capital assets:</u>					
Land	\$ 178,943				178,943
Total non-depreciable capital assets	178,943	0	0	0	178,943
<u>Depreciable capital assets:</u>					
Buildings	10,633,001				10,633,001
Improvements other than buildings	552,030	15,538		130,971	698,539
Mobile equipment	1,138,999				1,138,999
Furniture and equipment	587,996		5,640		582,356
Total depreciable capital assets	12,912,026	15,538	5,640	130,971	13,052,895
<u>Less accumulated depreciation for:</u>					
Buildings	3,609,144	196,797			3,805,941
Improvements other than buildings	331,434	11,917			343,351
Mobile equipment	689,485	61,469			750,954
Furniture and equipment	428,024	50,141	5,583		472,582
Total accumulated depreciation	5,058,087	320,324	5,583	0	5,372,828
Total depreciable capital assets, net	7,853,939	(304,786)	57	130,971	7,680,067
Governmental activities capital assets, net	\$ 8,032,882	(304,786)	57	130,971	7,859,010

Adjustments were made to record capital assets recorded and purchased in the prior year but not capitalized.

Depreciation expense was charged to the following governmental functions:

	Amount
Instructional	\$ 182,581
Support services	115,114
Non-instructional	22,629
Total depreciation expense	\$ 320,324

Philadelphia Public School District

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

Note 6 - Long-Term Liabilities

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

	Balance 7-1-2013	Additions	Reductions	Balance 6-30-2014	Amounts due within one year
A. General obligation bonds payable	\$ 1,005,000		195,000	810,000	205,000
B. Limited obligation bonds payable	945,000		150,000	795,000	150,000
C. Certificates of participation payable	105,000		33,000	72,000	35,000
D. Three mill notes payable	590,000		10,000	580,000	10,000
E. Shortfall notes payable	60,667	67,332	60,667	67,332	21,940
F. Qualified zone academy bonds payable	1,200,000			1,200,000	
G. Other loans payable	42,808		20,920	21,888	21,888
H. Compensated absences payable	27,972	554		28,526	
Total	\$ 3,976,447	67,886	469,587	3,574,746	443,828

A General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation bonds, Series 1998	4.375-6.25%	06-01-98	06-01-18	\$ 3,000,000	810,000

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 205,000	38,007	243,007
2016	215,000	28,270	243,270
2017	225,000	18,165	243,165
2018	165,000	7,590	172,590
Total	\$ 810,000	92,032	902,032

This debt will be retired from the Debt Service General Obligation Bond Fund.

Philadelphia Public School District

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

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2014, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2013.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvement bonds, Series 2009	1.0-3.8%	07-15-09	02-01-18	\$ <u>1,465,000</u>	<u>795,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 150,000	24,000	174,000
2016	155,000	19,650	174,650
2017	160,000	14,685	174,685
2018	<u>330,000</u>	<u>9,157</u>	<u>339,157</u>
Total	\$ <u>795,000</u>	<u>67,492</u>	<u>862,492</u>

This debt will be retired from the MAEP Debt Service Fund.

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

Philadelphia Public School District

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

C. Certificates of participation payable

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Philadelphia Public School District trust certificates	6.0-6.75%	09-01-95	09-01-15	\$ <u>433,000</u>	<u>72,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 35,000	3,679	38,679
2016	37,000	1,249	38,249
Total	\$ <u>72,000</u>	<u>4,928</u>	<u>76,928</u>

This debt will be retired from the Debt Service Certificates of Participation Fund.

D. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note	2.14%	05-01-12	05-01-19	\$ <u>600,000</u>	<u>580,000</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 10,000	12,305	22,305
2016	153,000	10,561	163,561
2017	155,000	7,265	162,265
2018	160,000	3,895	163,895
2019	102,000	1,091	103,091
Total	\$ <u>580,000</u>	<u>35,117</u>	<u>615,117</u>

This debt will be retired from the 2012 3 Mill 10 Yr Loan Proceed Fund.

Philadelphia Public School District

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

E. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Commercial Bank	3.95%	09-01-10	09-01-13	\$ 174,552	0
Cadence Bank	2.28%	09-25-13	09-25-16	67,332	67,332
				<u>\$ 241,884</u>	<u>67,332</u>

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

1. Commercial Bank

This debt was paid off and retired from the Shortfall Notes Fund.

