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HOUSTON SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2015

Charles L. Shivers, CPA, LLC
Ridgeland, MS

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TABLE OF CONTENTS

INDEPENDENT AUDITOR’S REPORT	1
MANAGEMENT’S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	13
Government-wide Financial Statements	
Exhibit A Statement of Net Position	15
Exhibit B Statement of Activities	16
Governmental Funds Financial Statements	
Exhibit C Balance Sheet – Governmental Funds	17
Exhibit C-1 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position	18
Exhibit D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Exhibit D-1 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	20
Fiduciary Funds Financial Statements	
Exhibit E Statement of Fiduciary Net Position	21
Exhibit F Statement of Changes in Fiduciary Net Position	22
Notes to the Financial Statements	23
REQUIRED SUPPLEMENTARY INFORMATION	39
Budgetary Comparison Schedule for the General Fund	41
Budgetary Comparison Schedule for the Major Special Revenue Fund – Extended School Year Fund	42
Budgetary Comparison Schedule for the Major Special Revenue Fund – Title I Basic Fund	43
Budgetary Comparison Schedule for the Major Special Revenue Fund – Special Education Fund	44
Schedule of the District’s Proportionate Share of the Net Pension Liability	45
Schedule of District Contributions	46
Notes to the Required Supplementary Information	47
SUPPLEMENTARY INFORMATION	49
Schedule of Expenditures of Federal Awards	51
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	52
OTHER INFORMATION	53
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund, Last Four Years	55
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds, Last Four Years	56
REPORTS ON INTERNAL CONTROLS AND COMPLIANCE	57
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 <i>Government Auditing Standards</i> ...	59
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	61
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	63
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	67
AUDITEE’S CORRECTIVE ACTION PLAN	71

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INDEPENDENT AUDITOR'S REPORT

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CHARLES L. SHIVERS

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Houston School District

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Houston 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

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the district's proportionate share of the net pension liability and schedule of district contributions 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Houston 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 my opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 27, 2015, on my consideration of the Houston School District's internal control over financial reporting and on my 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 my 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 Houston School District's internal control over financial reporting and compliance.

Charles L Shivers, CPA, LLC

Ridgeland, MS
October 27, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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HOUSTON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

The following discussion and analysis of the 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 \$16,611,939, including a prior period adjustment of (\$16,761,740), which represents a 192% decrease from fiscal year 2014. Total net position for 2014 decreased \$190,573, including a prior period adjustment of (\$9,400), which represents a 2% decrease from fiscal year 2013.
- General revenues amounted to \$12,307,719 and \$11,550,899, or 80% and 79% 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 \$3,058,397, or 20% of total revenues for 2015, and \$3,087,518, or 21% of total revenues for 2014.
- The District had \$15,216,315 and \$14,819,590 in expenses for fiscal years 2015 and 2014; only \$3,058,397 for 2015 and \$3,087,518 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$12,307,719 for 2015 were adequate to provide for these programs. General revenues of \$11,550,899 for 2014 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$11,353,615 in revenues and \$12,217,331 in expenditures for 2015, and \$10,906,700 in revenues and \$11,245,600 in expenditures in 2014. The General Fund's fund balance decreased by \$193,643 from 2014 to 2015, and decreased by \$258,451 from 2013 to 2014.
- Capital assets, net of accumulated depreciation, increased by \$202,186 for 2015 and decreased by \$306,151 for 2014. The increase for 2015 was due to the addition/disposal of capital assets coupled with the increase in accumulated depreciation.
- Long-term debt increased by \$199,157 for 2015 and decreased by \$376,912 for 2014. This increase for 2015 was due primarily to the issuance of three mill notes and shortfall notes. The liability for compensated absences decreased by \$15,090 for 2015 and increased by \$2,870 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.

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, pension expense and interest on long-term liabilities.

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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, schedule of the district's proportionate share of the net pension liability and schedule of district contributions as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$7,958,433 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.

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

Table 1
Condensed Statement of Net Position

	June 30, 2015	June 30, 2014	Percentage Change
Current assets	\$ 3,934,258	\$ 4,133,192	(4.81) %
Restricted assets	366,139	274,820	33.23 %
Capital assets, net	7,158,493	6,956,307	2.91 %
Total assets	11,458,890	11,364,319	0.83 %
Deferred outflows of resources	1,551,566	0	N/A
Current liabilities	107,149	115,221	(7.01) %
Long-term debt outstanding	2,794,749	2,595,592	7.67 %
Net pension liability	15,779,619	0	N/A
Total liabilities	18,681,517	2,710,813	589.15 %
Deferred inflows of resources	2,287,372	0	N/A
Net position:			
Net investment in capital assets	4,593,238	4,525,098	1.51 %
Restricted	520,570	426,469	22.07 %
Unrestricted	(13,072,241)	3,701,939	(453.12) %
Total net position	\$ (7,958,433)	\$ 8,653,506	(191.97) %

Additional information on unrestricted net position:

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)	(\$13,072,241)
Less unrestricted deficit in net position resulting from recognition of the net pension liability	16,515,425
Unrestricted net position, exclusive of the net pension liability effect	<u>\$3,443,184</u>

