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HOUSTON SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2016**

**Charles L. Shivers, CPA, LLC
Ridgeland, MS**

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INDEPENDENT AUDITOR'S REPORT

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CHARLES L. SHIVERS, CPA, LLC

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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, 2016, 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, 2016, 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 September 14, 2016, 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
September 14, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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HOUSTON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

The following discussion and analysis of the Houston School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2016. 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 2016 decreased \$1,029,977, including a prior period adjustment of (\$1,375), which represents a 12.9% decrease from fiscal year 2015. 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.
- General revenues amounted to \$12,532,343 and \$12,307,719, or 81% and 80% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,028,239, or 19% of total revenues for 2016, and \$3,058,397, or 20% of total revenues for 2015.
- The District had \$16,589,184 and \$15,216,315 in expenses for fiscal years 2016 and 2015; only \$3,028,239 for 2016 and \$3,058,397 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$12,532,343 for 2016 were not adequate to provide for these programs and general revenues of \$12,307,719 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$11,687,344 in revenues and \$12,139,416 in expenditures for 2016, and \$11,353,615 in revenues and \$12,217,331 in expenditures in 2015. The General Fund's fund balance decreased by \$248,310 from 2015 to 2016, and decreased by \$193,643 from 2014 to 2015.
- Capital assets, net of accumulated depreciation, decreased by \$338,385 for 2016 and increased by \$202,186 for 2015. The decrease for 2016 was due primarily to the increase in accumulated depreciation.
- Long-term debt decreased by \$501,339 for 2016 and increased by \$199,157 for 2015. This decrease for 2016 was due primarily to payments on outstanding long-term debt. The liability for compensated absences decreased by \$11,157 for 2016 and decreased by \$15,090 for 2015.

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, deferred outflows, liabilities, and deferred inflows, with the differences between them 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 New 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 \$8,988,410 as of June 30, 2016.

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

Table 1 presents a summary of the District's net position at June 30, 2016 and June 30, 2015.

Table 1
Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 3,641,533	\$ 3,934,258	(7.44) %
Restricted assets	463,880	366,139	26.70 %
Capital assets, net	6,820,108	7,158,493	(4.73) %
Total assets	10,925,521	11,458,890	(4.65) %
Deferred outflows of resources	2,986,006	1,551,566	92.45 %
Current liabilities	79,305	107,149	(25.99) %
Long-term debt outstanding	2,293,410	2,794,749	(17.94) %
Net pension liability	20,095,436	15,779,619	27.35 %
Total liabilities	22,468,151	18,681,517	20.27 %
Deferred inflows of resources	431,786	2,287,372	(81.12) %
Net position:			
Net investment in capital assets	4,698,557	4,593,238	2.29 %
Restricted	601,739	520,570	15.59 %
Unrestricted	(14,288,706)	(13,072,241)	(9.31) %
Total net position	\$ (8,988,410)	\$ (7,958,433)	(12.94) %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	(\$14,288,706)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	17,541,216
Unrestricted net position, exclusive of the net pension liability effect	<u>\$3,252,510</u>

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

- Decrease in net capital assets in the amount of \$338,385.
- The principal retirement of \$490,182 of long-term debt.
- Inclusion of net pension liability of \$20,095,436.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$15,560,582 and \$15,366,116, respectively. The total cost of all programs and services was \$16,589,184 for 2016 and \$15,216,315 for 2015.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2016</u>	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 597,372	\$ 547,893	9.03 %
Operating grants and contributions	2,430,867	2,510,504	(3.17) %
General revenues:			
Property taxes	2,807,582	2,771,127	1.32 %
Grants and contributions not restricted	9,594,369	9,531,577	0.66 %
Investment earnings	3,252	5,015	(35.15) %
Other	127,140	0	N/A
Total revenues	15,560,582	15,366,116	1.27 %
Expenses:			
Instruction	8,383,113	8,197,208	2.27 %
Support services	4,832,493	4,961,248	(2.60) %
Non-instructional	915,592	895,939	2.19 %
Pension expense	2,394,652	1,068,692	124.07 %
Interest on long-term liabilities	63,334	93,228	(32.07) %
Total expenses	16,589,184	15,216,315	9.02 %
Increase (Decrease) in net position	(1,028,602)	149,801	(786.65) %
Net Position, July 1, as previously reported	(7,958,433)	8,653,506	(191.97) %
Prior Period Adjustment	(1,375)	(16,761,740)	99.99 %
Net Position, July 1, as restated	(7,959,808)	(8,108,234)	1.83 %
Net Position, June 30	\$ (8,988,410)	\$ (7,958,433)	(12.94) %

