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HARRISON COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2013

HARRISON COUNTY SCHOOL DISTRICT  
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INDEPENDENT AUDITOR'S REPORT

# WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

*Certified Public Accountants*

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## INDEPENDENT AUDITOR'S REPORT

February 20, 2014

Superintendent and School Board  
Harrison County School District

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Harrison 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 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 from material misstatement.

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

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

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District, as of June 30, 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*

As described in Note 2 to the financial statements, in 2013, the District adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### *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 4-12 and 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

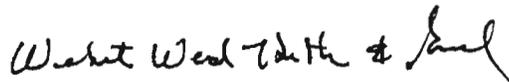
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2014, on our consideration of the Harrison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison County School District's internal control over financial reporting and compliance.



Wright, Ward, Hatten & Guel, PLLC  
Gulfport, Mississippi

MANAGEMENT'S DISCUSSION AND ANALYSIS

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

The discussion and analysis of Harrison County School District's financial performance provides an overall narrative review 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 should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the school district's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

**FINANCIAL HIGHLIGHTS**

- Total net position for 2013 increased \$2,069,976 which includes a prior period adjustment in the amount of (\$177,269). This represents a 1.6% increase from fiscal year 2012 as a result primarily from capital outlay, refunding bonds issued and a decrease in federal funding.
- General revenues amounted to \$100,235,026 and \$94,248,623, or 84% and 82% 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 \$19,126,072 or 16% of total revenues for 2013, and \$20,288,825, or 18% of total revenues for 2012.
- The district had \$117,113,853 and \$111,196,092 in expenses for fiscal years 2013 and 2012; only \$19,126,072 for 2013 and \$20,288,825 for 2012 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$100,235,026 for 2013 and \$94,248,623 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$90,857,148 in revenues and \$92,412,705 in expenditures for 2013, and \$86,085,239 in revenues and \$83,696,509 in expenditures in 2012. The General Fund's fund balance decreased by \$21,268, which includes a prior period adjustment in the amount of \$126,765, from 2012 to 2013, and increased by \$1,201,908 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, increased by \$5,585,975 for 2013 and decreased by \$274,874 for 2012 as a result of the disposal and acquisition of furniture and equipment, school buses and the completion of construction projects within the district coupled with the increase in accumulated depreciation.
- Long-term debt increased by \$1,467,782 for 2013, and increased by \$6,311,957 for 2012. The decrease was due to the principal payments on outstanding long-term debt in conjunction with the issuance of state aid capital improvement refunding bonds. The liability for compensated absences decreased by \$62,886 for 2013 and decreased by \$275,231 for 2012.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the district's basic financial statements. The district's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information, supplemental information and other information.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers 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 non-fiduciary assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets 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 years.

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 funds statements provide a detailed short-term 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, readers may better understand the long-term impact of the district's *current* financing decisions. The governmental fund's balance sheet is reconciled to the statement of net position, and the governmental fund's 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 fund's balance sheet and in the governmental fund's statement of revenues, expenditures, and changes in fund balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**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. The accrual basis of accounting is used for fiduciary funds. 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 the 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.

**Supplementary Information.** 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 government's financial position. In the case of the district, assets exceeded liabilities by \$129,602,372 as of June 30, 2013.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended 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 assets at June 30, 2013 and June 30, 2012.

**Table 1**  
**Condensed Statement of Net Position**

	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Percentage</u> <u>Change</u>
<b>Assets</b>			
Current assets	\$ 43,754,430	\$ 47,091,675	-7.09%
Capital assets, net	138,521,439	132,935,464	4.20%
Restricted assets	<u>7,595,959</u>	<u>7,098,790</u>	7.00%
Total assets	<u>189,871,828</u>	<u>187,125,929</u>	1.47%
Deferred outflows of resources	<u>171,231</u>	<u>228,309</u>	-25.00%
<b>Liabilities</b>			
Current liabilities	8,612,410	5,547,575	55.25%
Long-term liabilities	<u>51,828,277</u>	<u>54,274,267</u>	-4.51%
Total liabilities	<u>60,440,687</u>	<u>59,821,842</u>	1.03%
<b>Net Position</b>			
Net investment in capital assets	84,979,506	78,244,295	8.61%
Restricted	35,640,691	40,276,081	-11.51%
Unrestricted	<u>8,982,175</u>	<u>9,012,020</u>	-0.33%
Total net position	<u>\$ 129,602,372</u>	<u>\$ 127,532,396</u>	1.62%

