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HARRISON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2015

HARRISON COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Harrison County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Harrison County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, the Schedule of the District's Proportionate share of the Net Pension Liability, and the Schedule of District Contributions on pages 6-14 and 53-58, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the Harrison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison County School District's internal control over financial reporting and compliance.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Gulfport, Mississippi

December 14, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

The following discussion and analysis of Harrison County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$131,570,983, including a prior period adjustment of (\$135,194,290) from implementing GASB 68 on pensions, which represents a 100.0% decrease from fiscal year 2014, Total net position for 2014 increased \$1,970,016, which represents a 1.5% increase from fiscal year 2013.
- General revenues amounted to \$104,571,851 and \$102,411,375, or 81% and 82% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$23,773,291, or 19% of total revenues for 2015, and \$22,523,467, or 18% of total revenues for 2014.
- The District had \$124,721,835 and \$122,964,826 in expenses for fiscal years 2015 and 2014; only \$23,773,291 for 2015 and \$22,523,467 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$104,571,851 for 2015 and \$102,411,375 for 2014 were adequate to provide for these programs.
- Among major funds, the General Fund had \$100,564,924 in revenues and \$99,286,991 in expenditures for 2015, and \$93,967,941 in revenues and \$92,142,333 in expenditures in 2014. The General Fund's fund balance decreased by \$146,070, including an increase of \$1,164,863 for a fund reclassification from 2014 to 2015, and increased by \$476,430, from 2013 to 2014.
- Capital assets, net of accumulated depreciation, decreased by \$2,958,800 for 2015 and increased by \$3,300,727 for 2014. The decrease for 2015 was due to the addition of construction projects within the District coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$3,550,536 for 2015 and decreased by \$6,724,795 for 2014. The decrease for 2015 was due primarily to the repayment of general/limited obligation bonds/principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$75,339 for 2015 and decreased by \$133,570 for 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

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

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Notes to the Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board. Additionally, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of the District's Contributions are presented in this section.

Supplementary Information

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

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

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. As a result of implementing GASB 68, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources creating a net position of \$1,405 as of June 30, 2015.

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

Table 1 presents a summary of the District's net position at June 30, 2015 and June 30, 2014.

Table 1
Condensed Statement of Net Position

	June 30, 2015	June 30, 2014	Percentage Change
Current assets	\$ 37,869,982	\$ 40,599,553	-6.72 %
Restricted assets	8,447,764	7,120,488	18.64 %
Capital assets, net	138,863,366	141,822,166	-2.09 %
Total assets	<u>185,181,112</u>	<u>189,542,207</u>	-2.30 %
Deferred outflows of resources	<u>16,410,969</u>	<u>114,153</u>	14276.29 %
Current liabilities	6,744,104	8,392,347	-19.64 %
Long-term debt outstanding	46,081,511	49,632,047	-7.15 %
Net pension liability	129,878,408	-	N/A
Total liabilities	<u>182,704,023</u>	<u>58,024,394</u>	214.87 %
Deferred inflows of resources	<u>18,886,653</u>	<u>59,578</u>	31600.72 %
Net position:			
Net investment in capital assets	96,138,034	94,724,542	1.49 %
Restricted	27,102,389	26,832,140	1.01 %
Unrestricted	(123,239,018)	10,015,706	-1330.46 %
Total net position	<u>\$ 1,405</u>	<u>\$ 131,572,388</u>	-100.00 %

Additional information on unrestricted net position:

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

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

Total unrestricted net position (deficit)	\$ (123,239,018)
Less: unrestricted deficit in net position resulting from recognition of the net pension liability and related deferrals	<u>133,623,412</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 10,384,394</u>

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

- Increase in net investment in capital assets in the amount of \$1,413,492.
- Decrease in long-term debt outstanding due to debt repayments by \$3,550,536.
- Liabilities increased by \$124,679,629 with deferred outflows increasing by \$16,296,816 and deferred inflows increasing by \$18,827,075 as a result of implementing GASB 68 on pensions.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$128,345,142 and \$124,934,842, respectively. The total cost of all programs and services was \$124,721,835 for 2015 and \$122,964,826 for 2014.

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

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

Table 2
Changes in Net Position

	Year Ended June 30, 2015	Year Ended June 30, 2014	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 2,308,264	\$ 2,444,592	(5.58) %
Operating grants and contributions	18,824,711	16,441,096	14.50 %
Capital grants and contributions	2,640,316	3,637,779	(27.42) %
General revenues:			
Property and gaming taxes	45,965,485	44,367,964	3.60 %
Grants and contributions not restricted	56,043,112	55,422,964	1.12 %
Investment earnings	191,079	203,518	(6.11) %
Sixteenth section sources	2,299,628	2,349,658	(2.13) %
Other	72,547	67,271	7.84 %
Total revenues	\$ 128,345,142	\$ 124,934,842	2.73 %

(Continued)

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Expenses:			
Instruction	\$ 64,669,532	\$ 66,819,352	(3.22) %
Support services	41,221,872	46,649,093	(11.63) %
Non-instructional	7,552,421	7,338,806	2.91 %
Sixteenth section	746,781	1,008,439	(25.95) %
Pension expense	9,507,462	-	N/A
Interest on long-term liabilities	1,023,767	1,149,136	(10.91) %
Total expenses	<u>124,721,835</u>	<u>122,964,826</u>	1.43 %
Increase (Decrease) in net position	<u>3,623,307</u>	<u>1,970,016</u>	83.92 %
Net Position, July 1, as previously reported	131,572,388	129,602,372	1.52 %
Prior Period Adjustment	(135,194,290)	-	N/A %
Net Position, July 1, as restated	<u>(3,621,902)</u>	<u>129,602,372</u>	(102.79) %
Net Position, June 30	<u>\$ 1,405</u>	<u>\$ 131,572,388</u>	(100.00) %

Governmental activities

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

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage</u> <u>Change</u>
	<u>2015</u>	<u>2014</u>	
Instruction	\$ 64,669,532	\$ 66,819,352	(3.22) %
Support services	41,221,872	46,649,093	(11.63) %
Non-instructional	7,552,421	7,338,806	2.91 %
Sixteenth section	746,781	1,008,439	(25.95) %
Pension expense	9,507,462	-	N/A
Interest on long-term liabilities	1,023,767	1,149,136	(10.91) %
Total expenses	<u>\$ 124,721,835</u>	<u>\$ 122,964,826</u>	1.43 %

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

	Net (Expense) Revenue		Percentage Change
	2015	2014	
Instruction	\$ (57,306,034)	\$ (60,383,604)	(5.10) %
Support services	(32,798,887)	(38,376,355)	(14.53) %
Non-instructional	434,387	476,175	(8.78) %
Sixteenth section	(746,781)	(1,008,439)	(25.95) %
Pension expense	(9,507,462)	-	N/A
Interest on long-term liabilities	(1,023,767)	(1,149,136)	(10.91) %
Total net (expense) revenue	<u>\$ (100,948,544)</u>	<u>\$ (100,441,359)</u>	0.50 %

- Net cost of governmental activities, \$(100,948,544) for 2015 and \$(100,441,359) for 2014 was financed by general revenue, which is primarily made up of property and gaming taxes of \$45,965,485 for 2015 and \$44,367,964 for 2014, and state and federal revenues \$56,043,112 for 2015 and \$55,422,964 for 2014. In addition, there was \$2,299,628 and \$2,349,658 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$191,079 for 2015 and \$203,518 for 2014.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$39,732,934, an increase of \$133,273, including an increase in inventory of \$41,824. \$12,411,430 or 31% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$27,321,504 or 69% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$146,070, including \$1,164,863 increase from a fund reclassification. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,189,959, which includes a decrease from a fund reclassification of \$1,164,863, and an increase in reserve for inventory of \$41,824. The increase (decrease) in the fund balances for the other major funds were as follows:

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

Major Fund	Increase (Decrease)
Special Note Fund	\$ (910,616)
Title I-A Basic Fund	no increase/decrease
Idea Part B Fund	no increase/decrease

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.