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.

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2016</u>	<u>2015</u>	
Instruction	\$ 8,383,113	\$ 8,197,208	2.27 %
Support services	4,832,493	4,961,248	(2.60) %
Non-instructional	915,592	895,939	2.19 %
Pension Expense	2,394,652	1,068,692	124.07 %
Interest on long-term liabilities	63,334	93,228	(32.07) %
Total expenses	\$ 16,589,184	\$ 15,216,315	9.02 %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2016</u>	<u>2015</u>	
Instruction	\$ (7,073,595)	\$ (6,872,923)	2.92 %
Support services	(4,344,190)	(4,407,270)	1.43 %
Non-instructional	314,826	284,195	10.78 %
Pension Expense	(2,394,652)	(1,068,692)	(124.07) %
Interest on long-term liabilities	(63,334)	(93,228)	32.07 %
Total net (expense) revenue	\$ (13,560,945)	\$ (12,157,918)	(11.54) %

- Net cost of governmental activities (\$13,560,945 for 2016 and \$12,157,918 for 2015) was financed by general revenue, which is primarily made up of property taxes (\$2,807,582 for 2016 and \$2,771,127 for 2015) and state and federal revenues (\$9,594,369 for 2016 and \$9,531,577 for 2015).
- Investment earnings amounted to \$3,252 for 2016 and \$5,015 for 2015.

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 \$4,065,287, a decrease of \$173,435, which includes a prior period adjustment of (\$1,375) and a decrease in inventory of \$10,358. \$3,179,259 or 78% 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 \$886,028 or 22% 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 \$248,310, which includes a prior period adjustment of (\$1,375). The fund balance of Other Governmental Funds showed an increase in the amount of \$74,875, which includes a decrease in reserve for inventory of \$10,358. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I-A Basic Fund	no increase or decrease
IDEA Part B 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 funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$14,060,837, including land, school buildings, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$15,255 from 2015. Total accumulated depreciation as of June 30, 2016, was \$7,240,729, and total depreciation expense for the year was \$335,820, resulting in total net capital assets of \$6,820,108.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 198,441	\$ 198,441	0.00 %
Buildings	5,980,531	6,169,246	(3.06) %
Improvements other than buildings	67,864	75,404	(10.00) %
Mobile equipment	524,661	643,389	(18.45) %
Furniture and equipment	48,611	72,013	(32.50) %
Total	\$ 6,820,108	\$ 7,158,493	(4.73) %

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

Debt Administration. At June 30, 2016, the District had \$2,293,410 in outstanding long-term debt, of which \$516,825 is due within one year. The liability for compensated absences decreased \$11,157 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
Limited obligation refunding bonds payable	\$ 630,000	\$ 905,000	(30.39) %
Certificates of participation payable	81,551	160,255	(49.11) %
Three mill notes payable	1,410,000	1,500,000	(6.00) %
Shortfall notes payable	80,687	127,165	(36.55) %
Compensated absences payable	91,172	102,329	(10.90) %
Total	\$ 2,293,410	\$ 2,794,749	(17.94) %

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.