2. Cadence Bank

Year Ending June 30	Principal	Interest	Total
2015	\$ 21,940	1,535	23,475
2016	22,439	1,036	23,475
2017	22,953	523	23,476
Total	<u>\$ 67,332</u>	<u>3,094</u>	<u>70,426</u>

This debt will be retired from the Shortfall Notes Payable.

F. Qualified zone academy bonds payable

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified Zone Academy Bonds	0%	12-29-05	12-29-15	\$ <u>1,200,000</u>	<u>1,200,000</u>

Philadelphia Public School District

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

G. Other loans payable

The school district has issued debt instruments granted under the authority of Section 37-59-101.

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Commercial Bank Loan	4.25%	09-16-09	09-15-14	\$ <u>100,589</u>	<u>21,888</u>

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

Year Ending June 30	Principal	Interest	Total
2015	\$ <u>21,888</u>	<u>974</u>	<u>22,862</u>

This debt will be retired from the District Maintenance Fund.

H. Compensated absences payable

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

Note 7 - Other Commitments

Operating leases:

The school district has several operating leases for the following:

1. Postage Meter
2. Driver's Education Car
3. Savin Copiers
4. Kyocera
5. Digital Mobile Radios
6. Canon Copiers

Lease expenditures for the year ended June 30, 2014, amounted to \$32,252.

Philadelphia Public School District

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

Future lease payments for these leases are as follows:

Year Ending June 30		Amount
2015	\$	28,717
2016		28,525
2017		16,036
2018		8,002
2019		774
Total	\$	<u>82,054</u>

Note 8 - Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$845,841, \$759,208, and \$667,642, respectively, which equaled the required contributions for each year.

Note 9 - Contingencies

Federal Grants - The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation - The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to

Philadelphia Public School District

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

estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these laws will not have a material adverse effect on the financial condition of the school district.

Note 10 - Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 94 school districts and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the MSBAWCT contributes quarterly to a fund held in trust By Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The District has not had an additional assessment for excess losses incurred by the pool.

Note 11 - Trust Certificates

A trust agreement dated September 1, 1995, was executed by and between the school district and The Citizens Bank of Philadelphia, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$433,000. Approximately \$418,328 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); the remainder of approximately \$14,672 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The

Philadelphia Public School District

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

school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, fund balances, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

Note 12 - Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with W.G. Yates Construction, Inc., Turner Engineering Services, Barnett Mechanical and Electrical Contractors, Inc., and Wenzel and Associates, P.A. has entered into such an arrangement dated December 29, 2005.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before March 1. The amount on deposit at June 30, 2013 was \$1,022,606. The debt repayment shall be made from a 3 mill tax levy. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2015	\$	106,321
2016		106,321
Total	\$	<u>212,642</u>

Philadelphia Public School District

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

Note 13 - Alternative School Consortium

The school district entered into an Alternative School Agreement dated March 26, 1996, creating the Alternative School Program. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Newton County School District, Newton Municipal School District, Scott County School District, Forest Municipal School District, Neshoba County School District, Union Public School District, Philadelphia Public School District, and Enterprise School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Newton County School District has been designated as the lead school district for Alternative School Program, and the operations of the consortium are included in its financial statements.

Note 14 - Vocational School Consortium

The school district entered into a Vocational Educational Agreement dated August 17, 1982, creating the Philadelphia-Neshoba County Vocational-Technical Center. This consortium was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the East Central Community College, Neshoba County School District, and Philadelphia Public School District.

Section 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

The East Central Community College has been designated as the fiscal agent for the Philadelphia-Neshoba County Vocational-Technical Center, and the operations of the consortium are included in its financial statements.

Philadelphia Public School District

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

Note 15 - Insurance Recovery

The Philadelphia Public School District received \$35,102 in insurance loss recoveries related to fire/water damage during the 2013-2014 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as general revenues.