The major budget revisions were made to reflect an increase in local property taxes as well as the reduction of instruction expenditures.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$200,558,573, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$2,302,989 from 2014. Total accumulated depreciation as of June 30, 2015, was \$61,695,207, and total depreciation expense for the year was \$5,286,939, resulting in total net capital assets of \$138,863,366.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2015	June 30, 2014	Percentage Change
Land	\$ 3,494,698	\$ 3,494,698	0.00 %
Construction in progress	11,998	11,728,290	(99.90) %
Buildings	116,769,163	107,989,119	8.13 %
Building improvements	5,584,918	5,374,959	3.91 %
Improvements other than buildings	5,411,622	5,698,164	(5.03) %
Mobile equipment	4,301,641	4,028,500	6.78 %
Furniture and equipment	1,070,126	1,015,585	5.37 %
Leased property under capital leases	2,219,200	2,492,851	(10.98) %
Total	\$ 138,863,366	\$ 141,822,166	(2.09) %

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

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2015

Debt Administration. At June 30, 2015, the District had \$46,081,511 in outstanding long-term debt, of which \$5,282,758 is due within one year. The liability for compensated absences decreased \$75,339 from the prior year. The District maintains an A2 bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 3,405,000	\$ 4,975,000	(31.56) %
Premium	102,124	204,245	(50.00) %
Limited obligation bonds payable	5,835,000	7,110,000	(17.93) %
Premium	108,507	162,760	(33.33) %
Three mill notes payable	14,965,000	14,585,000	2.61 %
Premium	371,900	147,428	152.26 %
Obligations under capital leases	766,944	1,527,344	(49.79) %
Obligations under energy efficiency leases	1,280,202	1,598,097	(19.89) %
Qualified zone academy bonds payable	2,500,000	2,500,000	0.00 %
Qualified school construction bonds payable	16,000,000	16,000,000	0.00 %
Compensated absences payable	746,834	822,173	(9.16) %
Total	<u>\$ 46,081,511</u>	<u>\$ 49,632,047</u>	(7.15) %

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The tax millage has remained the lowest of all Gulf Coast school districts. In addition, the District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

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

The enrollment for the 2014-2015 year increased by 1.7% from 13,411 to 13,181.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Business Office of the Harrison County School District, Highway 49, Gulfport, MS 39503.

FINANCIAL STATEMENTS

Harrison County School District
Statement of Net Position
June 30, 2015

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 34,476,088
Due from other governments	3,134,490
Other receivables, net	10,916
Inventories	248,488
Restricted assets	8,447,764
Capital assets, not being depreciated:	
Land	3,494,698
Construction in progress	11,998
Capital assets, net of accumulated depreciation:	
Buildings	116,769,163
Building improvements	5,584,918
Improvements other than buildings	5,411,622
Mobile equipment	4,301,641
Furniture and equipment	1,070,126
Leased property under capital leases	2,219,200
Total assets	<u>185,181,112</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on bond refunding	1,329,143
Deferred amounts on pension	15,081,826
Total deferred outflows of resources	<u>16,410,969</u>
LIABILITIES	
Accounts payable and accrued liabilities	6,524,989
Interest payable on long-term liabilities	219,115
Long-term liabilities (due within one year)	
Capital-related liabilities	4,951,944
Non-capital related liabilities	330,814
Long-term liabilities (due beyond one year)	
Capital-related liabilities	39,102,531
Non-capital liabilities	1,696,222
Net pension liability	129,878,408
Total liabilities	<u>182,704,023</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on student lunch overpayments	59,823
Deferred amounts on pension	18,826,830
Total deferred inflows of resources	<u>\$ 18,886,653</u>

(Continued on next page)

Harrison County School District
 Statement of Net Position
 June 30, 2015

	Governmental Activities
	<u> </u>
NET POSITION	
Net investment in capital assets	\$ 96,138,034
Restricted for:	
Expendable:	
School-based activities	4,359,794
Debt service	9,464,844
Capital improvements	10,734,460
Forestry improvements	156,528
Unemployment benefits	378,314
Nonexpendable:	
Sixteenth section	2,008,449
Unrestricted	<u>(123,239,018)</u>
Total net position	<u><u>\$ 1,405</u></u>

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

Harrison County School District
Statement of Activities
For the Year Ended June 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 64,669,532	\$ 908,899	\$ 6,454,599	\$ -	\$ (57,306,034)
Support services	41,221,872	226,149	5,556,520	2,640,316	(32,798,887)
Non-instructional	7,552,421	1,173,216	6,813,592	-	434,387
Sixteenth section	746,781	-	-	-	(746,781)
Pension expense	9,507,462	-	-	-	(9,507,462)
Interest on long-term liabilities	1,023,767	-	-	-	(1,023,767)
Total governmental activities	\$ 124,721,835	\$ 2,308,264	\$ 18,824,711	\$ 2,640,316	(100,948,544)
General Revenues:					
Taxes:					
General purpose levies					40,326,328
Debt purpose levies					4,206,664
Gaming					1,432,493
Unrestricted grants and contributions:					
State					55,910,376
Federal					132,736
Unrestricted investment earnings					191,079
Sixteenth section sources					2,299,628
Other					72,547
Total general revenues					104,571,851
Change in Net Position					3,623,307
Net Position - Beginning as previously stated					131,572,388
Prior period adjustment					(135,194,290)
Net Position - Beginning as restated					(3,621,902)
Net Position - Ending					\$ 1,405

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

Harrison County School District
Balance Sheet - Governmental Funds
June 30, 2015

	Major Funds				Other	Total
	General Fund	Special Note Fund	Title I-A Basic Fund	Idea Part B Fund	Governmental Funds	Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 18,840,115	\$ 4,654,638	\$ 79,174	\$ 118,313	\$ 12,792,297	\$ 36,484,537
Cash with fiscal agents	-	-	-	-	837,940	837,940
Investments	-	-	-	-	5,601,375	5,601,375
Due from other governments	616,862	-	501,497	401,095	1,615,036	3,134,490
Other receivables	-	-	-	-	10,916	10,916
Due from other funds	1,145	1,250,591	-	-	241,886	1,493,622
Inventories	-	-	-	-	248,488	248,488
Total assets	<u>\$ 19,458,122</u>	<u>\$ 5,905,229</u>	<u>\$ 580,671</u>	<u>\$ 519,408</u>	<u>\$ 21,347,938</u>	<u>\$ 47,811,368</u>
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable & accrued liabilities	\$ 5,887,631	\$ -	\$ 79,174	\$ 118,313	\$ 439,871	\$ 6,524,989
Due to other funds	36,373	51,317	501,497	401,095	503,340	1,493,622
Total liabilities	<u>5,924,004</u>	<u>51,317</u>	<u>580,671</u>	<u>519,408</u>	<u>943,211</u>	<u>8,018,611</u>
Deferred inflows of resources						
Student lunch overpayments	-	-	-	-	59,823	59,823
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,823</u>	<u>59,823</u>
Fund Balances:						
Nonspendable:						
Permanent fund purposes	-	-	-	-	2,008,449	2,008,449
Inventory	-	-	-	-	248,488	248,488
Restricted for:						
Unemployment benefits	-	-	-	-	378,314	378,314
Capital projects	-	5,853,912	-	-	4,880,548	10,734,460
Forestry improvements purposes	-	-	-	-	156,528	156,528
Debt service	-	-	-	-	9,683,959	9,683,959
Child nutrition	-	-	-	-	2,240,017	2,240,017
Instructional	-	-	-	-	168,419	168,419
Support services	-	-	-	-	580,182	580,182
Assigned:						
Activities	656,006	-	-	-	-	656,006
Athletics and band	137,111	-	-	-	-	137,111
Support services	329,571	-	-	-	-	329,571
Unassigned	12,411,430	-	-	-	-	12,411,430
Total fund balances	<u>13,534,118</u>	<u>5,853,912</u>	<u>-</u>	<u>-</u>	<u>20,344,904</u>	<u>39,732,934</u>
Total liabilities & fund balances	<u>\$ 19,458,122</u>	<u>\$ 5,905,229</u>	<u>\$ 580,671</u>	<u>\$ 519,408</u>	<u>\$ 21,347,938</u>	<u>\$ 47,811,368</u>