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, 2016

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,126,832
Due from other governments	490,600
Other receivables, net	353
Inventories	23,748
Restricted assets (Note 4)	463,880
Non-depreciable capital assets (Note 5)	198,441
Depreciable capital assets, net (Note 5)	6,621,667
Total Assets	<u>10,925,521</u>
Deferred Outflows of Resources	
Deferred outflow - pensions (Note 7)	2,986,006
Total Deferred Outflows of Resources	<u>2,986,006</u>
Liabilities	
Accounts payable and accrued liabilities	35,040
Interest payable on long-term liabilities	39,179
Other payables	5,086
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	461,551
Non-capital related liabilities	55,274
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	1,660,000
Non-capital related liabilities	116,585
Net pension liability (Note 7)	20,095,436
Total Liabilities	<u>22,468,151</u>
Deferred Inflows of Resources	
Deferred inflows - pensions (Note 7)	431,786
Total Deferred Inflows of Resources	<u>431,786</u>
Net Position	
Net investment in capital assets	4,698,557
Restricted net position	
Expendable	
School-based activities	228,440
Debt service	324,157
Unemployment benefits	49,142
Unrestricted	<u>(14,288,706)</u>
Total Net Position	<u>\$ (8,988,410)</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, 2016

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	\$ 8,383,113	330,976	978,542	(7,073,595)
Support services	4,832,493	61,981	426,322	(4,344,190)
Non-instructional	915,592	204,415	1,026,003	314,826
Pension expense	2,394,652			(2,394,652)
Interest on long-term liabilities	63,334			(63,334)
Total Governmental Activities	16,589,184	597,372	2,430,867	(13,560,945)
General Revenues				
Taxes				
General purpose levies				2,618,251
Debt purpose levies				189,331
Unrestricted grants and contributions				
State				9,535,723
Federal				58,646
Unrestricted investment earnings				3,252
Other				127,140
Total General Revenues				12,532,343
Changes in Net Position				(1,028,602)
Net Position - Beginning , as previously reported				(7,958,433)
Prior Period Adjustments (Note 8)				(1,375)
Net Position - Beginning - as restated				(7,959,808)
Net Position - Ending				\$ (8,988,410)

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

HOUSTON SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2016

Exhibit C

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I-A Basic Fund	IDEA Part B Fund		
Assets					
Cash and cash equivalents (Note 2)	\$ 3,126,832			458,880	3,585,712
Investments (Note 2)				5,000	5,000
Due from other governments	195,114	65,825	32,515	197,146	490,600
Other receivables, net	353				353
Due from other funds (Note 3)	137,110				137,110
Inventories				23,748	23,748
Total Assets	3,459,409	65,825	32,515	684,774	4,242,523
Liabilities and Fund Balances					
Liabilities					
Accounts payable & accrued liabilities	35,040				35,040
Due to other funds (Note 3)		65,825	32,515	38,770	137,110
Other payables				5,086	5,086
Total Liabilities	35,040	65,825	32,515	43,856	177,236
Fund Balances					
Nonspendable					
Inventory				23,748	23,748
Restricted					
Debt service				363,336	363,336
Unemployment benefits				49,142	49,142
Grant activities				204,692	204,692
Assigned					
School activities	245,110				245,110
Unassigned	3,179,259				3,179,259
Total Fund Balances	3,424,369	0	0	640,918	4,065,287
Total Liabilities and Fund Balances	\$ 3,459,409	65,825	32,515	684,774	4,242,523

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, 2016

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,065,287
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	1,818,112
Furniture and equipment	604,457
Accumulated depreciation	<u>(7,240,729)</u>
	6,820,108
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	(20,095,436)
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	2,986,006
Deferred inflows of resources related to pensions	<u>(431,786)</u>
	2,554,220
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	(630,000)
Certificates of participation payable	(81,551)
Three mill note payable	(1,410,000)
Shortfall notes payable	(80,687)
Compensated absences	(91,172)
Accrued interest payable	<u>(39,179)</u>
	<u>(2,332,589)</u>
Total Net Position - Governmental Activities	<u>\$ (8,988,410)</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, 2016