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

- Increase in net capital assets in the amount of \$202,186.
- The issuance of three mill notes and short fall notes in the amount of \$1,595,283.
- Inclusion of net pension liability of \$15,779,619.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$15,366,116 and \$14,638,417, respectively. The total cost of all programs and services was \$15,216,315 for 2015 and \$14,819,590 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	\$ 547,893	\$ 569,867	(3.86) %
Operating grants and contributions	2,510,504	2,517,651	(0.28) %
General revenues:			
Property taxes	2,771,127	2,499,473	10.87 %
Grants and contributions not restricted	9,531,577	9,044,705	5.38 %
Investment earnings	5,015	6,721	(25.38) %
Total revenues	15,366,116	14,638,417	4.97 %
Expenses:			
Instruction	8,197,208	8,471,821	(3.24) %
Support services	4,961,248	5,210,058	(4.78) %
Non-instructional	895,939	1,039,848	(13.84) %
Pension expense	1,068,692	0	N/A
Interest on long-term liabilities	93,228	97,863	(4.74) %
Total expenses	15,216,315	14,819,590	2.68 %
Increase (Decrease) in net position	149,801	(181,173)	182.68 %
Net Position, July 1, as previously reported	8,653,506	8,844,079	(2.15) %
Prior Period Adjustment	(16,761,740)	(9,400)	(178,216.38) %
Net Position, July 1, as restated	(8,108,234)	8,834,679	(191.78) %
Net Position, June 30	\$ (7,958,433)	\$ 8,653,506	(191.97) %

Governmental activities

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, 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 Change</u>
	<u>2015</u>	<u>2014</u>	
Instruction	\$ 8,197,208	\$ 8,471,821	(3.24) %
Support services	4,961,248	5,210,058	(4.78) %
Non-instructional	895,939	1,039,848	(13.84) %
Pension Expense	1,068,692	0	N/A
Interest on long-term liabilities	93,228	97,863	(4.74) %
Total expenses	\$ 15,216,315	\$ 14,819,590	2.68 %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2015</u>	<u>2014</u>	
Instruction	\$ (6,872,923)	\$ (7,151,979)	(3.90) %
Support services	(4,407,270)	(4,621,401)	(4.63) %
Non-instructional	284,195	139,171	104.21 %
Pension Expense	(1,068,692)	0	N/A
Interest on long-term liabilities	(93,228)	(97,863)	(4.74) %
Total net (expense) revenue	\$ (12,157,918)	\$ (11,732,072)	3.63 %

- Net cost of governmental activities (\$12,157,918 for 2015 and \$11,732,072 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$2,771,127 for 2015 and \$2,499,473 for 2014) and state and federal revenues (\$9,531,577 for 2015 and \$9,044,705 for 2014).
- Investment earnings amounted to \$5,015 for 2015 and \$6,721 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 \$4,238,722, a decrease of \$88,833, which includes a decrease in inventory of \$1,418. \$3,395,068 or 80% 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 \$843,654 or 20% 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 \$193,643. The fund balance of Other Governmental Funds showed an increase in the amount of \$104,810, which includes a decrease in reserve for inventory of \$1,418. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Extended School Year Fund	no increase or decrease
Title I Basic Fund	no increase or decrease
Special Education Fund	no increase or 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.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and major special revenue fund(s) 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 \$14,076,092, including land, school buildings, improvements other than buildings, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$488,149 from 2014. Total accumulated depreciation as of June 30, 2015, was \$6,917,599, and total depreciation expense for the year was \$376,694, resulting in total net capital assets of \$7,158,493.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2015	June 30, 2014	Percentage Change
Land	\$ 198,441	\$ 198,441	0.00 %
Buildings	6,169,246	6,357,961	(2.97) %
Improvements other than buildings	75,404	82,944	(9.09) %
Mobile equipment	643,389	240,013	168.06 %
Furniture and equipment	72,013	76,948	(6.41) %
Total	\$ 7,158,493	\$ 6,956,307	2.91 %

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

Debt Administration. At June 30, 2015, the District had \$2,794,749 in outstanding long-term debt, of which \$490,653 is due within one year. The liability for compensated absences decreased \$15,090 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2015	June 30, 2014	Percentage Change
Limited obligation refunding bonds payable	905,000	1,175,000	(22.98) %
Certificates of participation payable	160,255	236,209	(32.16) %
Three mill refunding notes payable	1,500,000	1,020,000	47.06 %
Shortfall notes payable	127,165	46,964	170.77 %
Compensated absences payable	102,329	117,419	(12.85) %
Total	\$ 2,794,749	\$ 2,595,592	7.67 %

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

CURRENT ISSUES

The Houston School District is financially stable. The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years.

The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future. The District actively pursues grant funding to supplement the local, state and federal revenues.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Houston School District, P.O. Drawer 351, Houston, MS 38851.