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

Harrison County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2015

		Amount
Total Fund Balance - Governmental Funds	\$	39,732,934
Amounts reported for governmental activities in the statement of net position are different because:		
1 Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds:		
Land	3,494,698	
Construction in progress	11,998	
Buildings	157,095,761	
Building improvements	9,099,549	
Improvements other than buildings	7,296,243	
Mobile equipment	12,827,107	
Furniture and equipment	7,688,208	
Leased property under capital leases	3,045,009	
Accumulated depreciation	(61,695,207)	138,863,366
2 Some liabilities, including net pension obligations, are not due and payable in the current period and, therefore, are not reported in the funds:		
Net pension liability		(129,878,408)
3 Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:		
Deferred outflows of resources related to pensions	15,081,826	
Deferred inflows of resources related to pensions	(18,826,830)	(3,745,004)
4 Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(3,405,000)	
Limited obligation bonds	(5,835,000)	
Notes payable	(14,965,000)	
Capital lease obligations	(2,047,146)	
Qualified zone academy bonds	(2,500,000)	
Qualified school construction bonds	(16,000,000)	
Deferred outflow due to amount on refunding	1,329,143	
Unamortized premiums	(582,531)	
Compensated absences	(746,834)	
Accrued interest payable	(219,115)	(44,971,483)
Net Position - Governmental Activities	\$	1,405

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

Harrison County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances For Governmental Funds
For the Year Ended June 30, 2015

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Special Note Fund	Title I-A Basic Fund	Idea Part B Fund		
REVENUES						
Local sources	\$ 40,990,392	\$ 10,198	\$ -	\$ -	\$ 7,536,787	\$ 48,537,377
State sources	56,428,446	-	-	-	3,157,184	59,585,630
Federal sources	852,415	-	3,848,090	3,008,871	10,213,133	17,922,509
Sixteenth section revenue	2,293,671	-	-	-	5,957	2,299,628
Total revenues	<u>100,564,924</u>	<u>10,198</u>	<u>3,848,090</u>	<u>3,008,871</u>	<u>20,913,061</u>	<u>128,345,144</u>
EXPENDITURES						
Instruction	63,954,622	-	2,583,183	1,384,955	3,798,579	71,721,339
Support services	33,423,105	-	830,784	1,633,185	5,913,945	41,801,019
Noninstructional services	3,064	-	32,411	-	7,806,678	7,842,153
Sixteenth section	740,801	-	-	-	5,980	746,781
Facilities acquisition and construction	-	-	-	-	609,350	609,350
Debt Service:						
Principal	1,078,295	-	-	-	3,635,000	4,713,295
Interest	87,104	-	-	-	809,786	896,890
Debt issuance costs	-	-	-	-	223,366	223,366
Other	-	-	-	-	11,173	11,173
Total expenditures	<u>99,286,991</u>	<u>-</u>	<u>3,446,378</u>	<u>3,018,140</u>	<u>22,813,857</u>	<u>128,565,366</u>
Excess (deficiency) of revenues over expenditures	<u>1,277,933</u>	<u>10,198</u>	<u>401,712</u>	<u>(9,269)</u>	<u>(1,900,796)</u>	<u>(220,222)</u>
OTHER FINANCING SOURCES (USES)						
Insurance loss recoveries	15,860	-	-	-	277,472	293,332
Proceeds of refunding bonds	-	-	-	-	12,395,000	12,395,000
Premium on debt issuance	-	-	-	-	261,748	261,748
Payments held by escrow agents	-	-	-	-	1,214,944	1,214,944
Payments to refunded bond escrow agents	-	-	-	-	(12,638,409)	(12,638,409)
Transfers in	534,529	1,259,894	-	9,269	4,626,802	6,430,494
Transfers out	(3,139,255)	(2,180,708)	(401,712)	-	(708,819)	(6,430,494)
Payment to QZAB escrow agent	-	-	-	-	(1,214,944)	(1,214,944)
Total other financing sources and uses	<u>(2,588,866)</u>	<u>(920,814)</u>	<u>(401,712)</u>	<u>9,269</u>	<u>4,213,794</u>	<u>311,671</u>
Net change in fund balances	<u>(1,310,933)</u>	<u>(910,616)</u>	<u>-</u>	<u>-</u>	<u>2,312,998</u>	<u>91,449</u>
Fund Balances:						
July 1, 2014	13,680,188	6,764,528	-	-	19,154,945	39,599,661
Fund reclassification	1,164,863	-	-	-	(1,164,863)	-
July 1, 2014, restated	<u>14,845,051</u>	<u>6,764,528</u>	<u>-</u>	<u>-</u>	<u>17,990,082</u>	<u>39,599,661</u>
Increase in reserve for inventory	-	-	-	-	41,824	41,824
June 30, 2015	<u>\$ 13,534,118</u>	<u>\$ 5,853,912</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,344,904</u>	<u>\$ 39,732,934</u>

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

Harrison County School District
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, 2015

		Amount
Net change in fund balances - governmental funds	\$	91,449
Amounts reported for governmental activities in the statement of activities are different because:		
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlay	2,328,393	
Depreciation	(5,286,939)	(2,958,546)
2 In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.		
		(254)
3 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
Payments of debt principal	4,713,295	
Proceeds of refunding bonds	(12,395,000)	
Premiums on bonded debt issuance	(261,748)	
Bonds refunded	11,225,000	
Deferred amounts on refunding	1,413,409	
Accrued interest payable	112,430	4,807,386
4 Pension expense		
Deferred outflow of current year pension contributions		(9,507,462)
		11,078,339
5 Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
Change in compensated absences	75,339	
Change in inventory reserve	41,824	
Amortization of deferred charges, premiums and discounts	(4,768)	112,395
Change in net position of governmental activities	\$	3,623,307

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

**Harrison County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2015**

	<u>Loss Escrow Fund</u>	<u>Agency Funds</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$ 25,000	\$ 267,779	\$ 292,779
Total Assets	<u>\$ 25,000</u>	<u>\$ 267,779</u>	<u>\$ 292,779</u>
Liabilities			
Due to others	\$ 25,000	\$ -	\$ 25,000
Due to student clubs	<u>-</u>	<u>267,779</u>	<u>267,779</u>
Total Liabilities	<u>\$ 25,000</u>	<u>\$ 267,779</u>	<u>\$ 292,779</u>

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

NOTES TO THE FINANCIAL STATEMENTS

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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 Standard Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board to which each member is elected by the citizens of each defined county district.

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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.

Special Note Fund - This debt service fund is used to account for the transfer of unrestricted interest earnings from the Sixteenth Section principal fund.

Title I-A Basic Fund - This special revenue fund is used to account for federal grant revenues and expenditures related to economically disadvantaged students within the District.

Idea Part B Fund - This special revenue fund is used to account for federal grant revenues and expenditures related to providing a free appropriate public education to all children with disabilities for students within the District.

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:

Loss Escrow Fund - This fiduciary fund is used to report the district's match on any tort claims filed against the district.

Agency Funds - These fiduciary funds are used to report the various funds held on behalf of the students of the different schools within 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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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

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

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

FIDUCIARY FUNDS

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

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

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

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

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

Property tax, 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.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets 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 interfund activity has been eliminated from the government-wide statements.

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

The account classifications in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

D. Encumbrances

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

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

1. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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 a maturity greater than 3 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 interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased. Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

6. Capital Assets

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

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

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

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

(**) The estimated useful life will vary as deemed appropriate for the District's specific intangible assets. There is no mandated maximum amortization period. Intangible assets with indefinite useful lives should not be amortized.

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two deferred outflows of resources which is a deferred amount on bond refunding and a deferred pension amount. See Notes 7 and 16 for details.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two deferred inflows which is a deferred amount of unused prepaid lunch monies from students and a deferred pension amount. See Notes 7 and 16 for details.

8. Compensated Absences

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

The liability for these compensated absences is recorded as long-term liabilities 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 compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

9. Long-term Liabilities, and Bond Discounts/Premiums

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

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

10. Pensions

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

11. Fund Balances

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

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

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

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

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

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

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

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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 surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits 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, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest 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. 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. Amounts 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 \$36,484,537, and \$292,779 respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$34,476,088 and restricted assets cash of \$2,008,449.