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I-A Basic Fund	IDEA Part B Fund		
Revenues					
Local sources	\$ 3,014,199			394,007	3,408,206
State sources	8,614,499			1,343,441	9,957,940
Federal sources	58,646	467,307	320,516	1,220,827	2,067,296
Total Revenues	11,687,344	467,307	320,516	2,958,275	15,433,442
Expenditures					
Instruction	7,691,786	366,198	91,642	869,846	9,019,472
Support services	4,431,534	89,026	223,879	350,758	5,095,197
Noninstructional services		5,609		1,037,510	1,043,119
Debt service					
Principal (Note 6)	10,295			479,887	490,182
Interest	5,801			63,828	69,629
Total Expenditures	12,139,416	460,833	315,521	2,801,829	15,717,599
Excess (Deficiency) of Revenues Over Expenditures					
	(452,072)	6,474	4,995	156,446	(284,157)
Other Financing Sources (Uses)					
Operating transfers in (Note 3)	103,689			24,964	128,653
Other financing sources (Note 14)	127,138			2	127,140
Operating transfers out (Note 3)	(24,964)	(6,474)	(4,995)	(92,220)	(128,653)
Other financing uses	(726)			(3,959)	(4,685)
Total Other Financing Sources (Uses)	205,137	(6,474)	(4,995)	(71,213)	122,455
Net Change in Fund Balances	(246,935)	0	0	85,233	(161,702)
Fund Balances					
July 1, 2015, as previously reported	3,672,679	0	0	566,043	4,238,722
Prior period adjustments (Note 8)	(1,375)				(1,375)
July 1, 2015, as restated	3,671,304	0	0	566,043	4,237,347
Decrease in reserve for inventory				(10,358)	(10,358)
June 30, 2016	\$ 3,424,369	0	0	640,918	4,065,287

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

HOUSTON SCHOOL DISTRICT

Exhibit D-1

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, 2016

	<u>Amount</u>
Net Change in Fund Balance - Governmental Funds	\$ (161,702)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>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:</p>	
Depreciation expense	(335,820)
<p>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.</p>	
	(2,565)
<p>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:</p>	
Payments of debt principal	490,182
Accrued interest payable	<u>6,295</u>
	496,477
<p>Reconciling items applicable to pension liability and related accounts:</p>	
Pension contributions made subsequent to the measurement date	1,378,849
Pension expense for the current year	(2,394,652)
Rounding difference in pension calculation	<u>(9,988)</u>
	(1,025,791)
<p>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:</p>	
Change in compensated absences	11,157
Change in inventory reserve	<u>(10,358)</u>
	<u>799</u>
Changes in Net Position of Governmental Activities	<u>\$ (1,028,602)</u>

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

HOUSTON SCHOOL DISTRICT
Statement of Net Position - Fiduciary Funds
June 30, 2016

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 65,172	461,992
Total Assets	<u>65,172</u>	<u>461,992</u>
Liabilities		
Accounts payable and accrued liabilities		431,372
Due to student clubs		30,620
Total Liabilities	<u>0</u>	<u>461,992</u>
Net Position		
Reserved for endowments	<u>65,172</u>	
Total Net Position	<u>\$ 65,172</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, 2016

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 413
Total Additions	<u>413</u>
Deductions	
Scholarships awarded	<u>1,400</u>
Total Deductions	<u>1,400</u>
Changes in Net Position	<u>(987)</u>
Net Position	
July 1, 2015	<u>66,159</u>
June 30, 2016	<u>\$ 65,172</u>

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Net position is reported in three categories:

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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.

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

IDEA Part B 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.

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

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

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed,

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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.

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.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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, as well as for its component units, 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."

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
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 I, E, 10 for further details.

8. Compensated Absences

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

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

9. Long-term Liabilities

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

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.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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 \$3,585,712 and \$527,164, 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. 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. 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, 2016, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Federated US Treasury Cash Reserve	AAAm	Less than 1	\$ 5,000

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The district has the following recurring fair value measurements as of June 30, 2016:

- Federated US Treasury Cash Reserve type of investments of \$5,000 are valued using quoted market prices (Level 1 inputs)

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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, 2016, the district did not have any investments to which this would apply.

