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HANCOCK COUNTY SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2013

HANCOCK COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Hancock County School District
Kiln, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hancock County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-14 and 41-44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2014, on our consideration of the Hancock County School District's internal control over financial reporting and

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

Cunningham CPAs

Cunningham CPAs, PLLC
Belzoni, Mississippi

April 1, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of Hancock County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. 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 2013 increased $4,193,258, which represents a 6% increase from fiscal year 2012. Total net position for 2012 increased $8,638,222, including a prior period adjustment of $567,430 and forgiveness of debt in the amount of $4,511,776, which represents a 13% increase from fiscal year 2011.

- General revenues amounted to $31,346,236 and $32,872,373, or 76% and 81% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for $10,062,646, or 24% of total revenues for 2013, and $7,829,337, or 19% of total revenues for 2012.

- The District had $37,215,624 and $37,142,694 in expenses for fiscal years 2013 and 2012; only $10,062,646 for 2013 and $7,829,337 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of $31,346,236 for 2013 were adequate to provide for these programs and $32,872,373 for 2012 were adequate to provide for these programs.

- Among major funds, the General Fund had $27,773,361 in revenues and $32,719,608 in expenditures for 2013, and $29,005,604 in revenues and $29,947,916 in expenditures in 2012. The General Fund's fund balance decreased by $6,438,429 from 2012 to 2013, and decreased by $5,433,106 from 2011 to 2012.

- Capital assets, net of accumulated depreciation, increased by $5,629,650 for 2013 and increased by $4,100,542 for 2012. The increase for 2013 was due primarily to construction in progress and current additions coupled with the increase in accumulated depreciation.

- Long-term debt increased by $7,285,000 for 2013 and decreased by $7,475,108 for 2012. This increase for 2013 was due primarily to the issuance of general obligation bonds net of principal payments on outstanding long-term debt. The liability for compensated absences decreased by $13,707 for 2013 and increased by $4,921 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

deteriorating.

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

two statements:

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by $79,213,816 as of June 30, 2013.

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

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

Table 1
Condensed Statement of Net Position

	June 30, 2013	June 30, 2012	Percentage Change
Current assets	$ 19,471,554	$ 22,650,188	-14.03 %
Restricted assets	12,797,974	3,219,288	297.54 %
Capital assets, net	74,400,038	68,770,388	8.19 %
Total assets	**106,669,566**	**94,639,864**	**12.71 %**
Current liabilities	3,018,786	2,453,635	23.03 %
Long-term debt outstanding	24,436,964	17,165,671	42.36 %
Total liabilities	**27,455,750**	**19,619,306**	**39.94 %**
Net position:			
Net investment in capital assets	58,980,122	51,859,922	13.73 %
Restricted	14,190,574	17,482,657	-18.83 %
Unrestricted	6,043,120	5,677,979	6.43 %
Total net position	**$ 79,213,816**	**$ 75,020,558**	**5.59 %**

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

- Increase in net capital assets in the amount of $5,629,650.
- The principal retirement of $2,615,000 of long-term debt.
- Issuing $9,900,000 in general obligation bonds.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were $41,408,882 and $40,701,710, respectively. The total cost of all programs and services was $37,215,624 for 2013 and $37,142,694 for 2012.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Table 2
Changes in Net Position

	Year Ended June 30, 2013	Year Ended June 30, 2012	Percentage Change
Revenues:			
Program revenues:			
Charges for services	$ 1,100,680	$ 825,046	33.41 %
Operating grants and contributions	5,616,909	7,004,291	(19.81) %
Capital grants and contributions	3,345,057	-	N/A %
General revenues:			
Property taxes	12,086,554	13,755,105	(12.13) %
Grants and contributions not restricted	18,396,741	18,233,041	0.90 %
Investment earnings	64,538	121,866	(47.04) %
Sixteenth section sources	235,745	140,723	67.52 %
Other	562,658	621,638	(9.49) %
Total revenues	**41,408,882**	**40,701,710**	**1.74 %**
Expenses:			
Instruction	20,411,864	19,847,500	2.84 %
Support services	14,266,479	14,163,069	0.73 %
Non-instructional	1,836,975	2,446,090	(24.90) %
Sixteenth section	25,825	4,370	490.96 %
Interest on long-term liabilities and other debt service costs	674,481	681,665	(1.05) %
Total expenses	**37,215,624**	**37,142,694**	**0.20 %**
Special Items:			
Forgiveness of debt - community disaster loan	-	4,511,776	(100.00) %
Increase (Decrease) in net position	**4,193,258**	**8,070,792**	**(48.04) %**
Net Position, July 1, as previously reported	**75,020,558**	**66,382,336**	13.01 %
Prior Period Adjustment	-	**567,430**	(100.00) %
Net Position, July 1, as restated	**75,020,558**	**66,949,766**	12.05 %
Net Position, June 30	**$ 79,213,816**	**$ 75,020,558**	**5.59 %**