Custodial credit risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the school district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The school district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the school district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the school district. As of June 30, 2015, none of the school district's bank balance of \$41,363,544 was exposed to custodial credit risk.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$837,940 on Exhibit C and is reported as restricted assets on Exhibit A.

Investments

At June 30, 2014, the District had the following investments: (reported as restricted assets on Exhibit A)

<u>Investment Type</u>	<u>Maturities (in Years)</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury Note	5-7	\$ 2,160,740	AA+
US Treasury STRIPS	5-7	1,659,518	AAAm
MS Noncallable & Tax Exempt	4	471,284	AA
QSCB Trust 2012-A	N/A	<u>1,309,833</u>	AA
		<u>\$ 5,601,375</u>	

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

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

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

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2015, the District did not have any investments to which this would apply.

Note 3 - Interfund Receivables, Payables and Transfers

The following is a summary of interfund transactions and balances:

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
Special Note Payment Fund	Idea Part B fund	\$ 345,095
	Title I-A Basic fund	501,497
	Other governmental funds	403,999
General Fund	Other governmental funds	1,145
Other governmental funds	General Fund	36,373
	Special Note fund	51,317
	Idea Part B fund	56,000
	Other governmental funds	98,196
		\$ 1,493,622
Total		\$ 1,493,622

Amounts due to and from other funds represent amounts advanced or received for timing differences between revenue and expenditures and cash balance.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 1,879,361
	Special Note Payment fund	1,259,894
Special Note Payment Fund	Other governmental funds	2,180,708
Title I-A Basic funds	Other governmental funds	371,712
	General fund	30,000
Other governmental funds	Other governmental funds	195,021
	Idea Part B fund	9,269
	General fund	504,529
		\$ 6,430,494
Total		\$ 6,430,494

Transfers represent board approved operating transfers for school operations and planning purposes.

Note 4 - Restricted Assets

The restricted assets, totaling \$8,447,764, include the cash balance of \$2,008,449 of Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. Also, the restricted assets include the cash with fiscal agents and investments, totaling \$20,997 and \$2,182,840, respectively, of the QZAB Bond Requirement Funds. Also the restricted assets include cash with fiscal agents and investments of \$19,106 and \$3,418,535, respectively of the QSCB Bond Retirement Funds, and cash with fiscal agents of \$797,837 of the MAEP Limited Obligation Bond Fund.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Note 5 - Capital Assets

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

Governmental Activities:	Balance 7/1/2014	Increases	Decreases	Completed Construction	Balance 6/30/2015
Non-depreciable capital assets:					
Land	\$ 3,494,698	\$ -	\$ -	\$ -	\$ 3,494,698
Construction in progress	11,728,290	48,062	-	(11,764,354)	11,998
Total non-depreciable capital assets	15,222,988	48,062	-	(11,764,354)	3,506,696
Depreciable capital assets:					
Buildings	145,331,407	-	-	11,764,354	157,095,761
Building improvements	8,538,261	561,288	-	-	9,099,549
Improvements other than buildings	7,296,243	-	-	-	7,296,243
Mobile equipment	11,794,635	1,032,472	-	-	12,827,107
Furniture and equipment	7,027,041	686,571	(20,395)	-	7,693,217
Leased property under capital leases	3,045,009	-	(5,009)	-	3,040,000
Total depreciable capital assets	183,032,596	2,280,331	(25,404)	11,764,354	197,051,877
Less accumulated depreciation for:					
Buildings	(37,342,288)	(2,984,310)	-	-	(40,326,598)
Building improvements	(3,163,302)	(351,329)	-	-	(3,514,631)
Improvements other than buildings	(1,598,079)	(286,542)	-	-	(1,884,621)
Mobile equipment	(7,766,135)	(759,331)	-	-	(8,525,466)
Furniture and equipment	(6,011,456)	(631,827)	20,192	-	(6,623,091)
Leased property under capital leases	(552,158)	(273,600)	4,958	-	(820,800)
Total accumulated depreciation	(56,433,418)	(5,286,939)	25,150	-	(61,695,207)
Total depreciable capital assets, net	126,599,178	(3,006,608)	(254)	11,764,354	135,356,670
Governmental activities capital assets, net	\$ 141,822,166	\$ (2,958,546)	\$ (254)	\$ -	\$ 138,863,366

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 504,283
Support services	4,563,631
Non-instructional	219,025
Total depreciation expense	\$ 5,286,939

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Commitments under construction contracts at June 30, 2015, are summarized as follows:

	Spent thru June 30, 2015	Remaining Commitment
Ballfield renovations	\$ 11,998	\$ 92,400

The school district will use construction bond proceeds to complete these project commitments.

Note 6 - Long-term Liabilities

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

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amount due within one year
A. General obligation bonds	\$ 4,975,000	\$ -	\$ 1,570,000	\$ 3,405,000	\$ 1,660,000
Add deferred amounts:					
For issuance premiums	204,245		102,121	102,124	
Less deferred amounts:					
On refunding	(114,153)		(57,078)	(57,075)	
Total general obligation bonds	5,065,092	-	1,615,043	3,450,049	1,660,000
B. Limited obligations bonds	7,110,000	-	1,275,000	5,835,000	1,555,000
Add deferred amounts:					
For issuance premiums	162,760		54,253	108,507	
Total limited obligation bonds	7,272,760	-	1,329,253	5,943,507	1,555,000
C. Three mill notes	14,585,000	12,395,000	12,015,000	14,965,000	970,000
Add deferred amounts:					
For issuance premiums	147,428	261,748	37,276	371,900	
Less deferred amounts:					
On refunding	-	(1,413,409)	(141,341)	(1,272,068)	
Total three mill notes	14,732,428	11,243,339	11,910,935	14,064,832	970,000
D. Obligations under capital leases	1,527,344	-	760,400	766,944	766,944
E. Obligations under energy efficiency lease	1,598,097	-	317,895	1,280,202	330,814
F. Qualified zone academy bonds	2,500,000	-	-	2,500,000	-
G. Qualified school construction bonds	16,000,000	-	-	16,000,000	-
H. Compensated absences	822,173	-	75,339	746,834	-
Total	\$ 49,517,894	\$ 11,243,339	\$ 16,008,865	\$ 44,752,368	\$ 5,282,758

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2005	3.25%-5.0%	7/5/2005	3/3/2017	\$ 13,955,000	\$ 3,405,000

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,660,000	\$ 170,250	\$ 1,830,250
2017	1,745,000	87,250	1,832,250
Total	<u>\$ 3,405,000</u>	<u>\$ 257,500</u>	<u>\$ 3,662,500</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonding indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such a district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes has been met. As of June 30, 2015, the amount of outstanding bonded indebtedness was equal to .40% of property assessments as of October 1, 2014. This debt will be retired from the Debt Service Fund.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Refunding bonds Series 2013	3.625-3.8%	5/23/2013	2/1/2018	\$7,110,000	\$ 5,835,000

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Refunding bonds series 2013:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 1,555,000	\$ 101,150	\$ 1,656,150
2017	1,590,000	69,700	1,659,700
2018	2,690,000	37,650	2,727,650
Total	<u>\$ 5,835,000</u>	<u>\$ 208,500</u>	<u>\$ 6,043,500</u>

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. This debt will be retired from the MAEP State Aid Capital Improvement 98 Pledge Fund and the MAEP State Aid 1998 Refund Escrow Fund.

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note, 2007	4.0-5.0%	6/22/2007	6/1/2018	\$ 17,755,000	\$ 2,570,000
Refunding series 2014	4.0-5.0%	9/12/2014	9/1/2027	9,470,000	9,470,000
Refunding series 2015	4.0-5.0%	2/2/2015	2/1/2027	2,925,000	2,925,000
Total				<u>\$ 30,150,000</u>	<u>\$ 14,965,000</u>

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

Three mill note, 2007:

Year Ending June, 30	Principal	Interest	Total
2016	\$ 825,000	\$ 629,669	\$ 1,454,669
2017	855,000	596,669	1,451,669
2018	890,000	562,469	1,452,469
Total	<u>\$ 2,570,000</u>	<u>\$ 1,788,807</u>	<u>\$ 4,358,807</u>

This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Refunding Series 2014:

Year Ending June, 30	Principal	Interest	Total
2016	\$ 135,000	\$ 219,520	\$ 354,520
2017	140,000	216,770	356,770
2018	140,000	213,970	353,970
2019	1,070,000	201,870	1,271,870
2020	1,090,000	180,270	1,270,270
2021-2025	5,725,000	536,675	6,261,675
2026-2030	1,170,000	17,550	1,187,550
Total	<u>\$ 9,470,000</u>	<u>\$ 1,586,625</u>	<u>\$ 11,056,625</u>

This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund.