Note 16 - Prior Period Adjustments

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

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. To record District Maintenance repayment to Title I which had been expended in prior year	\$ (70,130)
2. To record account receivable written off in the prior year	(9,847)
3. To record capital assets recorded and purchased in the prior year but not capitalized	130,971
	<u>\$ 50,994</u>

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

<u>Fund</u>	<u>Explanation</u>	<u>Amount</u>
General Fund	See above	\$ <u>(79,977)</u>

Note 17 - Subsequent Events

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

REQUIRED SUPPLEMENTARY INFORMATION

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Exhibit 1

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,693,511	2,693,511	2,815,465	0	121,954
State sources	4,721,712	4,721,712	4,748,562	0	26,850
Federal sources	119,720	119,720	62,370	0	(57,350)
Total Revenues	<u>7,534,943</u>	<u>7,534,943</u>	<u>7,626,397</u>	<u>0</u>	<u>91,454</u>
Expenditures:					
Instruction	4,778,213	4,778,213	4,841,726	0	(63,513)
Support services	3,465,114	3,465,114	3,424,055	0	41,059
Noninstructional services			8,866	0	(8,866)
Debt service:					
Principal	20,290	20,290	20,920	0	(630)
Interest	2,500	2,500	1,870	0	630
Total Expenditures	<u>8,266,117</u>	<u>8,266,117</u>	<u>8,297,437</u>	<u>0</u>	<u>(31,320)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(731,174)</u>	<u>(731,174)</u>	<u>(671,040)</u>	<u>0</u>	<u>60,134</u>
Other Financing Sources (Uses):					
Bonds issued	2,900	2,900		0	(2,900)
Insurance recovery	1,500	1,500	35,102	0	33,602
Sale of transportation equipment	1,000	1,000		0	(1,000)
Operating transfers in	123,314	123,314	145,158	0	21,844
Operating transfers out	(51,584)	(51,584)	(1,948)	0	49,636
Total Other Financing Sources (Uses)	<u>77,130</u>	<u>77,130</u>	<u>178,312</u>	<u>0</u>	<u>101,182</u>
Net Change in Fund Balances	<u>(654,044)</u>	<u>(654,044)</u>	<u>(492,728)</u>	<u>0</u>	<u>161,316</u>
Fund Balances:					
July 1, 2013, as previously reported	1,493,413	1,493,413	1,368,387	0	(125,026)
Prior period adjustments			(79,977)	0	(79,977)
July 1, 2013, as restated	<u>1,493,413</u>	<u>1,493,413</u>	<u>1,288,410</u>	<u>0</u>	<u>(205,003)</u>
June 30, 2014	<u>\$ 839,369</u>	<u>839,369</u>	<u>795,682</u>	<u>0</u>	<u>(43,687)</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Exhibit 2

Budgetary Comparison Schedule

Food Service Fund

For the Year Ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 123,750	123,750	112,063	0	(11,687)
State sources	7,500	7,500	7,855	0	355
Federal sources	650,000	650,000	658,842	0	8,842
Total Revenues	<u>781,250</u>	<u>781,250</u>	<u>778,760</u>	<u>0</u>	<u>(2,490)</u>
Expenditures:					
Support services	66,458	66,458	67,491	0	(1,033)
Noninstructional services	676,068	676,068	689,011	0	(12,943)
Total Expenditures	<u>742,526</u>	<u>742,526</u>	<u>756,502</u>	<u>0</u>	<u>(13,976)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>38,724</u>	<u>38,724</u>	<u>22,258</u>	<u>0</u>	<u>(16,466)</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>(35,000)</u>	<u>(35,000)</u>	<u>(35,000)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>3,724</u>	<u>3,724</u>	<u>(12,742)</u>	<u>0</u>	<u>(16,466)</u>
Fund Balances:					
July 1, 2013	59,912	59,912	34,906	0	(25,006)
Increase in inventory			5,899	0	5,899
June 30, 2014	<u>\$ 63,636</u>	<u>63,636</u>	<u>28,063</u>	<u>0</u>	<u>(35,573)</u>