BASIC FINANCIAL STATEMENTS

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HOUSTON SCHOOL DISTRICT
Statement of Net Position
June 30, 2015

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,403,943
Due from other governments	495,771
Other receivables, net	438
Inventories	34,106
Restricted assets (Note 4)	366,139
Non-depreciable capital assets (Note 5)	198,441
Depreciable capital assets, net (Note 5)	6,960,052
Total Assets	<u>11,458,890</u>
Deferred Outflows of Resources	
Deferred outflow - pensions (Note 7)	1,551,566
Total Deferred Outflows of Resources	<u>1,551,566</u>
Liabilities	
Accounts payable and accrued liabilities	56,196
Interest payable on long-term liabilities	45,474
Other payables	5,479
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	435,954
Non-capital related liabilities	54,699
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	2,129,301
Non-capital related liabilities	174,795
Net pension liability (Note 7)	15,779,619
Total Liabilities	<u>18,681,517</u>
Deferred Inflows of Resources	
Deferred inflow - pensions (Note 7)	2,287,372
Total Deferred Inflows of Resources	<u>2,287,372</u>
Net Position	
Net investment in capital assets	4,593,238
Restricted net position	
Expendable	
School-based activities	174,896
Debt service	303,450
Unemployment benefits	42,224
Unrestricted	<u>(13,072,241)</u>
Total Net Position	<u>\$ (7,958,433)</u>

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

HOUSTON SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2015

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 8,197,208	292,458	1,031,827	(6,872,923)
Support services	4,961,248	55,300	498,678	(4,407,270)
Non-instructional	895,939	200,135	979,999	284,195
Pension expense	1,068,692			(1,068,692)
Interest on long-term liabilities	93,228			(93,228)
Total Governmental Activities	15,216,315	547,893	2,510,504	(12,157,918)
General Revenues				
Taxes				
				2,591,041
				180,086
Unrestricted grants and contributions				
				9,410,173
				121,404
				5,015
				<u>12,307,719</u>
Changes in Net Position				
				<u>149,801</u>
Net Position - Beginning, as previously reported				
				8,653,506
Prior Period Adjustments (Note 8)				
				(16,761,740)
Net Position - Beginning - as restated				
				<u>(8,108,234)</u>
Net Position - Ending				
				<u>\$ (7,958,433)</u>

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

HOUSTON SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2015

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Extended School Year Fund	Title I Basic Fund	Special Education Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents (Note 2)	\$ 3,389,778				375,188	3,764,966
Investments (Note 2)					5,116	5,116
Due from other governments	175,265	26,890	64,851	43,916	184,849	495,771
Other receivables, net	438					438
Due from other funds (Note 3)	160,499					160,499
Inventories					34,106	34,106
Total Assets	<u>3,725,980</u>	<u>26,890</u>	<u>64,851</u>	<u>43,916</u>	<u>599,259</u>	<u>4,460,896</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable & accrued liabilities	53,301		1,930	965		56,196
Due to other funds (Note 3)		26,890	62,921	42,951	27,737	160,499
Unavailable Revenue					5,479	5,479
Total Liabilities	<u>53,301</u>	<u>26,890</u>	<u>64,851</u>	<u>43,916</u>	<u>33,216</u>	<u>222,174</u>
Fund Balances						
Nonspendable						
Inventory					34,106	34,106
Restricted						
Debt service					348,923	348,923
Unemployment benefits					42,224	42,224
Grant activities					140,790	140,790
Assigned						
School activities	277,611					277,611
Unassigned	3,395,068					3,395,068
Total Fund Balances	<u>3,672,679</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>566,043</u>	<u>4,238,722</u>
Total Liabilities and Fund Balances	<u>\$ 3,725,980</u>	<u>26,890</u>	<u>64,851</u>	<u>43,916</u>	<u>599,259</u>	<u>4,460,896</u>

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,238,722
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Land	198,441
Buildings	11,251,321
Improvement other than buildings	188,506
Mobile equipment	1,824,812
Furniture and equipment	613,012
Accumulated depreciation	<u>(6,917,599)</u>
	7,158,493
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	(15,779,619)
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	1,551,566
Deferred inflows of resources related to pensions	<u>(2,287,372)</u>
	(735,806)
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:	
Limited obligation bonds payable	(905,000)
Certificates of participation payable	(160,255)
Three mill notes	(1,500,000)
Shortfall notes	(127,165)
Compensated absences	(102,329)
Accrued interest payable	<u>(45,474)</u>
	<u>(2,840,223)</u>
Total Net Position - Governmental Activities	<u>\$ (7,958,433)</u>

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

HOUSTON SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2015

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Extended School Year Fund	Title I Basic Fund	Special Education Fund	Other Governmental Funds	
Revenues						
Local sources	\$ 2,943,598				380,289	3,323,887
State sources	8,288,613	37,727			1,544,730	9,871,070
Federal sources	121,404		512,654	374,315	1,162,786	2,171,159
Total Revenues	11,353,615	37,727	512,654	374,315	3,087,805	15,366,116
Expenditures						
Instruction	7,367,908	1,632	415,053	95,916	902,614	8,783,123
Support services	4,833,327	36,095	87,011	272,431	545,525	5,774,389
Noninstructional services			4,390	80	1,020,592	1,025,062
Debt service						
Principal (Note 6)	7,545				438,491	446,036
Interest	8,551				58,467	67,018
Other					15,500	15,500
Total Expenditures	12,217,331	37,727	506,454	368,427	2,981,189	16,111,128
Excess (Deficiency) of Revenues Over Expenditures	(863,716)	0	6,200	5,888	106,616	(745,012)
Other Financing Sources (Uses)						
Proceeds of notes (Note 6)					1,500,000	1,500,000
Proceeds of loans (Note 6)	95,283					95,283
Operating transfers in (Note 3)	586,464				11,374	597,838
Operating transfers out (Note 3)	(11,374)		(6,200)	(5,888)	(574,376)	(597,838)
Payment to bond escrow agent					(935,000)	(935,000)
Other financing uses	(300)				(2,386)	(2,686)
Total Other Financing Sources (Uses)	670,073	0	(6,200)	(5,888)	(388)	657,597
Net Change in Fund Balances	(193,643)	0	0	0	106,228	(87,415)
Fund Balances						
July 1, 2014	3,866,322	0	0	0	461,233	4,327,555
Decrease in reserve for inventory					(1,418)	(1,418)
June 30, 2015	\$ 3,672,679	0	0	0	566,043	4,238,722

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

HOUSTON 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

Exhibit D-1

	Amount
Net Change in Fund Balance - Governmental Funds	\$ (87,415)

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

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

Capital outlay	589,755		
Depreciation expense	(376,694)		213,061

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 asset sold.