Refunding Series 2015:

Year Ending June, 30	Principal	Interest	Total
2016	\$ 10,000	\$ 108,664	\$ 118,664
2017	20,000	85,080	105,080
2018	20,000	84,780	104,780
2019	20,000	84,480	104,480
2020	20,000	84,180	104,180
2021-2025	115,000	415,420	530,420
2026-2030	2,720,000	149,675	2,869,675
Total	<u>\$ 2,925,000</u>	<u>\$ 1,012,279</u>	<u>\$ 3,937,279</u>

This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund.

Total three mill notes payable:

Year Ending June, 30	Principal	Interest	Total
2016	\$ 970,000	\$ 957,853	\$ 1,927,853
2017	1,015,000	898,519	1,913,519
2018	1,050,000	861,219	1,911,219
2019	1,090,000	286,350	1,376,350
2020	1,110,000	264,450	1,374,450
2021-2025	5,840,000	952,095	6,792,095
2026-2030	3,890,000	167,225	4,057,225
Total	<u>\$ 14,965,000</u>	<u>\$ 4,387,711</u>	<u>\$ 19,352,711</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Advance Refunding Series 2014

On 9/30/2014, the district issued \$9,470,000 in limited tax notes with an average interest rate of 2.447% to advance refund \$8,555,000 of outstanding three mill notes with an average interest rate of 4.88%. The net proceeds of \$9,517,801, after \$190,701 of issuance premiums and payments of \$142,900 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the three mill notes.

As a result, the \$8,555,000 three mill notes are considered to be defeased and the liability for those notes has been removed from long-term liabilities.

The district advance refunded \$8,555,000 of the three mill notes to reduce its total debt service payments over the remaining 13 years of the debt by approximately \$11,972,809 and to realize an economic gain of \$600,108.

Advance Refunding Series 2015

On 4/29/2015, the district issued \$2,925,000 in limited tax notes with an average interest rate of 2.966% to advance refund \$2,670,000 of outstanding three mill notes with an average interest rate of 4.375%. The net proceeds of \$2,915,580, after \$71,047 of issuance premiums and payments of \$80,467 for issuance costs, were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the three mill notes.

As a result, the \$2,670,000 three mill notes are considered to be defeased and the liability for those notes has been removed from long-term liabilities.

The district advance refunded \$2,670,000 of three mill notes to reduce its total debt service payments over the remaining 13 years of the debt by approximately \$4,054,322 and to realize an economic gain of \$148,044.

D. Obligations under capital leases

The school district has entered into two lease agreements as lessee for financing the acquisition of school buses and copier machines. These leases qualify as capital leases for accounting purposes. The District Maintenance fund will be used to retire this debt.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Bus Lease	1.88%	9/1/2012	9/20/2015	\$ 3,040,000	\$ 766,944

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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

Year Ending June 30,	Principal	Interest and Maintenance	Total
2016	\$ 766,944	\$ 14,419	\$ 781,363

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

E. Obligations under energy efficiency lease

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Hancock Bank Energy Efficiency Lease	4.06%	6/15/2004	2/15/2019	\$ 4,168,343	\$ 1,280,202

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

Year Ending June 30,	Principal	Interest	Total
2016	\$ 330,814	\$ 45,074	\$ 375,888
2017	344,257	31,631	375,888
2018	358,247	17,641	375,888
2019	246,884	4,019	250,903
Total	<u>\$ 1,280,202</u>	<u>\$ 98,365</u>	<u>\$ 1,378,567</u>

An energy efficiency lease agreement dated June 15, 2004, was executed by and between the District, the lessee, and Hancock Bank, the lessor. The agreement authorized the borrowing of \$4,168,343 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall not exceed (15) years and will be retired from the District Maintenance Fund.

The District entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972). Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Series 2008	N/A	6/17/2008	6/17/2020	\$ 2,500,000	\$ 2,500,000

This debt will be retired from the QZAB 2008 Debt Retirement Fund.

G. Qualified school construction bonds payable

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Series 2009	N/A	12/29/2009	9/15/2022	\$ 3,000,000	\$ 3,000,000
Series 2010	N/A	12/20/2010	12/15/2020	3,000,000	3,000,000
Series 2012	N/A	5/16/2012	12/15/2026	<u>10,000,000</u>	<u>10,000,000</u>
				<u>\$ 16,000,000</u>	<u>\$ 16,000,000</u>

H. Compensated absences payable

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

Note 7 - Defined Benefit Pension Plan

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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

Contributions: PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for the fiscal year ended June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The School district's contributions to PERS for the fiscal years ending June 30, 2015, 2014, and 2013 were \$11,078,339, \$10,293,049, and \$9,109,216, respectively, which equaled the required contributions for each year.

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

At June 30, 2015, the school district reported a liability of \$129,878,408 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's portion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was 1.07% percent.

For the year ended June 30, 2015, the District recognized pension expense of \$9,507,462. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual Experience	\$ 2,026,065	\$ -
Net difference between projected and actual earnings on pension plan investments	-	18,826,830
Changes in proportion and differences between District contributions and proportionate share of contributions	1,977,422	-
District contributions subsequent to the measurement date	11,078,339	-
Total	\$ 15,081,826	\$ 18,826,830

\$11,078,339 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (3,266,604)
2017	(3,266,604)
2018	(3,583,427)
2019	(4,706,707)

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

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

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

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

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

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

Discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
District's proportionate share of the net pension liability	\$ 177,063,001	\$ 129,878,408	\$ 90,519,443

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Note 9 - Other Commitments

Commitments under construction contracts are described in Note 5.

In March 2014 the school district replaced copiers formerly under lease purchase with a forty-eight month operating lease, and has only one other older operating lease for a digital mailing machine remaining. Future lease payments for these remaining operating leases are as follows:

Year Ending June 30,	Amount
2016	\$ 113,580
2017	113,580
2018	94,650
Total	<u>\$ 321,810</u>

Note 10 - Sixteenth Section Lands

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

Year Ending June 30	Amount
2016	\$ 2,209,023
2017	2,296,377
2018	2,395,060
2019	2,499,334
2020	2,579,554
2021-2025	14,902,468
2026-2030	18,585,516
2031-2035	23,197,228
2036-2040	27,630,654
Thereafter	68,759,976
Total	<u>\$ 165,055,190</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Note 11 - 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 school 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.

The school district is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the school district'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 MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MMWCG has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

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 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.

Series 2008

The school district, in agreement with CyberLearning, entered into another such an arrangement dated June 17, 2008. The agreement schedules CyberLearning to provide a total of 2,200 software licenses. This contribution has a present value of \$152,556. This agreement establishes a method of repayment for a qualified interest-free debt instrument, and requires the school district to deposit funds annually into a sinking fund account on or before July 1 each year. The amount on deposit at June 30, 2015 was \$2,203,837. The amount accumulated in the sinking fund account at the end of the twelve year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district:

Year Ending June 30,	Amount
2016	\$ 260,000
2017	260,000
Total	<u>\$ 520,000</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Note 13 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for the district cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal QSCB. For the year ended June 30, 2015, the subsidy payments amounted to \$1,219,769.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2015 was \$3,437,641. The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits, inclusive of interest earnings from the prior twelve months, to be made to the sinking fund by the school district:

Year Ending June 30,	Amount
2016	\$ 1,219,769
2017	1,219,769
2018	1,219,769
2019	1,219,769
2020	1,219,769
2021-2025	4,496,540
2026-2027	805,000
Total	<u>\$ 11,400,385</u>

Note 14 - Fund Reclassification

The Sixteenth Section Interest Fund's beginning fund balance of \$1,164,863 was reclassified from Special Revenue Funds to the General Fund, effective July 1, 2014. This change was necessary to meet the requirements of GASB 54 and to stay in compliance with the reporting requirements based on Sections 29-3-115 and 29-3-117, Miss. Code of 1972.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Note 15 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Net pension liability (measurement date)	\$ (145,487,339)
Deferred outflows - contributions made during fiscal year 2014	<u>10,293,049</u>
Total prior period adjustment related to GASB 68 and 71	<u>\$ (135,194,290)</u>

Note 16 - Effect of Deferred Amounts on Net Position

Deferred Outflow

The net investment in capital assets net position amount of \$96,138,034 includes the effect of deferring the recognition of expenditures resulting from an advance refunding of school district debt. The \$1,329,143 balance of the deferred outflow related to the advance refunding at June 30, 2015 will be recognized as an expense and decrease the net investment in capital assets net position over the next nine years. The \$11,078,339 of deferred outflow related to pension contributions will be recognized as a reduction of net pension liability in the fiscal year ending 2016, and the difference of \$4,003,487 will be amortized over the next 3 years.