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage
	2013	2012	Change
Instruction	$ 20,411,864	$ 19,847,500	2.84 %
Support services	14,266,479	14,163,069	0.73 %
Non-instructional	1,836,975	2,446,090	(24.90) %
Sixteenth section	25,825	4,370	490.96 %
Interest on long-term liabilities and other debt service costs	674,481	681,665	(1.05) %
Total expenses	**$ 37,215,624**	**$ 37,142,694**	**0.20 %**

	Net (Expense) Revenue		Percentage
	2013	2012	Change
Instruction	$ (14,012,354)	$ (15,920,294)	(11.98) %
Support services	(12,687,748)	(12,152,488)	4.40 %
Non-instructional	247,430	(554,540)	(144.62) %
Sixteenth section	(25,825)	(4,370)	490.96 %
Interest on long-term liabilities and other debt service costs	(674,481)	(681,665)	(1.05) %
Total net (expense) revenue	**$ (27,152,978)**	**$ (29,313,357)**	**(7.37) %**

- Net cost of governmental activities ($27,152,978 for 2013 and $29,313,357 for 2012) was financed by general revenue, which is primarily made up of property taxes ($12,086,554 for 2013 and $13,755,105 for 2012) and state and federal revenues ($18,396,741 for 2013 and $18,233,041 for 2012). In addition, there was $235,745 and $140,723 in Sixteenth Section sources for 2013 and 2012, respectively.

- Investment earnings amounted to $64,538 for 2013 and $121,866 for 2012.

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 $29,281,714, an increase of $5,693,889, which includes a decrease in inventory of $5,369. $4,188,072 or 14% 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 $25,093,642 or 86% 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 $6,438,429. The fund balance of Other Governmental Funds showed an increase in the amount of $885,723, which includes a decrease in reserve for inventory of $5,369, due primarily to normal operations. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund		Increase (Decrease)
FEMA/MEMA Fund	$	(115,456)
Local Building Fund	$	2,586,501
Bond Building Fund	$	8,775,550

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, 2013, the District's total capital assets were $95,518,774, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of $7,350,618 from 2012. Total accumulated depreciation as of June 30, 2013, was $21,118,736, and total depreciation expense for the year was $2,010,121, resulting in total net capital assets of $74,400,038.

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2013	June 30, 2012	Percentage Change
Land	$ 1,138,399	$ 1,138,399	0.00 %
Construction in Progress	14,357,053	7,404,230	93.90 %
Buildings	54,694,287	55,751,083	(1.90) %
Improvements other than buildings	2,058,977	2,180,027	(5.55) %
Mobile equipment	1,816,646	1,854,596	(2.05) %
Furniture and equipment	334,676	442,053	(24.29) %
Total	**$ 74,400,038**	**$ 68,770,388**	**8.19 %**

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

Debt Administration. At June 30, 2013, the District had $24,436,964 in outstanding long-term debt, of which $3,720,000 is due within one year. The liability for compensated absences decreased $13,707 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2013	June 30, 2012	Percentage Change
General obligation bonds payable	$ 10,900,000	$ 2,800,000	289.29 %
Limited obligation bonds payable	2,800,000	3,220,000	(13.04) %
Three mill notes payable	7,495,466	7,890,466	(5.01) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	241,498	255,205	(5.37) %
Total	**$ 24,436,964**	**$ 17,165,671**	**42.36 %**

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

CURRENT ISSUES

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

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

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

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 Hancock County School District, 17304 Highway 603 Kiln, MS 39556.

FINANCIAL STATEMENTS

HANCOCK COUNTY SCHOOL DISTRICT

Statement of Net Position **Exhibit A**

June 30, 2013

		Governmental Activities
Assets		
Cash and cash equivalents	$	16,049,683
Investments		159,371
Due from other governments		3,208,275
Inventories		54,225
Restricted assets		12,797,974
Capital assets, non-depreciable:		
Land		1,138,399
Construction in progress		14,357,053
Capital assets, net of accumulated depreciation:		
Buildings		54,694,287
Improvements other than buildings		2,058,977
Mobile equipment		1,816,646
Furniture and equipment		334,676
Total Assets		106,669,566
Liabilities		
Accounts payable and accrued liabilities		2,784,028
Interest payable on long-term liabilities		234,758
Long-term liabilities, due within one year:		
Capital related liabilities		3,720,000
Long-term liabilities, due beyond one year:		
Capital related liabilities		20,475,466
Non-capital related liabilities		241,498
Total Liabilities		27,455,750
Net Position		
Net investment in capital assets		58,980,122
Restricted for:		
Expendable:		
School-based activities		996,610
Debt service		3,392,048
Capital projects		9,067,784
Forestry improvements		51,029
Unemployment benefits		131,125
Non-expendable:		
Sixteenth section		551,978
Unrestricted		6,043,120
Total Net Position	$	79,213,816

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

HANCOCK COUNTY SCHOOL DISTRICT

Statement of Activities
For the Year Ended June 30, 2013

Exhibit B

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities:					
Instruction	$ 20,411,864	$ 625,887	$ 2,428,566	$ 3,345,057	$ (14,012,354)
Support services	14,266,479	-	1,578,731	-	(12,687,748)
Non-instructional	1,836,975	474,793	1,609,612	-	247,430
Sixteenth section	25,825	-	-	-	(25,825)
Interest on long-term liabilities and other debt service costs	674,481	-	-	-	(674,481)
Total Governmental Activities	$ 37,215,624	$ 1,100,680	$ 5,616,909	$ 3,345,057	$ (27,152,978)