(10,875)

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:

Three mill notes issued	(1,500,000)		
Shortfall notes issued	(95,283)		
Payments of debt principal	446,036		
Retirement of debt from refinancing	935,000		
Accrued interest payable	(10,710)		(224,957)

Reconciling items applicable to pension liability and related accounts:

Pension contributions made subsequent to the measurement date			1,305,409
Pension expense for the current year			(1,068,692)
Rounding differences			9,598

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 the governmental funds. These activities include:

Change in compensated absences	15,090		
Change in inventory reserve	(1,418)		13,672

Changes in Net Position of Governmental Activities	\$ 149,801
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The notes to the financial statements are an integral part of this statement.

HOUSTON SCHOOL DISTRICT
Statement of Net Position - Fiduciary Funds
June 30, 2015

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 66,159	433,552
Total Assets	<u>66,159</u>	<u>433,552</u>
Liabilities		
Accounts payable and accrued liabilities	0	398,472
Due to student clubs	<u>0</u>	<u>35,080</u>
Total Liabilities	<u>0</u>	<u>433,552</u>
Net Position		
Reserved for endowments	<u>66,159</u>	
Total Net Position	<u>\$ 66,159</u>	

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

HOUSTON SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2015

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 64
Contributions and donations from private sources	400
Total Additions	<u>464</u>
Deductions	
Scholarships awarded	1,000
Total Deductions	<u>1,000</u>
Changes in Net Assets	<u>(536)</u>
Net Position	
July 1, 2014	<u>66,695</u>
June 30, 2015	<u>\$ 66,159</u>

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For 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 Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

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

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

Blended component unit

The Houston Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

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.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For 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.

Extended School Year Fund - This Special Revenue Fund is used to account for the activities associated with providing education services after the end of the school term.

Title I Basic Fund - This Special Revenue Fund is used to account for the Federal funds whose use is restrict for services associated with educationally deprived students.

Special Education Fund - This special revenue fund is financed with federal funds and is used to account for the activities associated with providing special education students with appropriate services.

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

The school district also reports fiduciary funds which focus on net position and changes in net position.

The District's fiduciary funds include the following:

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

Accounts Payable Clearing - This fund is used as a clearing account for non-payroll transactions.

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

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

L. L. Robinson Trust Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

E. E. Davis Trust Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Ethel Simpson Trust Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Joe Brigrance Scholarship Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Robert P Chase Scholarship Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Additionally, the school district reports the following fund types:

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

GOVERNMENTAL FUNDS

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

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

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

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

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

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

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

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

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

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

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

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

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

D. Encumbrances

An encumbrance system is maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

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. Also certain Special Revenue Fund resources are classified as restricted assets because the funds are not available for use by the district except as provided for under state or federal statute.

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
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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows are directly related to pension reporting.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The deferred inflows are directly related to pension reporting.

See Note 1, E, 10 for further details.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

8. Compensated Absences

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

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

9. Long-term Liabilities

In the government-wide financial statements outstanding debt is reported as liabilities.

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

10. Pensions

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

11. Fund Balances

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

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

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

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

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

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

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

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

It is the policy of the School District to maintain a minimum fund balance in the General Fund that is not less than \$1,800,000.

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 district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,764,966 and \$499,711, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

Investments

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Investment Type	Rating	Maturities (in years)	Fair Value
Federated US Treasury Cash Reserve	AAAm	Less than 1	\$ <u>5,116</u>

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

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

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

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

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Major fund - Extended School Year Fund	\$ 26,890
	Major fund - Title I Basic Fund	62,921
	Major fund - Special Education Fund	42,951
	Other governmental funds	<u>27,737</u>
Total		<u>\$ 160,499</u>

The purpose of the inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 11,374
Major fund - Title I Basic Fund	General Fund	6,200
Major fund - Special Education	General Fund	5,888
Other governmental funds	General Fund	<u>574,376</u>
Total		<u>\$ 597,838</u>

The transfer out of the General Fund was for the purpose of funding unemployment compensation and the vocational program in the Other Governmental Funds. The transfers to the General Fund from Other Governmental Funds were for indirect costs, to purchase buses and to fund the Solar Car activities. The transfers from the Major Funds to the General Fund were for indirect costs.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 4 – Restricted Assets

The restricted assets represent the cash balance and investment balance, totaling \$361,023 and \$5,116, respectively, which are legally restricted (Debt Service and similar type funds) and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