Deferred Inflow

The restricted for school-based activities net position amount of \$4,359,794 relative to child nutrition includes the effect of deferring the recognition of revenue from the student lunch overpayments into the online account "My Lunch Money". The \$59,823 balance of the deferred inflow related to the school lunch overpayments at June 30, 2015 will be recognized as revenue during the fiscal year ending 2016. The \$18,826,830 of deferred inflow related to the net difference between projected and actual earnings on pension plan investments will be recognized as an increase of net pension liability over the next 4 years.

Note 17 – Contingencies

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

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2015

Note 18 - Insurance Loss Recoveries

The school district received \$293,332 in insurance loss recoveries related to roof repair and a school cafeteria fire. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and were allocated among the expense functions based on the following percentages:

<u>Insurance Loss Recoveries</u>	<u>Percentage</u>	<u>Expense Function</u>
\$ 293,332	100%	Support Services

Note 19 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements were 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 Harrison County School District evaluated the activity of the district through December 14, 2015, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements.

In April 2015 the board and FEMA both approved \$7,432,195 of roofing construction projects for six of the nineteen schools under the Hazard Mitigation grant totaling \$21,264,451. As of June 30, 2015 only one bid had been accepted for \$369,945 at the Harrison Central High School Vo-Tech Building. In July 2015 the board accepted bids on three more of the six projects totaling \$2,606,779, for Three Rivers Elementary, Crossroads Elementary, and North Woolmarket K-8 schools. In August 2015 the board accepted bids for \$1,909,100 for D'Iberville Middle School, and in September 2015 accepted bids for \$1,845,983 for North Gulfport 7th and 8th grade school. All nineteen projects are expected to be completed by April 2016.

REQUIRED SUPPLEMENTARY INFORMATION

Harrison County School District
Budgetary Comparison Schedule
General Fund
For the Year ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 38,143,463	\$ 39,524,020	\$ 40,990,392	\$ 1,380,557	\$ 1,466,372
State sources	57,137,808	57,894,818	56,428,446	757,010	(1,466,372)
Federal sources	510,000	852,415	852,415	342,415	-
Sixteenth section revenue	-	2,293,671	2,293,671	2,293,671	-
Total Revenues	95,791,271	100,564,924	100,564,924	4,773,653	-
Expenditures:					
Instruction	70,652,576	63,962,771	63,954,622	6,689,805	8,149
Support services	34,682,978	34,580,355	33,423,105	102,623	1,157,250
Noninstructional services	4,858	3,064	3,064	1,794	-
Sixteenth section	-	740,801	740,801	(740,801)	-
Debt Service:					
Principal	-	-	1,078,295	-	(1,078,295)
Interest	-	-	87,104	-	(87,104)
Total Expenditures	105,340,412	99,286,991	99,286,991	6,053,421	-
Excess (Deficiency) of Revenues over Expenditures	(9,549,141)	1,277,933	1,277,933	10,827,074	-
Other Financing Sources (Uses):					
Insurance loss recoveries	-	15,860	15,860	15,860	-
Operating transfers in	2,608,289	534,529	534,529	(2,073,760)	-
Operating transfers out	(2,003,354)	(3,139,255)	(3,139,255)	(1,135,901)	-
Total Other Financing Sources (Uses)	604,935	(2,588,866)	(2,588,866)	(3,193,801)	-
Net Change in Fund Balances	(8,944,206)	(1,310,933)	(1,310,933)	7,633,273	-
Fund Balances:					
July 1, 2014	15,799,102	14,845,051	13,680,188	(954,051)	(1,164,863)
Fund reclassification	-	-	1,164,863	-	1,164,863
July 1, 2014, restated	15,799,102	14,845,051	14,845,051	(954,051)	-
June 30, 2015	\$ 6,854,896	\$ 13,534,118	\$ 13,534,118	\$ 6,679,222	\$ -

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

Harrison County School District
Budgetary Comparison Schedule
Title I-A Basic Fund
For the Year ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 4,076,000	\$ 3,838,591	\$ 3,848,090	\$ (237,409)	\$ 9,499
Total Revenues	<u>4,076,000</u>	<u>3,838,591</u>	<u>3,848,090</u>	<u>(237,409)</u>	<u>9,499</u>
Expenditures:					
Instruction	2,412,624	3,387,627	2,583,183	(975,003)	804,444
Support services	1,156,902	1,130,441	830,784	26,461	299,657
Noninstructional services	66,537	60,631	32,411	5,906	28,220
Total Expenditures	<u>3,636,063</u>	<u>4,578,699</u>	<u>3,446,378</u>	<u>(942,636)</u>	<u>1,132,321</u>
Excess (Deficiency) of Revenues over Expenditures	<u>439,937</u>	<u>(740,108)</u>	<u>401,712</u>	<u>(1,180,045)</u>	<u>1,141,820</u>
Other Financing Sources (Uses):					
Operating transfers out	(439,937)	(604,891)	(401,712)	(164,954)	203,179
Total Other Financing Sources (Uses)	<u>(439,937)</u>	<u>(604,891)</u>	<u>(401,712)</u>	<u>(164,954)</u>	<u>203,179</u>
Net Change in Fund Balances	<u>-</u>	<u>(1,344,999)</u>	<u>-</u>	<u>(1,344,999)</u>	<u>1,344,999</u>
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	<u>\$ -</u>	<u>\$ (1,344,999)</u>	<u>\$ -</u>	<u>\$ (1,344,999)</u>	<u>\$ 1,344,999</u>

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

Harrison County School District
Budgetary Comparison Schedule
Idea Part B Fund
For the Year ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 4,000,000	\$ 4,000,000	\$ 3,008,871	\$ -	\$ (991,129)
Total Revenues	<u>4,000,000</u>	<u>4,000,000</u>	<u>3,008,871</u>	<u>-</u>	<u>(991,129)</u>
Expenditures:					
Instruction	1,449,909	2,269,022	1,384,955	(819,113)	884,067
Support services	2,460,091	1,918,574	1,633,185	541,517	285,389
Noninstructional services	20,000	15,000	-	5,000	15,000
Total Expenditures	<u>3,930,000</u>	<u>4,202,596</u>	<u>3,018,140</u>	<u>(272,596)</u>	<u>1,184,456</u>
Excess (Deficiency) of Revenues over Expenditures	<u>70,000</u>	<u>(202,596)</u>	<u>(9,269)</u>	<u>(272,596)</u>	<u>193,327</u>
Other Financing Sources (Uses):					
Operating transfers in	-	-	9,269	-	9,269
Operating transfers out	<u>(70,000)</u>	<u>-</u>	<u>-</u>	<u>70,000</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(70,000)</u>	<u>-</u>	<u>9,269</u>	<u>70,000</u>	<u>9,269</u>
Net Change in Fund Balances	<u>-</u>	<u>(202,596)</u>	<u>-</u>	<u>(202,596)</u>	<u>202,596</u>
Fund Balances:					
July 1, 2014	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2015	<u>\$ -</u>	<u>\$ (202,596)</u>	<u>\$ -</u>	<u>\$ (202,596)</u>	<u>\$ 202,596</u>

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

**Harrison County School District
 Required Supplementary Information
 Schedule of the District's Proportionate Share of the Net Pension Liability
 PERS
 Last 10 Fiscal Years***

	2015
District's proportion of the net pension liability (asset)	1.070%
District's proportionate share of the net pension liability (asset)	\$ 129,878,408
District's covered-employee payroll	\$ 65,352,692
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	198.73%
Plan fiduciary net position as a percentage of the total pension liability	67.208%

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

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

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

**Harrison County School District
 Required Supplementary Information
 Schedule of District Contributions
 PERS
 Last 10 Fiscal Years ***

	2015
Actuarially calculated required contribution	\$ 11,078,339
Actual contributions in relation to the contractually required contribution	11,078,339
Contribution deficiency (excess)	\$ -
District's covered-employee payroll	70,338,659
Contributions as a percentage of covered-employee payroll	15.75%

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

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

Harrison County School District
Notes to the Required Supplementary Information
For the Year Ended June 30, 2015

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.