General Revenues:	
Taxes:	
General purpose levies	8,755,221
Debt purpose levies	3,331,333
Unrestricted grants and contributions:	
State	18,371,627
Federal	25,114
Unrestricted investment earnings	64,538
Sixteenth section sources	235,745
Other	562,658
Total General Revenues	31,346,236
Change in Net Position	4,193,258
Net Position - Beginning	75,020,558
Net Position - Ending	$ 79,213,816

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

HANCOCK COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2013

Exhibit C

	Major Funds					
	General Fund	FEMA/MEA Fund	Local Building Fund	Bond Building Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 5,213,717	$ -	$ 7,948,007	$ 8,887,604	$ 5,935,975	$ 27,985,303
Cash with fiscal agents	-	-	-	-	862,354	862,354
Investments	159,371	-	-	-	-	159,371
Due from other governments	384,734	2,391,963	-	-	431,578	3,208,275
Due from other funds	2,474,041	-	-	-	-	2,474,041
Inventories	-	-	-	-	54,225	54,225
Total assets	$ 8,231,863	$ 2,391,963	$ 7,948,007	$ 8,887,604	$ 7,284,132	$ 34,743,569
Liabilities:						
Accounts payable and accrued liabilities	$ 2,328,169	$ -	$ -	$ 112,054	$ 343,805	$ 2,784,028
Due to other funds	-	2,391,963	-	-	82,078	2,474,041
Total Liabilities	2,328,169	2,391,963	-	112,054	425,883	5,258,069
Deferred Inflows of Resources						
Deferred revenue	24,000	115,456	-	-	64,330	203,786
Total Deferred Inflows of Resources	24,000	115,456	-	-	64,330	203,786
Fund Balances:						
Nonspendable:						
Inventory	-	-	-	-	54,225	54,225
Permanent fund principal	-	-	-	-	551,978	551,978
Restricted:						
Debt service	-	-	-	-	3,626,806	3,626,806
Capital projects	1,119,777	-	7,948,007	8,775,550	-	17,843,334
Forestry improvement purposes	-	-	-	-	51,029	51,029
Grant activities	-	(115,456)	-	-	485,996	370,540
Unemployment benefits	-	-	-	-	131,125	131,125
Assigned:						
School based activities	571,845	-	-	-	-	571,845
Sixteenth section activities	-	-	-	-	1,892,760	1,892,760
Unassigned	4,188,072	-	-	-	-	4,188,072
Total Fund Balances	5,879,694	(115,456)	7,948,007	8,775,550	6,793,919	29,281,714
Total Liabilities, Deferred Inflow of Resources and Fund Balances	$ 8,231,863	$ 2,391,963	$ 7,948,007	$ 8,887,604	$ 7,284,132	$ 34,743,569

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

HANCOCK COUNTY SCHOOL DISTRICT

Governmental Funds

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

June 30, 2013

Total fund balances for governmental funds		$ 29,281,714
Amounts reported for governmental activities in the statement of net position are different because:		
1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:		
Land	$ 1,138,399	
Construction in progress	14,357,053	
Buildings	70,291,442	
Improvements other than buildings	3,175,720	
Mobile equipment	4,853,615	
Furniture and equipment	1,702,545	
Accumulated depreciation	(21,118,736)	74,400,038
2. Revenues that are not available within 60 days are deferred in the governmental funds. However, those revenues are recognized when earned in the government-wide financial statements.		203,786
3. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(10,900,000)	
Limited obligation bonds	(2,800,000)	
Three mill notes payable	(7,495,466)	
Qualified school construction bonds	(3,000,000)	
Compensated absences payable	(241,498)	
Accrued interest payable	(234,758)	(24,671,722)
Net position of governmental activities		$ 79,213,816