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

	Balance <u>7/1/2014</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>6/30/2015</u>
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 198,441			198,441
Total non-depreciable capital assets	<u>198,441</u>	<u>0</u>	<u>0</u>	<u>198,441</u>
<u>Depreciable capital assets:</u>				
Buildings	11,251,321			11,251,321
Improvements other than buildings	188,506			188,506
Mobile equipment	1,366,166	538,487	(79,841)	1,824,812
Furniture and equipment	583,509	51,268	(21,765)	613,012
Total depreciable capital assets	<u>13,389,502</u>	<u>589,755</u>	<u>(101,606)</u>	<u>13,877,651</u>
<u>Less accumulated depreciation for:</u>				
Buildings	4,893,360	188,715		5,082,075
Improvements other than buildings	105,562	7,540		113,102
Mobile equipment	1,126,153	127,127	(71,857)	1,181,423
Furniture and equipment	506,561	53,312	(18,874)	540,999
Total accumulated depreciation	<u>6,631,636</u>	<u>376,694</u>	<u>(90,731)</u>	<u>6,917,599</u>
Total depreciable capital assets, net	<u>6,757,866</u>	<u>213,061</u>	<u>(10,875)</u>	<u>6,960,052</u>
Governmental activities capital assets, net	<u>\$6,956,307</u>	<u>213,061</u>	<u>(10,875)</u>	<u>7,158,493</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Governmental activities:	
Instruction	\$ 204,242
Support services	172,452
Total depreciation expense - Governmental activities	<u>\$ 376,694</u>

Note 6 – Long-term Liabilities

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
A. Limited obligation refunding bonds payable	\$ 1,175,000		270,000	905,000	270,000
B. Certificates of participation payable	236,209		75,954	160,255	75,954
C. Three mill notes payable	1,020,000	1,500,000	1,020,000	1,500,000	90,000
D. Shortfall notes payable	46,964	95,283	15,082	127,165	46,513
E. Compensated absences payable	117,419		15,090	102,329	8,186
Total	<u>\$ 2,595,592</u>	<u>1,595,283</u>	<u>1,396,126</u>	<u>2,794,749</u>	<u>490,653</u>

Summary of Reductions

Payment of debt	\$ 446,036
Refunding debt	935,000
Reduction in compensated absences	<u>15,090</u>
Total	<u>\$1,396,126</u>

A. Limited obligation refunding bonds payable

Limited obligation refunding 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
Limited obligation refunding bonds, 2009	2.8	8/1/2009	2/1/2018	\$ 2,268,000	\$ 905,000

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 270,000	\$ 25,833	\$ 295,833
2017	290,000	18,018	308,018
2018	345,000	9,867	354,867
Total	<u>\$ 905,000</u>	<u>\$ 53,718</u>	<u>\$ 958,718</u>

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

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

B. Certificates of participation payable

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation, 2005	3.62	8/15/2005	6/1/2017	\$ 800,000	\$ 160,255

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 75,954	\$ 5,801	\$ 81,755
2017	84,301	2,952	87,253
Total	<u>\$ 160,255</u>	<u>\$ 8,753</u>	<u>\$ 169,008</u>

This debt will be retired from the General Fund and the EEF Building and Bus Fund (Special Revenue Fund). The Certificates of Participation are secured, in part, by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant 37-61-33, Miss. Code Ann. (1972).

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill refunding notes, 2014	2.26	8/1/2014	8/1/2024	\$ 1,500,000	\$ 1,500,000

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 90,000	\$ 33,900	\$ 123,900
2017	95,000	31,866	126,866
2018	95,000	29,719	124,719
2019	165,000	27,572	192,572
2020	170,000	23,843	193,843
2021 – 2025	885,000	59,890	944,890
Total	<u>\$ 1,500,000</u>	<u>\$ 206,790</u>	<u>\$ 1,706,790</u>

This debt will be retired from the Three Mill Note Retirement Fund (Debt Service Fund).

On August 1, 2014, the school refinanced an outstanding Three Mill Note with a payoff of \$935,000. The district issued a new Three Mill Note for \$1,500,000 for the purpose of retiring the old debt and using the remaining proceeds of \$547,500 to acquire school buses in the current year. Since the notes are for different amounts and terms, GASB 7 suggest calculating additional cost / cost saving and economic gain / loss on the same basis as the old note. Thus, addition costs of \$503,059 and an economic loss of \$16,139 are reported. However, the new debt was issued at an interest rate of 2.26% while the old debt had an average rate of 4.4%.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

D. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Shortfall notes, 2013	3.75	8/22/2013	8/22/2016	\$ 46,964	\$ 31,882
2. Shortfall notes, 2014	2.95	8/13/2014	8/13/2017	95,283	95,283
Total				<u>\$ 142,247</u>	<u>\$ 127,165</u>

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

1. Shortfall notes payable, 2013:

Year Ending June 30	Principal	Interest	Total
2016	\$ 15,684	\$ 1,196	\$ 16,880
2017	16,198	610	16,808
Total	<u>\$ 31,882</u>	<u>\$ 1,806</u>	<u>\$ 33,688</u>

This debt will be retired from the Shortfall Note Retirement Fund (Debt Service Fund).

2. Shortfall notes payable, 2014:

Year Ending June 30	Principal	Interest	Total
2016	\$ 30,829	\$ 2,850	\$ 33,679
2017	31,746	1,933	33,679
2018	32,708	972	33,680
Total	<u>\$ 95,283</u>	<u>\$ 5,755</u>	<u>\$ 101,038</u>

This debt will be retired from the Shortfall Note Retirement Fund (Debt Service Fund).