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

PHILADELPHIA PUBLIC SCHOOL DISTRICT

Exhibit 3

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$		70,130	0	70,130
Federal sources	850,421	850,421	672,850	0	(177,571)
Total Revenues	<u>850,421</u>	<u>850,421</u>	<u>742,980</u>	<u>0</u>	<u>(107,441)</u>
Expenditures:					
Instruction	523,136	523,136	534,837	0	(11,701)
Support services	237,746	237,746	145,461	0	92,285
Noninstructional services	76,944	76,944	50,915	0	26,029
Total Expenditures	<u>837,826</u>	<u>837,826</u>	<u>731,213</u>	<u>0</u>	<u>106,613</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>12,595</u>	<u>12,595</u>	<u>11,767</u>	<u>0</u>	<u>(828)</u>
Other Financing Sources (Uses):					
Operating transfers in	3,647	3,647	3,647	0	0
Operating transfers out	(16,242)	(16,242)	(15,414)	0	828
Total Other Financing Sources (Uses)	<u>(12,595)</u>	<u>(12,595)</u>	<u>(11,767)</u>	<u>0</u>	<u>828</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2013	0	0	0	0	0
June 30, 2014	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Philadelphia Public School District

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

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTARY INFORMATION

Philadelphia Public School District
 Schedule of Expenditure of Federal Awards
 For the Year Ended June 30, 2014

Schedule 1

FE FEDERAL GRANTOR/ PA PASS-THROUGH GRANTOR/ PR PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 219,171
National School Lunch Program	10.555	439,671
Summer Food Service Program for Children	10.559	7,107
Total Child Nutrition Cluster		<u>665,949</u>
Total passed-through the Mississippi Department of Education		<u>665,949</u>
Total U. S. Department of Agriculture		<u><u>665,949</u></u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The Schools and Libraries Program of the Universal Service Fund	32.xxx	28,778
Total Federal Communications Commission		<u><u>28,778</u></u>
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	747,278
Rural Education	84.358	6,312
Improving Teacher Quality - State Grants	84.367	90,747
Subtotal		<u>844,337</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	283,188
Special Education - Preschool Grants	84.173	16,198
Total Special Education Cluster		<u>299,386</u>
Total passed-through the Mississippi Department of Education		<u>1,143,723</u>
Total U. Department of Education		<u><u>1,143,723</u></u>
TOTAL FOR ALL FEDERAL AWARDS		<u><u>\$ 1,838,450</u></u>

Notes to Schedule

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

Philadelphia Public School District

Schedule 2

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2014

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 7,537,450	5,666,035	444,013	550,899	876,503
Other	3,404,823	1,326,176	256,612	10,474	1,811,561
Total	\$ <u>10,942,273</u>	<u>6,992,211</u>	<u>700,625</u>	<u>561,373</u>	<u>2,688,064</u>
Total number of students *	<u>1,086</u>				
Cost per student	\$ <u>10,076</u>	<u>6,439</u>	<u>645</u>	<u>517</u>	<u>2,475</u>

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

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

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

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

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

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

OTHER INFORMATION

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

"UNAUDITED"

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 2,815,465	2,695,976	2,600,463	2,428,306
State sources	4,748,562	4,917,634	4,976,162	4,595,796
Federal sources	62,370	96,251	78,153	68,034
Total Revenues	<u>7,626,397</u>	<u>7,709,861</u>	<u>7,654,778</u>	<u>7,092,136</u>
Expenditures:				
Instruction	4,841,726	4,671,277	4,230,280	3,956,644
Support services	3,424,055	3,501,176	3,384,802	2,866,826
Noninstructional services	8,866	237	500	
Facilities acquisition and construction		151,403		
Debt service:				
Principal	20,920	20,081	19,252	18,448
Interest	1,870	2,709	3,539	4,342
Total Expenditures	<u>8,297,437</u>	<u>8,346,883</u>	<u>7,638,373</u>	<u>6,846,260</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(671,040)</u>	<u>(637,022)</u>	<u>16,405</u>	<u>245,876</u>
Other Financing Sources (Uses):				
Bonds and notes issued			600,000	174,552
Insurance recovery	35,102			4,498
Sale of transportation equipment			1,485	
Operating transfers in	145,158	75,817	70,347	133,060
Operating transfers out	(1,948)	(83,939)	(9,154)	(17,237)
Total Other Financing Sources (Uses)	<u>178,312</u>	<u>(8,122)</u>	<u>662,678</u>	<u>294,873</u>
Net Change in Fund Balances	<u>(492,728)</u>	<u>(645,144)</u>	<u>679,083</u>	<u>540,749</u>
Fund Balances:				
July 1, as previously reported	1,368,387	2,013,531	1,343,206	804,940
Prior period adjustment	(79,977)		(8,758)	(2,483)
July 1, as restated	<u>1,288,410</u>	<u>2,013,531</u>	<u>1,334,448</u>	<u>802,457</u>
June 30,	<u>\$ 795,682</u>	<u>1,368,387</u>	<u>2,013,531</u>	<u>1,343,206</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