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

HANCOCK COUNTY SCHOOL DISTRICT

Governmental Funds

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

For the Year Ended June 30, 2013

	Major Funds					
	General Fund	FEMA/MEMA Fund	Local Building Fund	Bond Building Fund	Other Governmental Funds	Total Governmental Funds
Revenues:						
Local sources	$ 9,566,296	$ -	$ 16,918	$ 6,107	$ 3,857,866	$ 13,447,187
State sources	18,126,388	-	-	-	1,407,557	19,533,945
Federal sources	80,677	3,345,057	-	-	4,283,569	7,709,303
Sixteenth section sources	-	-	-	-	247,951	247,951
Total Revenues	27,773,361	3,345,057	16,918	6,107	9,796,943	40,938,386
Expenditures:						
Instruction	16,564,815	-	-	-	3,008,343	19,573,158
Support services	11,378,584	-	39,704	62,256	2,004,659	13,485,203
Noninstructional services	65,117	-	-	-	1,739,785	1,804,902
Sixteenth section	-	-	-	-	25,825	25,825
Facilities acquisition and construction	4,711,092	1,308,983	-	1,019,968	-	7,040,043
Debt service:						
Principal	-	-	-	-	2,615,000	2,615,000
Interest	-	-	-	-	554,892	554,892
Other	-	-	-	48,333	8,482	56,815
Total Expenditures	32,719,608	1,308,983	39,704	1,130,557	9,956,986	45,155,838
Excess (Deficiency) of Revenues over (under) Expenditures	(4,946,247)	2,036,074	(22,786)	(1,124,450)	(160,043)	(4,217,452)
Other Financing Sources (Uses):						
Bonds and notes issued	-	-	-	9,900,000	-	9,900,000
Insurance recovery	16,710	-	-	-	-	16,710
Transfer from QSCB debt service agent	-	-	-	-	214,000	214,000
Payment to QSCB escrow agent	-	-	-	-	(214,000)	(214,000)
Operating transfers in	-	-	2,609,287	-	1,066,980	3,676,267
Operating transfers out	(1,508,892)	(2,151,530)	-	-	(15,845)	(3,676,267)
Total Other Financing Sources (Uses)	(1,492,182)	(2,151,530)	2,609,287	9,900,000	1,051,135	9,916,710
Net Change in Fund Balances	(6,438,429)	(115,456)	2,586,501	8,775,550	891,092	5,699,258
Fund Balances:						
July 1, 2012	12,318,123	-	5,361,506	-	5,908,196	23,587,825
Decrease in reserve for inventory	-		-	-	(5,369)	(5,369)
June 30, 2013	$ 5,879,694	$ (115,456)	$ 7,948,007	$ 8,775,550	$ 6,793,919	$ 29,281,714

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

HANCOCK COUNTY SCHOOL DISTRICT

Governmental Funds

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013

Exhibit D-1

Net change in fund balances - total governmental funds		$ 5,699,258
Amounts reported for governmental activities in the statement of activities are different because:		
1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	$ 7,677,247	
Depreciation expense	(2,010,121)	5,667,126
2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.		(37,476)
3. Revenues that are not available within 60 days are deferred in the governmental funds. However, those revenues are recognized when earned in the government-wide financial statements.		203,786
4. 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:		
Bonds and notes issued	(9,900,000)	
Payments of debt principal	2,615,000	
Accrued interest payable	(62,774)	(7,347,774)
5. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
Change in compensated absences	13,707	
Change in inventory reserve	(5,369)	8,338
Change in net position of governmental activities		$ 4,193,258

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

HANCOCK COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities **Exhibit E**

June 30, 2013

		Agency Funds
Assets		
Cash and cash equivalents	$	85,014
Total Assets	$	85,014
Liabilities		
Accounts payable and accrued liabilities	$	1,456
Due to student clubs		83,558
Total Liabilities	$	85,014

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

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. Basis of Presentation

In July 2011, the GASB issued GASBS No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for periods beginning after December 15, 2011. The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures.

In April 2012, the GASB issued GASBS No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for periods beginning after December 15, 2012, with earlier implementation encouraged. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

B. Financial Reporting Entity

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

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

C. Government-wide and Fund Financial Statements

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

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

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

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

FEMA/MEMA Grants Fund – This Special Revenue Fund is used to account for construction of school district buildings and facilities.

Local Building Fund – This fund is used to account for the construction, upgrade and repair of school facilities.

Bond Building Fund – This fund is used to account for the bond proceeds issued for construction, upgrade and repair of school facilities.

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

The District's fiduciary funds include the following:

Accounts Payable Clearing Fund – This fund is used to report the accounts payable resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Payroll Clearing Fund - This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Student Club Fund Agency Funds – These funds are used to report student club resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve

measurement of results of operations.

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, or assigned to expenditure for principal and interest.

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

FIDUCIARY FUNDS

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

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

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

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there 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.

E. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

7. Deferred Inflows of Resources

In addition to liabilities, the statement of revenues, expenditures and changes in fund balance will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows on Exhibit D are made up of deferred revenues in the amount of $203,786, whose cash receipts did not occur within 60 days of year-end.

See Note 13 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.

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

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

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

10. Fund Balances

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

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

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

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

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

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific 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 goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year-end of not less than 7% of revenues. If the unassigned fund balance at fiscal year-end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

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

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school 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 $27,985,303 and $85,014, respectively.

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

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was $862,354.

Investments

As of June 30, 2013, the district had the following investments:

Investment Type	Rating	Maturities (in years)	Fair Value
Hancock Holding Company	Baa1	1 to 5	$ 159,371
Total			$ 159,371

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. Of the district's investments in Hancock Holding Company, $159,371 of underlying securities are held by the investment's counterparty, not in the name of the district.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2013, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Hancock Holding Company	$ 159,371	100%

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	FEMA/MEMA Fund	$ 2,391,963
	Other governmental funds	82,078
Total		$ 2,474,041

The purpose of the inter-fund loans was to cover federal and state funds not received prior to year-end and amounts due from and amounts due to agency funds. Payments are made of amounts due between funds within three months.

B. Inter-fund Transfers

Transfers Out	Transfers In		Amount
General Fund	Local Building Fund	$	457,757
	Other governmental funds		1,051,135
FEMA/MEMA Fund	Local Building Fund		2,151,530
Other governmental funds	Other governmental funds		15,845
Total		$	3,676,267

The primary purpose of the interfund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is the indirect cost allocation from the general fund. The reason for the transfer from the FEMA/MEMA fund to the local building fund was for construction purposes.