Pension Schedules

(1) Changes of benefit terms

None noted.

(2) Changes of assumptions

None noted.

SUPPLEMENTARY INFORMATION

Harrison County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2015

Federal Grantor/ Pass- through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 1,712,257
National school lunch program	10.555	5,091,620
Summer food service program for children	10.559	258,525
Total child nutrition cluster		<u>7,062,402</u>
Fresh fruit and vegetable program	10.582	68,602
Schools and Roads - Grants to States	10.665	132,736
Total U. S. Department of Agriculture		<u>7,263,740</u>
<u>U. S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.xxx	194,420
Total U. S. Department of Defense		<u>194,420</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	354,349
Total Federal Communications Commission		<u>354,349</u>
<u>U. S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	98,147
Total		<u>98,147</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local education agencies	84.010	3,848,090
Career and technical education - basic grants to states	84.048	281,807
Education for homeless children and youth	84.196	109,230
English language acquisition state grants	84.365	78,109
Improving teacher quality state grants	84.367	684,563
Total		<u>5,001,799</u>
Special education cluster:		
Special education - grants to states	84.027	3,008,871
Special education - preschool grants	84.173	94,365
Total		<u>3,103,236</u>
Total passed-through Mississippi Department of Education		<u>8,105,035</u>
Total U. S. Department of Education		<u>8,203,182</u>
<u>Social Security Administration</u>		
Passed-through Mississippi Department of Education:		
Social Security - work incentives planning and assistance program	96.008	72,762
Total Social Security Administration		<u>72,762</u>
<u>Department of Homeland Security</u>		
Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	935,249
Hazard Mitigation Grant Program	97.039	827,976
Total Department of Homeland Security		<u>1,763,225</u>
Total for All Federal Awards		<u>\$ 17,851,678</u>

Notes to Schedule

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

Harrison County School District

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2015

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 94,968,556	\$ 72,839,056	\$ 1,699,801	\$ 6,848,740	\$ 13,580,959
Other	33,596,810	8,143,185	507,559	220,971	24,725,095
Total	\$ 128,565,366	\$ 80,982,241	\$ 2,207,360	\$ 7,069,711	\$ 38,306,054
Total number of students*	13,411				
Cost per student	\$ 9,587	\$ 6,038	\$ 165	\$ 527	\$ 2,856

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 (2300s); and Support Services - Business (2500s).

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s).

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

Harrison County School District

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2015	2014	2013	2012
Revenues:				
Local sources	\$ 40,990,392	\$ 39,554,321	\$ 36,008,693	\$ 33,166,370
State sources	56,428,446	53,833,883	53,700,929	52,123,097
Federal sources	852,415	579,737	1,147,526	795,772
Sixteenth section revenue	2,293,671			
Total Revenues	100,564,924	93,967,941	90,857,148	86,085,239
Expenditures:				
Instruction	63,954,622	59,453,319	58,437,961	54,685,275
Support services	33,423,105	31,409,555	32,497,883	28,471,821
Noninstructional services	3,064	40,965	175,111	1,991
Facilities acquisition and construction	740,801	-	-	46,000
Debt service:				
Principal	1,078,295	1,099,214	1,208,116	386,587
Interest	87,104	139,280	93,634	104,835
Total Expenditures	99,286,991	92,142,333	92,412,705	83,696,509
Excess (Deficiency) of Revenues over Expenditures	1,277,933	1,825,608	(1,555,557)	2,388,730
Other Financing Sources (Uses):				
Inception of capital leases	-	-	3,040,000	-
Insurance loss recoveries	15,860	32,334	8,379	6,464
Sale of other property	-	30,219	-	84,840
Operating transfers in	534,529	328,147	237,431	302,429
Operating transfers out	(3,139,255)	(1,739,878)	(1,878,286)	(1,580,555)
Total Other Financing Sources (Uses)	(2,588,866)	(1,349,178)	1,407,524	(1,186,822)
Net Change in Fund Balances	(1,310,933)	476,430	(148,033)	1,201,908
Fund Balances:				
July 1, as originally reported	13,680,188	13,203,758	13,225,026	12,023,118
Prior period adjustment	-	-	126,765	-
Fund reclassification	1,164,863	-	-	-
July 1, as restated	14,845,051	13,203,758	13,351,791	12,023,118
June 30,	\$ 13,534,118	\$ 13,680,188	\$ 13,203,758	\$ 13,225,026

*SOURCE - PRIOR YEAR AUDIT REPORTS

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

"UNAUDITED"

	2015	2014	2013	2012
Revenues:				
Local sources	\$ 48,537,377	\$ 46,978,514	\$ 43,407,056	\$ 40,828,318
State sources	59,585,630	57,218,330	57,048,738	55,323,838
Federal sources	17,922,509	18,283,509	16,447,779	16,590,250
Sixteenth section sources	2,299,628	2,349,658	2,433,685	1,795,041
Total Revenues	128,345,144	124,830,011	119,337,258	114,537,447
Expenditures:				
Instruction	71,721,339	66,412,665	65,626,504	62,510,978
Support services	41,801,019	42,818,818	40,463,142	36,553,675
Noninstructional services	7,842,153	7,163,429	7,316,836	6,822,139
Sixteenth section	746,781	1,008,439	664,789	843,314
Facilities acquisition and construction	609,350	7,891,261	6,930,736	2,861,799
Debt service:				
Principal	4,713,295	6,613,214	4,667,466	3,690,972
Interest and other debt service costs	1,131,429	1,282,732	1,853,637	1,717,764
Total Expenditures	128,565,366	133,190,558	127,523,110	115,000,641
Excess (Deficiency) of Revenues over Expenditures	(220,222)	(8,360,547)	(8,185,852)	(463,194)
Other Financing Sources (Uses):				
Proceeds of loans	-	-	-	10,000,000
Proceeds of refunding bonds	12,395,000	-	7,110,000	-
Inception of capital leases	-	-	3,040,000	-
Insurance loss recoveries	293,332	104,834	8,379	7,501
Payment to refunded escrow agent	(12,638,409)	-	(7,246,861)	-
Premium on bond refunding	261,748	-	271,266	-
Payment to escrow agent for QZAB	(1,214,944)	(1,220,305)	(430,729)	(958,020)
Payment held by escrow agent for QZAB	1,214,944	1,220,305	430,729	958,020
Sale of other property	-	30,219	-	84,840
Operating transfers in	6,430,494	10,814,907	3,859,044	7,321,212
Operating transfers out	(6,430,494)	(10,814,907)	(3,859,044)	(7,321,212)
Total Other Financing Sources (Uses)	311,671	135,053	3,182,784	10,092,341
Net Change in Fund Balances	91,449	(8,225,494)	(5,003,068)	9,629,147
Fund Balances:				
July 1, as originally reported	39,599,661	47,810,751	52,671,593	42,961,829
Prior period adjustments	-	-	126,765	43,622
July 1, as restated	39,599,661	47,810,751	52,798,358	43,005,451
Increase (Decrease) in reserve for inventory	41,824	14,404	15,461	36,995
June 30,	\$ 39,732,934	\$ 39,599,661	\$ 47,810,751	\$ 52,671,593

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

**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
Harrison County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the financial statements of *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 the Harrison County School District ("the District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify one certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency 2015-1.