PHILADELPHIA PUBLIC SCHOOL DISTRICT

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

"UNAUDITED"

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 3,639,732	3,355,708	3,181,231	3,114,473
State sources	5,032,141	5,195,869	5,241,537	4,913,719
Federal sources	1,798,098	1,859,718	2,292,942	2,685,708
Sixteenth section sources	14,461	12,635	10,896	9,133
Total Revenues	<u>10,484,432</u>	<u>10,423,930</u>	<u>10,726,606</u>	<u>10,723,033</u>
Expenditures:				
Instruction	5,781,681	5,559,160	5,359,197	5,525,784
Support services	3,815,133	3,966,145	4,054,804	3,543,712
Noninstructional services	759,600	704,941	730,717	708,148
Facilities acquisition and construction	15,538	151,403		
Debt service:				
Principal	469,587	448,117	419,101	345,448
Interest	98,004	115,698	123,978	118,003
Other	2,730	2,547	2,575	2,566
Total Expenditures	<u>10,942,273</u>	<u>10,948,011</u>	<u>10,690,372</u>	<u>10,243,661</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(457,841)</u>	<u>(524,081)</u>	<u>36,234</u>	<u>479,372</u>
Other Financing Sources (Uses):				
Bonds and notes issued	67,332		600,000	174,552
Insurance recovery	35,102			4,498
Payment held by QZAB debt escrow agent	106,321	106,321	107,101	107,101
Payment to QZAB debt escrow agent	(107,101)	(107,101)	(107,881)	(107,881)
Sale of transportation equipment			1,485	
Sale of other property				
Operating transfers in	257,854	272,575	266,218	257,398
Operating transfers out	(257,854)	(272,575)	(266,218)	(257,398)
Total Other Financing Sources (Uses)	<u>101,654</u>	<u>(780)</u>	<u>600,705</u>	<u>178,270</u>
Special items				(641)
Net Change in Fund Balances	<u>(356,187)</u>	<u>(524,861)</u>	<u>636,939</u>	<u>657,001</u>
Fund Balances:				
July 1, as previously reported	2,498,022	3,023,028	2,395,338	1,736,855
Prior period adjustment	(79,977)		(8,758)	(2,483)
July 1, as restated	<u>2,418,045</u>	<u>3,023,028</u>	<u>2,386,580</u>	<u>1,734,372</u>
Increase (Decrease) in inventory	5,899	(145)	(491)	3,965
June 30,	<u>\$ 2,067,757</u>	<u>2,498,022</u>	<u>3,023,028</u>	<u>2,395,338</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Philadelphia Public School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Philadelphia Public School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Philadelphia Public School District's basic financial statements, and have issued our report thereon dated December 16, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
December 16, 2014

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Philadelphia Public School District

Report on Compliance for Each Major Federal Program

We have audited Philadelphia Public School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on Philadelphia Public School District's major federal program for the year ended June 30, 2014. The Philadelphia Public School District's major federal program is identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Philadelphia Public School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Philadelphia Public School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Philadelphia Public School District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Philadelphia Public School District's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
December 16, 2014

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Philadelphia Public School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Philadelphia Public School District as of and for the year ended June 30, 2014, which collectively comprise Philadelphia Public School District's basic financial statements and have issued our report thereon dated December 16, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$0 of classroom supply funds carried over from previous years.

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

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

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

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

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BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
December 16, 2014

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Philadelphia Public School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unmodified.
2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unmodified.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I Grants to Local Educational Agencies

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

Section II: Financial Statement Findings

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

Section III: Findings and Questioned Costs for Federal Awards

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