Total shortfall notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
2016	\$ 46,513	\$ 4,046	\$ 50,559
2017	47,944	2,543	50,487
2018	32,708	972	33,680
Total	<u>\$ 127,165</u>	<u>\$ 7,561</u>	<u>\$ 134,726</u>

E. Compensated absences payable

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

Note 7 – Defined Benefit Pension Plan

General Information about the Pension Plan

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

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$1,305,409, \$1,250,978 and \$1,169,514, 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 \$15,779,619 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, the school district's proportion was .13 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$1,068,692. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 246,157	
Net difference between projected and actual earnings on pension plan investments		\$ 2,287,372
Changes of assumptions:		
Changes in proportion and differences between District contributions and proportionate share of contributions		
District contributions subsequent to the measurement date	1,305,409	
Total	\$ 1,551,566	\$ 2,287,372

\$1,305,409 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	\$ 483,297
2017	483,297
2018	502,777
2019	571,843

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

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

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

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

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

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

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:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$ 22,512,327	\$ 15,779,619	\$ 10,997,689

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

Note 8 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	\$ (18,012,718)
Deferred outflows - contributions made during fiscal year 2014	1,250,978
Total prior period adjustment related to GASB 68 and 71	(16,761,740)
Total	\$ (16,761,740)

Note 9 – Contingencies

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

Note 10 – Risk Management

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

Note 11 – Trust Certificates

A trust agreement dated August 15, 2005, was executed by and between the school district and First Security Bank, as trustees.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2015

The trust agreement authorized the issuance of trust certificates in the principal amount of \$800,000. Approximately \$800,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project").

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

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

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

Note 12 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of \$(13,072,244) includes the effect of deferring the recognition of expenses and revenue associated with the net pension liability and related account balances.

Note 13 – Economic Dependency

The school district is significantly economically dependent on an ad valorem tax payer. In the event of a loss of these ad valorem taxes, which makes up approximately 28% of the district's ad valorem taxes, the district would encounter an economic hardship.

Note 14 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through October 27, 2015, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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HOUSTON SCHOOL DISTRICT
 Budgetary Comparison Schedule for the 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	\$ 2,917,163	2,943,598	2,943,598	26,435	0
State sources	8,455,415	8,288,613	8,288,613	(166,802)	0
Federal sources	88,209	121,404	121,404	33,195	0
Total Revenues	11,460,787	11,353,615	11,353,615	(107,172)	0
Expenditures					
Instruction	7,540,463	7,367,908	7,367,908	172,555	0
Support services	5,728,282	4,833,327	4,833,327	894,955	0
Debt service					
Principal	7,545	7,545	7,545	0	0
Interest	8,551	8,551	8,551	0	0
Total Expenditures	13,284,841	12,217,331	12,217,331	1,067,510	0
Excess (Deficiency) of Revenues Over Expenditures	(1,824,054)	(863,716)	(863,716)	960,338	0
Other Financing Sources (Uses)					
Proceeds of loans	95,283	95,283	95,283	0	0
Insurance loss recoveries	200	0	0	(200)	0
Sale of transportation equipment	200	0	0	(200)	0
Operating transfers in	606,124	645,354	586,464	39,230	(58,890)
Operating transfers out	(25,012)	(70,264)	(11,374)	(45,252)	58,890
Other financing uses	(300)	(300)	(300)	0	0
Total Other Financing Sources (Uses)	676,495	670,073	670,073	(6,422)	0
Net Change in Fund Balances			(193,643)		
Fund Balances					
July 1, 2014			<u>3,866,322</u>		
June 30, 2015			<u>\$ 3,672,679</u>		

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

HOUSTON SCHOOL DISTRICT
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Extended School Year 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					
State sources	\$ 0	37,727	37,727	37,727	0
Total Revenues	<u>0</u>	<u>37,727</u>	<u>37,727</u>	<u>37,727</u>	<u>0</u>
Expenditures					
Instruction	0	1,632	1,632	(1,632)	0
Support services	0	36,095	36,095	(36,095)	0
Total Expenditures	<u>0</u>	<u>37,727</u>	<u>37,727</u>	<u>(37,727)</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2014			<u>0</u>		
June 30, 2015			<u>\$ 0</u>		

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

HOUSTON SCHOOL DISTRICT
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I 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	\$ 584,240	512,654	512,654	(71,586)	0
Total Revenues	<u>584,240</u>	<u>512,654</u>	<u>512,654</u>	<u>(71,586)</u>	<u>0</u>
Expenditures					
Instruction	460,712	415,053	415,053	45,659	0
Support services	84,085	87,011	87,011	(2,926)	0
Noninstructional services	31,897	4,390	4,390	27,507	0
Total Expenditures	<u>576,694</u>	<u>506,454</u>	<u>506,454</u>	<u>70,240</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,546</u>	<u>6,200</u>	<u>6,200</u>	<u>(1,346)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	7,546	(6,200)	(6,200)	13,746	0
Total Other Financing Sources (Uses)	<u>7,546</u>	<u>(6,200)</u>	<u>(6,200)</u>	<u>13,746</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2014			<u>0</u>		
June 30, 2015			<u>\$ 0</u>		