Compliance and Other Matters

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

However, we noted certain immaterial instances of noncompliance or other matters that we reported to management of the school district in a separate letter dated December 14, 2015, which is included in this report.

District's Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Certified Public Accountants
Gulfport, MS

December 14, 2015

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

Superintendent and School Board
Harrison County School District

Report on Compliance for Each Major Federal Program

We have audited the Harrison County School District (the District's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Harrison County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule

of findings and questioned costs as item 2015-2. Our opinion on each major federal program is not modified with respect to these matters. The District's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Corrective Action Plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2015-2 that we consider to be a significant deficiency.

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.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Certified Public Accountants
Gulfport, MS

December 14, 2015

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

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

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District (the District) as of and for the year ended June 30, 2015, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 14, 2015. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

1. Procurement procedures

Finding

Proper internal control over the purchasing function requires that management follow specific procedures for creating purchase orders and payment of related invoices.

During our audit testing, we noted several child nutrition grant invoices with purchase orders created subsequent to receiving the products and invoices. This may cause the District to be noncompliant with state procurement laws.

Recommendation

We recommend that the District adhere to proper procurement policies, and create purchase orders prior to purchasing items per state purchasing law. Requiring child nutrition to centralize their purchasing with the rest of the District may assist in this also.

School District's Response

The District continues to monitor all invoices and will look at every method to improve its efficiency and comply with all of the requirements involved in procurement procedures.

2. Sixteenth Section Leases are not Cancelled After Payments are 60 Days in Default

Finding

Section 29-3-57, Miss. Code Ann. (1972) states, "...It shall be the duty of the superintendent of education to collect promptly all rentals due and all principal and interest due upon loans and investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease..."

During our test of sixteenth section expendable revenue, we noted several lease payments were more than 60 days late. Management has been tracking down lease holders with premium leases rather than having the leases cancelled and trying to find a new lessee at similar premium rates for the sixteenth section property. It also appears that many of the District's leases are not shown on the report listing prepared by the Secretary of State, even though the District has reported them to the Secretary's office.

Recommendation

We recommend management notify the board of education periodically of all outstanding delinquent leases over 60 days to determine if extenuating circumstances were present, and if not, then the board should initiate the proper legal proceedings to terminate such leases. We also recommend the District make a better attempt to reconcile leases collected annually to the report with the Secretary of State's office.

School District Response

The District cancelled several overdue leases during the last fiscal year and made improvements to its software with regards to identifying overdue leases.

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

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

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

Culumber, Harvey & Associates P.A.

Culumber, Harvey & Associates, P. A.
Certified Public Accountants

Gulfport, Mississippi
December 14, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1 – Summary of Auditor’s Results

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditor’s report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | 4. | Internal control over major programs: | | | | | | | | | | | | | |
|--------------------|---|--------------------|---|---------------|--------------------------|---------------|-------------------------------|---------------|--|---------------|---------------------------|---------------|-----------------------------------|--|
| | a. Material weakness identified? | No | | | | | | | | | | | | |
| | b. Significant deficiency identified that is not considered to be a material weakness? | Yes | | | | | | | | | | | | |
| 5. | Type of auditor’s report issued on compliance for major federal programs | Unmodified | | | | | | | | | | | | |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | Yes | | | | | | | | | | | | |
| 7. | Federal programs identified as major programs: | | | | | | | | | | | | | |
| | <table border="0" style="width: 100%;"> <thead> <tr> <th style="text-align: left;"><u>CFDA Number</u></th> <th style="text-align: left;"><u>Name of Federal Program or Cluster</u></th> </tr> </thead> <tbody> <tr> <td>CFDA # 10.553</td> <td>School Breakfast Program</td> </tr> <tr> <td>CFDA # 10.555</td> <td>National School Lunch Program</td> </tr> <tr> <td>CFDA # 10.559</td> <td>Summer Food Service Program for Children</td> </tr> <tr> <td>CFDA # 84.010</td> <td>Title I – Grants to LEA’s</td> </tr> <tr> <td>CFDA # 97.036</td> <td>Disaster Grants-Public Assistance</td> </tr> </tbody> </table> | <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | CFDA # 10.553 | School Breakfast Program | CFDA # 10.555 | National School Lunch Program | CFDA # 10.559 | Summer Food Service Program for Children | CFDA # 84.010 | Title I – Grants to LEA’s | CFDA # 97.036 | Disaster Grants-Public Assistance | |
| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> | | | | | | | | | | | | | |
| CFDA # 10.553 | School Breakfast Program | | | | | | | | | | | | | |
| CFDA # 10.555 | National School Lunch Program | | | | | | | | | | | | | |
| CFDA # 10.559 | Summer Food Service Program for Children | | | | | | | | | | | | | |
| CFDA # 84.010 | Title I – Grants to LEA’s | | | | | | | | | | | | | |
| CFDA # 97.036 | Disaster Grants-Public Assistance | | | | | | | | | | | | | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$535,550 | | | | | | | | | | | | |
| 9. | Auditee qualified as a low-risk auditee? | No | | | | | | | | | | | | |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315 (b) of OMB Circular A-133? | Yes | | | | | | | | | | | | |

Section 2: Financial Statement Findings

2015-1 *Criteria:* Bank Account Reconciliation Significant Deficiency

Proper internal control over the reconciling of bank accounts requires that management follow specific guidelines for timely reconciling all bank accounts to the general ledger balances at the end of each month.

Condition: During our audit testing, we noted the payroll clearing account was not properly reconciled at the end of June 2015. There was a \$1,564 irreconcilable amount noted on the reconciliation that remained until current.

Cause: An unrecognized error has occurred that has not yet been determined or corrected due to lack of time available in the payroll dept.

Effect: This may cause the District to understate or overstate its cash balances and possibly harbor fraud issues.

Recommendation: We recommend that the District make every effort to reconcile the payroll clearing bank accounts in a complete and timely manner. Redistributing some payroll duties to other personnel that might help to alleviate payroll errors that cause irreconcilable items. This may also help reduce some overtime issues in the payroll department.

School District's Response: The District will continue to complete all bank reconciliations in a complete and timely manner, and eliminate all unreconciled items on a monthly basis.

Section 3: Federal Award Findings and Questioned Costs

2015-2 Program: U.S. Department of Agriculture, Passed through the Mississippi Department of Education: Child Nutrition Cluster, CFDA #10.555

Significant Deficiency

Compliance Requirement: Procurement

Condition: During our testing of procurement, we noted that several times invoices were obtained and products were delivered before a purchase order had been obtained.

Cause: State procurement laws require all purchases must first obtain a requisition and then a purchase order number before it can be purchased.

Effect: Without a purchase order, purchases are being made without the purchasing agents approval, which could cause the District to be in noncompliance with state laws. Also there may not be enough money budgeted for this purchase.

Recommendation: We recommend the District adhere to state requirements on procurement with regard to obtaining purchase orders prior to purchasing items.

AUDITEE'S CORRECTIVE ACTION PLAN
AND
SUMMARY OF PRIOR FEDERAL AUDIT FINDINGS

Harrison County School District

Henry Arledge
Superintendent of Education



E. Mitchell King
Assistant Superintendent

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section ___ 315(c) of OMB Circular A-133, the Harrison County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2015:

Finding Corrective Action Plan Details

2015-2

Federal award finding

- A. Name of Contact Person Responsible for Corrective Action:
Wanda Salley, Food Service Director, 228-539-6500

- B. Corrective Action Planned:
The District will continue to follow appropriate management practices for procurement procedures, and will create purchase orders prior to receiving invoices.

- C. Anticipated Completion Date: June 30, 2016

Sincerely,

A handwritten signature in cursive script that reads "Henry Arledge".

Henry Arledge
Superintendent
Harrison County School District

Harrison County School District

Henry Arledge
Superintendent of Education



E. Mitchell King
Assistant Superintendent

AUDITEE'S SUMMARY OF PRIOR FEDERAL AUDIT FINDINGS

As required by Section __315(c) of OMB Circular A-133, the Harrison County School District has prepared and hereby submits the following summary of prior federal audit findings as of June 30, 2015:

<u>Findings</u>	<u>Status</u>
2014-3	Corrected