Note 4 – Restricted Assets

The restricted assets represent the cash balance, totaling $551,978 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash and cash with fiscal agents balance, totaling $65,217 and $642,009, respectively, of the QSCB sinking fund.

In addition, the restricted assets represent the cash with fiscal agents balance, totaling $220,345, of the MAEP limited obligation bonds debt service fund.

In addition, the restricted assets represent the cash balance, totaling $8,887,604, of the unspent 2012 general obligation bonds proceeds.

In addition, the restricted assets represent the cash balance, totaling $2,430,821, of the three mill notes payable debt service fund and the 2004 general obligation bond debt service fund.

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Completed Construction	Balance 6/30/2013
Governmental Activities:					
Non-depreciable capital assets:					
Land	$ 1,138,399	$ -	$ -	$	$ 1,138,399
Construction-in-progress	7,404,230	7,040,043	-	(87,220)	14,357,053
Total non-depreciable capital assets	8,542,629	7,040,043	-	(87,220)	15,495,452
Depreciable capital assets:					
Buildings	69,954,222	250,000	-	87,220	70,291,442
Building improvements	3,175,720	-	-	-	3,175,720
Mobile equipment	4,760,527	327,354	(234,266)	-	4,853,615
Furniture and equipment	1,735,058	59,850	(92,363)	-	1,702,545
Total depreciable capital assets	79,625,527	637,204	(326,629)	87,220	80,023,322
Less accumulated depreciation for:					
Buildings	14,203,139	1,394,016	-	-	15,597,155
Improvements other than buildings	995,693	121,050	-	-	1,116,743
Mobile equipment	2,905,931	333,403	(202,365)	-	3,036,969
Furniture and equipment	1,293,005	161,652	(86,788)	-	1,367,869
Total accumulated depreciation	19,397,768	2,010,121	(289,153)	-	21,118,736
Total depreciable capital assets, net	60,227,759	(1,372,917)	(37,476)	87,220	58,904,586
Governmental activities capital assets, net	$ 68,770,388	$ 5,667,126	$ (37,476)	$ -	$ 74,400,038

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	$ 906,194
Support services	1,077,223
Non-instructional	26,704
Total depreciation expense - Governmental activities	$ 2,010,121

Construction in progress is composed of:

	Spent to June 30, 2013	Remaining Commitment
Governmental Activities:		
New Elementary School	$ 13,327,473	$ 487,436
East Hancock Renovation	272,766	1,494,617
Career Technical Center	202,622	2,161,399
Gym Roof Repairs	414,905	609,113
Hancock High School Fine Arts	119,438	-
Hancock Middle School Renovations	10,238	-
Vocational Center Improvements	9,611	-
Total construction in progress	$ 14,357,053	$ 4,752,565

Construction projects included in governmental activities are funded from the Local Capital Expenditures Fund, the Local Building Fund, Bond Building Fund and QSCB Building Fund.

Note 6 – Long-term Liabilities

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

	Balance 7/1/2012	Additions	Reductions	Balance 6/30/2013	Amounts due within one year
A. General obligation bonds payable	$ 2,800,000	$ 9,900,000	$ (1,800,000)	$ 10,900,000	$ 2,875,000
B. Limited obligation bonds payable	3,220,000	-	(420,000)	2,800,000	430,000
C. Three mill notes payable	7,890,466	-	(395,000)	7,495,466	415,000
D. Qualified school construction bonds payable	3,000,000	-	-	3,000,000	-
E. Compensated absences payable	255,205	-	(13,707)	241,498	-
Total	$ 17,165,671	$ 9,900,000	$ (2,628,707)	$ 24,436,964	$ 3,720,000

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2004	3.00-5.00%	10/28/2004	4/15/2014	$14,200,000	$ 1,000,000
General obligation bonds, Series 2012	1.63%	12/5/2012	6/1/2021	9,900,000	9,900,000
Total				$24,100,000	$10,900,000

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

General obligation refunding bond issue of 2004:

Year Ending June 30	Principal	Interest	Total
2014	$ 1,000,000	$ 40,000	$ 1,040,000
Total	$ 1,000,000	$ 40,000	$ 1,040,000

This debt will be retired from the 2004 bond service fund.

General obligation bond issue, Series 2012:

Year Ending June 30	Principal	Interest	Total
2014	$ 1,875,000	$ 239,525	$ 2,114,525
2015	1,250,000	130,406	1,380,406
2016	1,100,000	110,094	1,210,094
2017	1,075,000	92,218	1,167,218
2018	1,100,000	74,750	1,174,750
2019-2021	3,500,000	115,376	3,615,376
Total	$ 9,900,000	$ 762,369	$ 10,662,369

This debt will be retired from the general obligation bonds, series 2012 debt service fund.