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 - Title I-A Basic Fund	\$ 65,825
	Major fund - IDEA Part B Fund	32,515
	Other governmental funds	38,770
Total		<u>\$ 137,110</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	\$ 24,964
Major fund - Title I-A Basic Fund	General Fund	6,474
Major fund - IDEA Part B Fund	General Fund	4,995
Other governmental funds	General Fund	92,220
Total		<u>\$ 128,653</u>

The transfer out of the General Fund was for the purpose of funding the unemployment compensation, extended school year and other programs in the Other Governmental Funds. The transfers from the Major Funds to the General Fund were for indirect costs.

Note 4 – Restricted Assets

The restricted assets represent the cash balance and investment balance, totaling \$458,880 and \$5,000, respectively, which are legally restricted for program activities and debt service 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:

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

	Balance 7/1/2015	Increases	Decreases	Balance 6/30/2016
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	1,824,812		(6,700)	1,818,112
Furniture and equipment	613,012		(8,555)	604,457
Total depreciable capital assets	<u>13,877,651</u>	<u>0</u>	<u>(15,255)</u>	<u>13,862,396</u>
<u>Less accumulated depreciation for:</u>				
Buildings	5,082,075	188,715		5,270,790
Improvements other than buildings	113,102	7,540		120,642
Mobile equipment	1,181,423	116,249	(4,221)	1,293,451
Furniture and equipment	540,999	23,316	(8,469)	555,846
Total accumulated depreciation	<u>6,917,599</u>	<u>335,820</u>	<u>(12,690)</u>	<u>7,240,729</u>
Total depreciable capital assets, net	<u>6,960,052</u>	<u>(335,820)</u>	<u>(2,565)</u>	<u>6,621,667</u>
Governmental activities capital assets, net	<u>\$ 7,158,493</u>	<u>(335,820)</u>	<u>(2,565)</u>	<u>6,820,108</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 176,277
Support services	159,543
Non-instructional	0
Total depreciation expense - Governmental activities	<u>\$ 335,820</u>

Note 6 – Long-term Liabilities

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

	Balance 7/1/2015	Additions	Reductions	Balance 6/30/2016	Amounts due within one year
A. Limited obligation refunding bonds payable	905,000		275,000	630,000	285,000
B. Certificates of participation payable	160,255		78,704	81,551	81,551
C. Three mill notes payable	1,500,000		90,000	1,410,000	95,000
D. Shortfall notes payable	127,165		46,478	80,687	47,980
E. Compensated absences payable	102,329		11,157	91,172	7,294
Total	<u>\$ 2,794,749</u>	<u>0</u>	<u>\$ 501,339</u>	<u>2,293,410</u>	<u>516,825</u>

A. Limited obligation bonds payable

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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	\$ 630,000

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 285,000	18,018	303,018
2018	345,000	9,867	354,867
Total	\$ 630,000	27,885	657,885

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

The state aid capital improvement refunding 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:

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	\$ 81,551

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

Year Ending June 30	Principal	Interest	Total
2017	\$ 81,551	2,952	84,503

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:

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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	\$ 1,410,000

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

Year Ending June 30	Principal	Interest	Total
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	175,000	20,001	195,001
2022 – 2025	710,000	39,889	749,889
Total	\$ 1,410,000	172,890	1,582,890

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

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	\$ 16,234
2. Shortfall notes, 2014	2.95	8/13/2014	8/13/2017	95,283	64,453
Total				\$ 142,247	\$ 80,687

The amount outstanding is included in due from other governments on the Statement of Net Position.