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

HOUSTON SCHOOL DISTRICT
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Special Education 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	\$ 392,595	374,315	374,315	(18,280)	0
Total Revenues	<u>392,595</u>	<u>374,315</u>	<u>374,315</u>	<u>(18,280)</u>	<u>0</u>
Expenditures					
Instruction	104,718	95,916	95,916	8,802	0
Support services	280,988	272,431	272,431	8,557	0
Noninstructional services	700	80	80	620	0
Total Expenditures	<u>386,406</u>	<u>368,427</u>	<u>368,427</u>	<u>17,979</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>6,189</u>	<u>5,888</u>	<u>5,888</u>	<u>(301)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	(6,189)	(5,888)	(5,888)	301	0
Total Other Financing Sources (Uses)	<u>(6,189)</u>	<u>(5,888)</u>	<u>(5,888)</u>	<u>301</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2014			<u>0</u>		
June 30, 2015			<u>\$ 0</u>		

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

HOUSTON SCHOOL DISTRICT
 Schedule of the District's Proportionate Share of the Net Pension Liability
 PERS
 Last 10 Fiscal Years

	<u>2015</u>
District's proportion of the net pension liability (asset)	0.13%
District's proportionate share of the net pension liability (asset)	<u>\$ 15,779,619</u>
District's covered-employee payroll	<u>\$ 8,288,302</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>190.38%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>67.21%</u>

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.

HOUSTON SCHOOL DISTRICT
 Schedule of District Contributions
 PERS
 Last 10 Fiscal Years

	<u>2015</u>
Contractually required contribution	\$ 1,305,409
Contributions in relation to the contractually required contribution	1,305,409
Contribution deficiency (excess)	<u>0</u>
District's covered-employee payroll	\$ 8,288,302
Contributions as a percentage of covered-employee payroll	15.75%

The notes to the required supplementary information are an integra

* The amounts presented for each fiscal year were determined as of fiscal year presented.

This schedule is presented to illustrate the requirement to show inf in FYE 6/30/15, and, until a full 10-year trend is compiled, the Dis information is available.

HOUSTON SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2015

(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 following the end of the fiscal year. A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States of America.

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SUPPLEMENTARY INFORMATION

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HOUSTON 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 No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 295,124
National school lunch program	10.555	857,776
Total child nutrition cluster		<u>1,152,900</u>
Total U.S. Department of Agriculture		<u>1,152,900</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.xxx	<u>63,266</u>
Total Federal Communications Commission		<u>63,266</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	512,654
Career and technical education - basic grants to states	84.048	26,334
Rural education	84.358	31,677
English language acquisition grants	84.365	14,097
Improving teacher quality - state grants	84.367	115,357
Total		<u>700,119</u>
Special education cluster:		
Special education - grants to states	84.027	374,315
Special education - preschool grants	84.173	5,474
Total special education cluster		<u>379,789</u>
Total passed-through Mississippi Department of Education		<u>1,079,908</u>
Total U.S. Department of Education		<u>1,079,908</u>
Total for All Federal Awards		<u>\$ 2,296,074</u>

NOTES TO SCHEDULE

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

HOUSTON SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2015

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 11,451,093	8,672,025	701,311	808,820	1,268,937
Other	4,660,035	1,653,394	239,020	15,606	2,752,015
Total	<u>16,111,128</u>	<u>10,325,419</u>	<u>940,331</u>	<u>824,426</u>	<u>4,020,952</u>
Total number of students	<u>1,613</u>				
Cost per student	<u>\$ 9,988</u>	<u>6,401</u>	<u>583</u>	<u>511</u>	<u>2,493</u>

Notes to the schedule.

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

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

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

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

Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

OTHER INFORMATION

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

UNAUDITED

	2015	2014*	2013*	2012*
Revenues				
Local sources	\$ 2,943,598	2,747,470	2,668,646	2,476,201
State sources	8,288,613	8,073,584	8,490,713	8,502,816
Federal sources	121,404	85,646	93,311	111,089
Total Revenues	11,353,615	10,906,700	11,252,670	11,090,106
Expenditures				
Instruction	7,367,908	6,854,736	7,153,387	7,084,105
Support services	4,833,327	4,374,768	4,084,491	3,958,330
Debt service				
Principal	7,545	4,892	2,329	16,096
Interest	8,551	11,204	13,764	0
Total Expenditures	12,217,331	11,245,600	11,253,971	11,058,531
Excess (Deficiency) of Revenues Over Expenditures	(863,716)	(338,900)	(1,301)	31,575
Other Financing Sources (Uses)				
Proceeds of loans	95,283	46,964	0	0
Operating transfers in	586,464	52,788	56,062	29,586
Other financing sources	0	0	7,019	0
Operating transfers out	(11,374)	(19,003)	(4,958)	(8,174)
Other financing uses	(300)	(300)	(300)	(2,153)
Total Other Financing Sources (Uses)	670,073	80,449	57,823	19,259
Net Change in Fund Balances	(193,643)	(258,451)	56,522	50,834
Fund Balances				
July 1, as previously reported	3,866,322	4,124,773	4,068,465	4,017,631
Prior period adjustments	0	0	(214)	0
July 1, as restated	<u>3,866,322</u>	<u>4,124,773</u>	<u>4,068,251</u>	<u>4,017,631</u>
June 30	<u>\$ 3,672,679</u>	<u>3,866,322</u>	<u>4,124,773</u>	<u>4,068,465</u>

* Source - Prior year audit reports.