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2014	$ 2,875,000	$ 279,525	$ 3,154,525
2015	1,250,000	130,406	1,380,406
2016	1,100,000	110,094	1,210,094
2017	1,075,000	92,218	1,167,218
2018	1,100,000	74,750	1,174,750
2019-2021	3,500,000	115,376	3,615,376
Total	$ 10,900,000	$ 802,369	$ 11,702,369

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2012, the amount of outstanding bonded indebtedness was equal to 4% of property assessments as of October 1, 2012.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. State aid capital improvement	3.0-3.6%	3/6/2008	2/1/2018	$ 4,055,000	$ 2,800,000
Total				$ 4,055,000	$ 2,800,000

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

Year Ending June 30	Principal	Interest	Total
2014	$ 430,000	$ 84,915	$ 514,915
2015	445,000	71,790	516,790
2016	455,000	57,949	512,949
2017	470,000	43,027	513,027
2018	1,000,000	26,907	1,026,907
Total	$ 2,800,000	$ 284,588	$ 3,084,588

This debt will be retired from the MAEP bond retirement fund.

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

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax note	4.16%	10/16/2007	10/1/2027	$ 9,500,000	$ 7,495,466
Total				$ 9,500,000	$ 7,495,466

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

Year Ending June 30	Principal	Interest	Total
2014	$ 415,000	$ 311,272	$ 726,272
2015	430,000	293,696	723,696
2016	440,000	275,600	715,600
2017	435,000	257,400	692,400
2018	435,000	239,304	674,304
2019-2023	2,480,000	902,096	3,382,096
2024-2028	2,860,466	328,536	3,189,002
Total	$ 7,495,466	$ 2,607,904	$ 10,103,370

This debt will be retired from the three mill note retirement fund

D. Qualified school construction bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Hancock Bank limited tax note, Series 2010	0.84%	1/15/2010	9/15/2023	$ 3,000,000	$ 3,000,000
Total				$ 3,000,000	$ 3,000,000

E. Compensated absences payable

As more fully explained in Note 1(F)(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 – Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required 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.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2013, 2012 and 2011 were $2,733,839, $2,361,046 and $2,249,558, respectively, which equaled the required contributions for each year.

Note 9 – Sixteenth Section Lands

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

Year Ending June 30		Amount
2014	$	116,077
2015		99,647
2016		94,964
2017		90,455
2018		69,937
2019-2023		280,353
2024-2028		229,598
2029-2033		165,562
2034-2038		81,444
Thereafter		32,274
Total	$	1,260,311

Note 10 – Contingencies

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

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

Note 11 – Risk Management

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

Participation in Public Entity Risk Pool

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

Note 12 – Qualified School Construction Bonds

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

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2013 was $642,009. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2014	$	214,000
2015		214,000
2016		214,000
2017		214,000
2018		214,000
2019 – 2023		1,073,000
2024		215,000
Total	$	2,358,000

Note 13 – Effect of Deferred Amounts on the Governmental Funds Fund Balance

The governmental funds fund balance amount of $29,281,714 includes the effect of deferring the recognition of revenue from local and federal sources that did not become available within 60 days of year-end. The $203,786 balance of the deferred inflow of resources at June 30, 2013 will be recognized as revenue and increase the governmental funds fund balance during fiscal year 2014. The government-wide financial statements are prepared under the full accrual basis of accounting and as such those revenues deferred on the governmental funds financial statements are recognized as revenue on the statement of activities during fiscal year 2013.

Note 14 – Deficit Fund Balance of Individual Funds

The FEMA/MEMA fund has a deficit fund balance of $115,456 at June 30, 2013. The deficit is due to revenues being deferred that did not become available within 60 days of year-end. Those revenues will be recognized in fiscal year 2014. This deficit fund balance does not result in a violation of state laws and regulations.

Note 15 - Insurance loss recoveries

The Hancock County School District received $16,710 in insurance loss recoveries related to storm damage during the 2012-2013 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as other income.

Note 16 - 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 Hancock County School District evaluated the activity of the district through April 1, 2014, (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

HANCOCK COUNTY SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Local sources	$ 10,984,730	$ 9,590,296	$ 9,566,296	$ (1,394,434)	$ (24,000)
State sources	18,029,497	18,126,388	18,126,388	96,891	-
Federal sources	315,100	80,677	80,677	(234,423)	-
Total Revenues	29,329,327	27,797,361	27,773,361	(1,531,966)	(24,000)
Expenditures:					
Instruction	16,399,361	16,578,573	16,564,815	(179,212)	13,758
Support services	11,209,256	11,395,352	11,378,584	(186,096)	16,768
Noninstructional services	51,644	65,119	65,117	(13,475)	2
Facilities acquisition and construction	5,483,682	5,042,923	4,711,092	440,759	331,831
Total Expenditures	33,143,943	33,081,967	32,719,608	61,976	362,359
Excess (Deficiency) of Revenues over (under) Expenditures	(3,814,616)	(5,284,606)	(4,946,247)	(1,469,990)	338,359
Other Financing Sources (Uses):					
Insurance recovery	-	16,710	16,710	16,710	-
Operating transfers in	3,346,323	3,165,611	-	(180,712)	(3,165,611)
Operating transfers out	(4,202,862)	(4,674,503)	(1,508,892)	(471,641)	3,165,611
Total Other Financing Sources (Uses)	(856,539)	(1,492,182)	(1,492,182)	(635,643)	-
Net Change in Fund Balances	(4,671,155)	(6,776,788)	(6,438,429)	(2,105,633)	338,359
Fund Balances:					
July 1, 2012	12,318,123	12,318,123	12,318,123	-	-
June 30, 2013	$ 7,646,968	$ 5,541,335	$ 5,879,694	$ (2,105,633)	$ 338,359