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

1. Shortfall notes, 2013:

Year Ending June 30	Principal	Interest	Total
2017	\$ 16,234	610	16,844

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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

2. Shortfall notes, 2014:

Year Ending June 30	Principal	Interest	Total
2017	\$ 31,746	1,933	33,679
2018	32,707	973	33,680
Total	<u>\$ 64,453</u>	<u>2,906</u>	<u>67,359</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
2017	\$ 47,980	2,543	50,523
2018	32,707	973	33,680
Total	<u>\$ 80,687</u>	<u>3,516</u>	<u>84,203</u>

E. Compensated absences payable

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

Note 7 – 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

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$1,378,849, \$1,305,408 and \$1,250,978, 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, 2016, the school district reported a liability of \$20,095,436 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was .13 percent, which was based on a measurement date of June 30, 2015. This was the same proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$2,394,652. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	\$ 341,368	\$	0
Net difference between projected and actual earnings on pension plan investments	0		431,786
Changes of assumptions	1,265,789		0
Changes in proportion and differences between District contributions and proportionate share of contributions	0		0
District contributions subsequent to the measurement date	1,378,849		0
Total	\$ 2,986,006	\$	431,786

\$1,378,849 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:	
2017	\$ 482,920
2018	482,920
2019	317,478
2020	(107,946)

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75-19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

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

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. 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 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 26,487,626	\$ 20,095,436	\$ 14,791,114

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

<u>Explanation</u>	<u>Amount</u>
Restatement of a prior year asset	\$ (1,375)

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

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

Fund	Explanation	Amount
General Fund	Restatement of a pprior year asset	<u>\$ (1,375)</u>

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.

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 \$(14,288,706) 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 – Other Financing Sources

Included in the other financing sources is \$125,000 the school district received from a litigation settlement as a result of an installation of faulty roof on a district school building. The faulty roof did not create an impairment of the building.

HOUSTON SCHOOL DISTRICT
Notes to the Financial Statements
June 30, 2016

Note 15 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through September 14, 2016, the date the financial statements were available to be issued, 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, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 2,999,542	3,014,199	3,014,199	14,657	0
State sources	8,611,116	8,614,499	8,614,499	3,383	0
Federal sources	82,136	58,646	58,646	(23,490)	0
Total Revenues	11,692,794	11,687,344	11,687,344	(5,450)	0
Expenditures					
Instruction	7,747,113	7,691,786	7,691,786	55,327	0
Support services	5,292,108	4,431,534	4,431,534	860,574	0
Debt service					
Principal	18,846	10,295	10,295	8,551	0
Interest		5,801	5,801	(5,801)	0
Total Expenditures	13,058,067	12,139,416	12,139,416	918,651	0
Excess (Deficiency) of Revenues Over Expenditures	(1,365,273)	(452,072)	(452,072)	913,201	0
Other Financing Sources (Uses)					
Insurance loss recoveries	200	0	0	(200)	0
Sale of other property	200	0	0	(200)	0
Operating transfers in	76,522	142,037	103,689	65,515	(38,348)
Other financing sources	0	127,138	127,138	127,138	0
Operating transfers out	(27,000)	(63,312)	(24,964)	(36,312)	38,348
Other financing uses	(300)	(726)	(726)	(426)	0
Total Other Financing Sources (Uses)	49,622	205,137	205,137	155,515	0
Net Change in Fund Balances			(246,935)		
Fund Balances					
July 1, 2015 as previously reported			3,672,679		
Prior period adjustments			(1,375)		
July 1, 2015, as restated			<u>3,671,304</u>		
June 30, 2016			<u>\$ 3,424,369</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-A Basic Fund
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	Revenues				
Federal sources	\$ 658,470	467,307	467,307	(191,163)	0
Total Revenues	<u>658,470</u>	<u>467,307</u>	<u>467,307</u>	<u>(191,163)</u>	<u>0</u>
Expenditures					
Instruction	483,236	366,198	366,198	117,038	0
Support services	152,144	89,026	89,026	63,118	0
Noninstructional services	10,282	5,609	5,609	4,673	0
Total Expenditures	<u>645,662</u>	<u>460,833</u>	<u>460,833</u>	<u>184,829</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>12,808</u>	<u>6,474</u>	<u>6,474</u>	<u>(6,334)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	(9,096)	(6,474)	(6,474)	(2,622)	0
Total Other Financing Sources (Uses)	<u>(9,096)</u>	<u>(6,474)</u>	<u>(6,474)</u>	<u>(2,622)</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2015			<u>0</u>		
June 30, 2016			<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 - IDEA Part B Fund
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Federal sources	\$ 376,974	320,516	320,516	(56,458)	0
Total Revenues	<u>376,974</u>	<u>320,516</u>	<u>320,516</u>	<u>(56,458)</u>	<u>0</u>
Expenditures					
Instruction	102,389	91,642	91,642	10,747	0
Support services	266,820	223,879	223,879	42,941	0
Total Expenditures	<u>369,209</u>	<u>315,521</u>	<u>315,521</u>	<u>53,688</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>7,765</u>	<u>4,995</u>	<u>4,995</u>	<u>(2,770)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	(5,926)	(4,995)	(4,995)	(931)	0
Total Other Financing Sources (Uses)	<u>(5,926)</u>	<u>(4,995)</u>	<u>(4,995)</u>	<u>(931)</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2015			<u>0</u>		
June 30, 2016			<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>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.13%	0.13%
District's proportionate share of the net pension liability (asset)	<u>\$ 20,095,436</u>	<u>\$ 15,779,619</u>
District's covered-employee payroll	<u>\$ 8,754,597</u>	<u>\$ 8,288,302</u>
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	<u>229.54%</u>	<u>190.38%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>61.70%</u>	<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>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,378,849	\$ 1,305,409
Contributions in relation to the contractually required contribution	1,378,849	1,305,409
Contribution deficiency (excess)	<u>0</u>	<u>0</u>
District's covered-employee payroll	\$ 8,754,597	\$ 8,288,302
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