HOUSTON 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	\$ 3,323,887	3,075,844	3,000,227	2,918,612
State sources	9,871,070	9,347,376	9,705,952	9,721,497
Federal sources	2,171,159	2,215,197	2,264,595	2,825,494
Total Revenues	15,366,116	14,638,417	14,970,774	15,465,603
Expenditures				
Instruction	8,783,123	8,246,744	8,535,951	8,831,730
Support services	5,774,389	5,134,410	4,956,840	4,910,089
Noninstructional services	1,025,062	1,048,339	1,045,768	1,051,777
Sixteenth section	0	0	0	40,456
Debt service				
Principal	446,036	426,746	422,362	422,994
Interest	67,018	100,678	114,728	128,850
Other	15,500	1,695	1,250	1,000
Total Expenditures	16,111,128	14,958,612	15,076,899	15,386,896
Excess (Deficiency) of Revenues Over Expenditures	(745,012)	(320,195)	(106,125)	78,707
Other Financing Sources (Uses)				
Proceeds of refunding bonds	1,500,000	0	0	0
Proceeds of loans	95,283	46,964	0	0
Operating transfers in	597,838	73,323	97,945	37,760
Other financing sources	0	0	7,019	0
Operating transfers out	(597,838)	(73,323)	(97,945)	(37,760)
Payment to refunded bond escrow agent	(935,000)	0	0	0
Other financing uses	(2,686)	(1,104)	(8,858)	(3,706)
Total Other Financing Sources (Uses)	657,597	45,860	(1,839)	(3,706)
Net Change in Fund Balances	(87,415)	(274,335)	(107,964)	75,001
Fund Balances				
July 1, as previously reported	4,327,555	4,593,399	4,702,907	4,631,477
Prior period adjustments	0	0	(214)	0
July 1, as restated	4,327,555	4,593,399	4,702,693	4,631,477
Increase (Decrease) in reserve for inventory	(1,418)	8,491	(1,330)	(3,571)
June 30	\$ 4,238,722	4,327,555	4,593,399	4,702,907

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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CHARLES L. SHIVERS

Certified Public Accountant

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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*

Independent Auditor's Report

Superintendent and School Board
Houston School District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Houston School District's basic financial statements, and have issued my report thereon dated October 27, 2015.

Internal Control Over Financial Reporting

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

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

My 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be a significant deficiency. [2015-01].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Houston School District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Houston School District's Response to Findings

Houston School District's response to the finding identified in my audit is described in the accompanying Auditee's Corrective Action Plan. Houston School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Charles L Shivers, CPA, LLC

Ridgeland, MS
October 27, 2015

CHARLES L. SHIVERS

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

Superintendent and School Board
Houston School District

Report on Compliance for Each Major Federal Program

I have audited Houston School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Houston School District's major federal programs for the year ended June 30, 2015. Houston School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

My responsibility is to express an opinion on compliance for each of Houston School District's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 Houston School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Houston School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Houston School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Houston School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of

expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Houston School District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Charles L Shivers, CPA, LLC

Ridgeland, MS
October 27, 2015

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

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CHARLES L. SHIVERS

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

Superintendent and School Board
Houston School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston School District as of and for the year ended June 30, 2015, which collectively comprise Houston School District's basic financial statements and have issued my report thereon dated October 27, 2015. I conducted my 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, I 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 my audit and, accordingly, I do not express such an opinion.

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

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to 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 my 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, I 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 my audit and, accordingly, I do not express such an opinion.

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

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

Charles L. Shivers, CPA, LLC

Ridgeland, MS
October 27, 2015

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HOUSTON SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 June 30, 2015

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Child nutrition cluster | |
| | CFDA #: 10.553 | |
| | CFDA #: 10.555 | |
| | b. Special education cluster | |
| | CFDA #: 84.027 | |
| | CFDA#: 84.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings 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? | No |

Section II: Financial Statement Findings

Significant deficiency identified that are is considered to be a material weakness.

Finding 2015-01

CONDITION: The business manager initiates, prepares, approves and enters all journal entries to correct, post, or otherwise cause the proper statement of the account balances and/or classes of transactions. The business manager also reconciles the district banks accounts.

CRITERIA: An appropriately and properly designed system of accounting controls would have these duties segregated to the greatest extent possible.

CAUSE OF CONDITION: The cause of this condition is an inadequately designed system of accounting controls.

EFFECT OF CONDITION: This condition could lead to errors being made and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the duties of the business manager relating to journal entries and bank account reconciliations be segregated to the greatest extent possible.

HOUSTON SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2015

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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MISSISSIPPI

HOUSTON SCHOOL DISTRICT

TONY COOK, SUPERINTENDENT

Home of
SUNDANGER
International Solar Car
Racing Champion

October 22, 2015

As required by Section 315(c) of OMB Circular A-133, the Houston 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 2015 - 01

Corrective Action Plan

- a. Contact person responsible for corrective action – Sarah Juckes
- b. Description of corrective action to be taken – Due to the limited staff in the central office, it will not be possible to segregate these duties to satisfy this finding.
- c. Anticipated completion date of corrective action – N/A

If I can assist you further concerning these matters, please contact me.

Sincerely,

Mr. Tony Cook
Superintendent

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