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

Budgetary Comparison Schedule
FEMA/MEMA Fund
For the Year Ended June 30, 2013

	Budgeted Amounts		Actual	Variances Positive (Negative)	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
Revenues:					
Federal sources	$ 1,181,700	$ 3,460,513	$ 3,345,057	$ 2,278,813	$ (115,456)
Total Revenues	1,181,700	3,460,513	3,345,057	2,278,813	(115,456)
Expenditures:					
Facilities acquisition and construction	1,181,700	1,308,983	1,308,983	(127,283)	-
Total Expenditures	1,181,700	1,308,983	1,308,983	(127,283)	-
Excess (Deficiency) of Revenues over (under) Expenditures	-	2,151,530	2,036,074	2,151,530	(115,456)
Other Financing Sources (Uses):					
Operating transfers out		(2,151,530)	(2,151,530)	(2,151,530)	-
Total Other Financing Sources (Uses)	-	(2,151,530)	(2,151,530)	(2,151,530)	-
Net Change in Fund Balances	-	-	(115,456)	-	(115,456)
Fund Balances:					
July 1, 2012	-	-	-	-	-
June 30, 2013	$ -	$ -	$ (115,456)	$ -	$ (115,456)

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

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

(3) Budget Variances

The budget variance noted for the FEMA/MEMA fund is a result of auditor adjustment and does not result in a violation of state laws and regulations.

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
U.S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	$ 383,434
National school lunch program	10.555	1,355,922
Summer food service program for children	10.559	22,366
Total child nutrition cluster		1,761,722
Total passed-through Mississippi Department of Education		1,761,722
Total U.S. Department of Agriculture		1,761,722
U.S. Department of Defense		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	54,682
Total U.S. Department of Defense		54,682
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	20
Total Federal Communications Commission		20
U.S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	1,017,105
Career and technical education - basic grants to states	84.048	67,017
Education for homeless children and youth	84.196	38,535
Rural education	84.358	100,117
English language acquisition grants	84.365	50,499
Improving teacher quality-State Grants	84.367	204,109
Hurricane education assistance	84.938	69,691
Subtotal		1,547,073
Special education cluster:		
Special education - grants to states	84.027	932,135
Special education - preschool grants	84.173	45,957
Total special education cluster		978,092
Total passed-through Mississippi Department of Education		2,525,165
Total U.S. Department of Education		2,525,165
U.S. Department of Health and Human Services		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	25,976
Total passed-through Mississippi Department of Education		25,976
Total U.S. Department of Health and Human Services		25,976
U.S. Department of Homeland Security		
Passed-through Mississippi Emergency Management Agency:		
Disaster Grants - Public Assistance (Presidentially declared disasters)	97.036	1,308,983
Total passed-through Mississippi Emergency Management Agency		1,308,983
Total U.S. Department of Homeland Security		1,308,983
Total for All Federal Awards		$ 5,676,548

NOTES TO SCHEDULE

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

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2013

Expenditures		Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	$	25,568,370	19,979,690	864,697	1,995,753	2,728,230
Other		19,587,468	2,005,556	308,216	277,971	16,995,725
Total	$	45,155,838	21,985,246	1,172,913	2,273,724	19,723,955
Total number of students *		4,171				
Cost per student	$	10,826	5,271	281	545	4,729

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

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

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

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

OTHER INFORMATION

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

	2013	2012*	2011*	2010*
Revenues:				
Local sources	$ 9,566,296	$ 10,864,450	$ 9,233,620	$ 9,475,226
State sources	18,126,388	17,794,619	16,247,630	16,359,124
Federal sources	80,677	346,535	255,078	191,118
Total Revenues	27,773,361	29,005,604	25,736,328	26,025,468
Expenditures:				
Instruction	16,564,815	15,274,455	14,602,044	15,355,382
Support services	11,378,584	10,510,868	10,134,551	10,519,698
Noninstructional services	65,117	51,678	50,145	47,046
Facilities acquisition and construction	4,711,092	4,110,915	-	65,062
Debt service:				
Interest	-	-	873	1,745
Total Expenditures	32,719,608	29,947,916	24,787,613	25,988,933
Excess (Deficiency) of Revenues over (under) Expenditures	(4,946,247)	(942,312)	948,715	36,535
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	4,480,108	-
Insurance recovery	16,710	14,799	44,325	26,435
Sale of other property	-	-	-	8,345
Operating transfers in	-	1,143,132	531,107	2,185,346
Other financing sources	-	19,750	38	-
Operating transfers out	(1,508,892)	(5,668,475)	(1,254,940)	(1,102,864)
Total Other Financing Sources (Uses)	(1,492,182)	(4,490,794)	3,800,638	1,117,262
Net Change in Fund Balances	(6,438,429)	(5,433,106)	4,749,353	1,153,797
Fund Balances:				
Beginning of period	12,318,123	17,751,229	13,001,876	11,848,079
End of Period	$ 5,879,694	$ 12,318,123	$ 17,751,229	$ 13,001,876