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

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

HOUSTON SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2016

(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.

(3) Pension Schedules

Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

SUPPLEMENTARY INFORMATION

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HOUSTON SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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	\$ 304,483
National school lunch program	10.555	867,155
Total child nutrition cluster		<u>1,171,638</u>
Total U.S. Department of Agriculture		<u>1,171,638</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.xxx	<u>20,866</u>
Total Federal Communications Commission		<u>20,866</u>
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	467,306
Career and technical education - basic grants to states	84.048	31,945
Rural education	84.358	35,425
Improving teacher quality - state grants	84.367	121,290
Total		<u>655,966</u>
Special education cluster:		
Special education - grants to states	84.027	320,516
Special education - preschool grants	84.173	16,307
Total special education cluster		<u>336,823</u>
Total passed-through Mississippi Department of Education		<u>992,789</u>
Total U.S. Department of Education		<u>992,789</u>
Total for All Federal Awards		<u>\$ 2,185,293</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, 2016

<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	\$ 12,066,928	9,264,587	712,960	812,842	1,276,539
Other	3,650,671	1,092,233	334,382	12,660	2,211,396
Total	<u>15,717,599</u>	<u>10,356,820</u>	<u>1,047,342</u>	<u>825,502</u>	<u>3,487,935</u>
Total number of students	<u>1,644</u>				
Cost per student	<u>\$ 9,561</u>	<u>6,300</u>	<u>637</u>	<u>502</u>	<u>2,122</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

	2016	2015*	2014*	2013*
Revenues				
Local sources	\$ 3,014,199	2,943,598	2,747,470	2,668,646
State sources	8,614,499	8,288,613	8,073,584	8,490,713
Federal sources	58,646	121,404	85,646	93,311
Total Revenues	11,687,344	11,353,615	10,906,700	11,252,670
Expenditures				
Instruction	7,691,786	7,367,908	6,854,736	7,153,387
Support services	4,431,534	4,833,327	4,374,768	4,084,491
Debt service				
Principal	10,295	7,545	4,892	2,329
Interest	5,801	8,551	11,204	13,764
Total Expenditures	12,139,416	12,217,331	11,245,600	11,253,971
Excess (Deficiency) of Revenues Over Expenditures	(452,072)	(863,716)	(338,900)	(1,301)
Other Financing Sources (Uses)				
Proceeds of loans	0	95,283	46,964	0
Operating transfers in	103,689	586,464	52,788	56,062
Other financing sources	127,138	0	0	7,019
Operating transfers out	(24,964)	(11,374)	(19,003)	(4,958)
Payment to refunded bond escrow agent	0	0	0	0
Other financing uses	(726)	(300)	(300)	(300)
Total Other Financing Sources (Uses)	205,137	670,073	80,449	57,823
Net Change in Fund Balances	(246,935)	(193,643)	(258,451)	56,522
Fund Balances				
July 1, as previously reported	3,672,679	3,866,322	4,124,773	4,068,465
Prior period adjustments	(1,375)	0	0	(214)
July 1, as restated	3,671,304	3,866,322	4,124,773	4,068,251
Decrease in reserve for inventory	0	0	0	0
June 30	\$ 3,424,369	3,672,679	3,866,322	4,124,773