*SOURCE - PRIOR YEAR AUDIT REPORTS

HANCOCK COUNTY SCHOOL DISTRICT

Other Information

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

	2013	2012*	2011*	2010*
Revenues:				
Local sources	$ 13,447,187	$ 15,279,235	$ 13,132,186	$ 13,899,767
State sources	19,533,945	19,053,179	17,504,832	17,699,159
Federal sources	7,709,303	6,184,156	6,503,606	9,501,892
Sixteenth section sources	247,951	140,724	252,127	350,205
Total Revenues	40,938,386	40,657,294	37,392,751	41,451,023
Expenditures:				
Instruction	19,573,158	19,453,416	19,045,765	20,625,830
Support services	13,485,203	12,390,466	11,935,450	13,295,679
Noninstructional services	1,804,902	1,924,796	1,830,077	1,822,263
Sixteenth section	25,825	4,370	32,095	10,869
Facilities acquisition and construction	7,040,043	6,794,782	617,048	291,389
Debt service:				
Principal	2,615,000	2,995,000	2,865,000	2,495,000
Interest	554,892	671,788	765,431	873,405
Other	56,815	3,500	-	-
Total Expenditures	45,155,838	44,238,118	37,090,866	39,414,435
Excess (Deficiency) of Revenues over (under) Expenditures	(4,217,452)	(3,580,824)	301,885	2,036,588
Other Financing Sources (Uses):				
Bonds and notes issued	9,900,000	-	4,480,108	3,000,000
Insurance recovery	16,710	14,799	44,325	26,435
Sale of other property	-	-	5,790	8,345
Transfer from QSCB debt service agent	214,000	214,000	214,000	-
Payment to QSCB escrow agent	(214,000)	(214,000)	(214,000)	-
Operating transfers in	3,676,267	6,910,229	1,840,195	3,689,179
Other financing sources	-	29,617	38	-
Operating transfers out	(3,676,267)	(6,910,229)	(1,840,195)	(3,689,179)
Other financing uses	-	-	(5,976)	(3,331)
Total Other Financing Sources (Uses)	9,916,710	44,416	4,524,285	3,031,449
Net Change in Fund Balances	5,699,258	(3,536,408)	4,826,170	5,068,037
Fund Balances:				
Beginning of period, as previously reported	23,587,825	26,545,623	21,713,468	16,626,919
Prior period adjustments	-	567,430	-	-
Beginning of period, as restated	23,587,825	27,113,053	21,713,468	16,626,919
Increase (Decrease) in reserve for inventory	(5,369)	11,180	5,985	18,512
End of Period	$ 29,281,714	$ 23,587,825	$ 26,545,623	$ 21,713,468

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Hancock County School District
Kiln, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hancock County School District's basic financial statements, and have issued our report thereon dated April 1, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Cunningham CPAs

Cunningham CPAs, PLLC

Belzoni, Mississippi

April 1, 2014

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

Superintendent and School Board
Hancock County School District
Kiln, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Hancock County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hancock County School District's major federal programs for the year ended June 30, 2013. Hancock County 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

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

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

Opinion on Each Major Federal Program

In our opinion, Hancock County School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Hancock County 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 our audit of compliance, we considered Hancock County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major

federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hancock County School District's internal control over compliance.

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

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

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

Cunningham CPAs, PLLC

Belzoni, Mississippi
April 1, 2014

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

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

Superintendent and School Board
Hancock County School District
Kiln, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2013, which collectively comprise Hancock County School District's basic financial statements and have issued our report thereon dated April 1, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported $15,834 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 our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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

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

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

Cunningham CPAs

Cunningham CPAs, PLLC

Belzoni, Mississippi

April 1, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HANCOCK COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4.	Internal control over major programs:	
	a. Material weakness(es) identified?	No
	b. Significant deficiency(ies) identified?	None reported
5.	Type of auditor's report issued on compliance for major programs:	Unqualified
6.	Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	No
7.	Identification of major programs:	
	A. Title I - Grants to local educational agencies:	
	CFDA #	84.010
	B. Improving Teacher Quality	
	CFDA #	84.367
	C. Special Education Cluster:	
	CFDA #	84.027
	CFDA #	84.173
	D. Disaster Grants	
	CFDA #	97.036
8.	Dollar threshold used to distinguish between type A and type B programs:	$ 300,000
9.	Auditee qualified as a low-risk auditee?	No

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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

HANCOCK COUNTY SCHOOL DISTRICT

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SUMMARY OF PRIOR FEDERAL AUDIT FINDINGS

As required by Section .315(b) of OMB Circular A-133, the Hancock County School District has prepared and hereby submits the following summary schedule of prior federal audit findings as of June 30, 2012:

Fiscal Year Ended June 30, 2012
Audit Report

Finding	Correction Action Plan Details
2012-01	This finding has been corrected and the District was in compliance with Maintenance of Effort for fiscal year 2013.