* Source - Prior year audit reports.

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

UNAUDITED

	2016	2015*	2014*	2013*
Revenues				
Local sources	\$ 3,408,206	3,323,887	3,075,844	3,000,227
State sources	9,957,940	9,871,070	9,347,376	9,705,952
Federal sources	2,067,296	2,171,159	2,215,197	2,264,595
Total Revenues	15,433,442	15,366,116	14,638,417	14,970,774
Expenditures				
Instruction	9,019,472	8,783,123	8,246,744	8,535,951
Support services	5,095,197	5,774,389	5,134,410	4,956,840
Noninstructional services	1,043,119	1,025,062	1,048,339	1,045,768
Debt service				
Principal	490,182	446,036	426,746	422,362
Interest	69,629	67,018	100,678	114,728
Other	0	15,500	1,695	1,250
Total Expenditures	15,717,599	16,111,128	14,958,612	15,076,899
Excess (Deficiency) of Revenues Over Expenditures	(284,157)	(745,012)	(320,195)	(106,125)
Other Financing Sources (Uses)				
Proceeds of refunding bonds	0	1,500,000	0	0
Proceeds of loans	0	95,283	46,964	0
Operating transfers in	128,653	597,838	73,323	97,945
Other financing sources	127,140	0	0	7,019
Operating transfers out	(128,653)	(597,838)	(73,323)	(97,945)
Payment to refunded bond escrow agent	0	(935,000)	0	0
Other financing uses	(4,685)	(2,686)	(1,104)	(8,858)
Total Other Financing Sources (Uses)	122,455	657,597	45,860	(1,839)
Net Change in Fund Balances	(161,702)	(87,415)	(274,335)	(107,964)
Fund Balances				
July 1, as previously reported	4,238,722	4,327,555	4,593,399	4,702,907
Prior period adjustments	(1,375)	0	0	(214)
July 1, as restated	4,237,347	4,327,555	4,593,399	4,702,693
Increase (Decrease) in reserve for inventory	(10,358)	(1,418)	8,491	(1,330)
June 30	\$ 4,065,287	4,238,722	4,327,555	4,593,399

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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CHARLES L. SHIVERS, CPA, LLC

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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, 2016, 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 September 14, 2016.

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. [2016-001].

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
September 14, 2016

CHARLES L. SHIVERS, CPA, LLC

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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 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, 2016. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that 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, 2016.

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 the Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Charles L Shivers, CPA, LLC

Ridgeland, MS
September 14, 2016

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

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CHARLES L. SHIVERS, CPA, LLC

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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, 2016, which collectively comprise Houston School District's basic financial statements and have issued my report thereon dated September 14, 2016. 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
September 14, 2016

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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, 2016

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 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$750,000 |
| 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 is not considered to be a material weakness.

Finding 2016-001

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's bank 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 due to limited staffing of the business office.

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, 2016

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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HOUSTON SCHOOL DISTRICT

TONY COOK, SUPERINTENDENT



Corrective Action Plan

September 12, 2016

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, 2016.

Finding 2016-001

Corrective Action Plan

- a. Contact person responsible for corrective action – Sarah Jukes.
- b. Description of correction 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.

Sincerely,

Superintendent of Education

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