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

- Increase in capital assets in the amount of \$5,585,975 mostly due to current year depreciation expense of \$5,092,453 and addition to construction in progress and other capital assets and disposals of capital assets of \$10,678,428.
- Current liabilities increased by \$3,064,835 mainly as a result of a majority of capital projects in progress but not paid at year end.
- Long-term liabilities decreased by \$2,445,990 primarily due to principal payments made on outstanding debt and a payment to refunding bond escrow agent in the amount of \$11,914,327, decrease in compensated absences in the amount of \$62,886, the issuance of \$7,110,000 of state aid capital improvement refunding bonds, and lease proceeds of \$3,040,000.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**Changes in net position.** The district's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$119,361,098 and \$114,537,448 respectively. The total cost of all programs and services was \$117,113,853 for 2013 and \$111,196,092 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**  
**Change in Net Assets**

	Year Ended June 30, 2013	Year Ended June 30, 2012	Percentage Change
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 2,400,540	\$ 2,493,579	-3.73%
Operating grants and contributions	15,277,419	17,007,350	-10.17%
Capital grants and contributions	1,448,113	787,896	83.79%
General revenues			
Property and gaming taxes	41,526,270	38,762,509	7.13%
Unrestricted grants and contributions	55,897,627	53,241,119	4.99%
Investment earnings	208,445	287,952	-27.61%
Sixteenth section sources	2,433,684	1,795,042	35.58%
Other	<u>169,000</u>	<u>162,001</u>	4.32%
Total revenues	<u>119,361,098</u>	<u>114,537,448</u>	4.21%
<b>Expenses</b>			
Instruction	66,179,457	62,493,119	5.90%
Support services	41,038,842	39,448,124	4.03%
Non-instructional	7,470,058	6,677,656	11.87%
Sixteenth section	664,789	843,314	-21.17%
Interest on long-term debt	<u>1,760,707</u>	<u>1,733,879</u>	1.55%
Total expenses	<u>117,113,853</u>	<u>111,196,092</u>	5.32%
Increase in net position	2,247,245	3,341,356	-32.74%
Net Position, July 1, as previously reported	127,532,396	124,147,418	2.73%
Prior period adjustment	<u>(177,269)</u>	<u>43,622</u>	-506.38%
Net Position, July 1, restated	<u>127,355,127</u>	<u>124,191,040</u>	2.55%
Net Position, June 30	<u>\$ 129,602,372</u>	<u>\$ 127,532,396</u>	1.62%

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

- Property taxes increased about \$2.7 million and state appropriations increased by about \$2.7 million.
- Expenditures increased about \$5.9 million mostly due the increase in instruction, support services and non-instructional expenses.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**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
	June 30, 2013	June 30, 2012	Change
Instruction	\$ 66,179,457	\$ 62,493,119	5.90%
Support services	41,038,842	39,448,124	4.03%
Non-instructional	7,470,058	6,677,656	11.87%
Sixteenth section	664,789	843,314	-21.17%
Interest on long-term debt	<u>1,760,707</u>	<u>1,733,879</u>	1.55%
Total expenses	<u>\$117,113,853</u>	<u>\$ 111,196,092</u>	5.32%

	Net (Expense) Revenue		Percentage
	June 30, 2013	June 30, 2012	Change
Instruction	\$ (60,986,863)	\$ (55,357,795)	10.17%
Support services	(35,722,397)	(34,295,136)	4.16%
Non-instructional	1,146,975	1,322,857	-13.30%
Sixteenth section	(664,789)	(843,314)	-21.17%
Interest on long-term debt	<u>(1,760,707)</u>	<u>(1,733,879)</u>	1.55%
Total net (expense) revenue	<u>\$ (97,987,781)</u>	<u>\$ (90,907,267)</u>	7.79%

- Net cost of governmental activities, (\$97,987,781) for 2013 and (\$90,907,267) for 2012 was financed by general revenue, which is made up of primarily property taxes and gaming revenues of \$41,526,270 for 2013 and \$38,762,509 for 2012 and state and federal revenues of \$55,897,627 for 2013 and \$53,241,119 for 2012. In addition, there was \$2,433,684 and \$1,795,042 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$208,445 for 2013 and \$287,952 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.

**HARRISON COUNTY SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2013**

**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 \$47,810,751, a decrease of \$4,860,842, which includes an increase in reserve for inventory of \$15,461 and a prior period adjustment of \$126,765. The decrease is due primarily to an increase in instruction, support services and debt service. The amount of \$11,816,501 or 25% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$35,994,250 or 75% 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 \$21,268 which includes a prior period adjustment in the amount of \$126,765. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,778,454 which includes an increase in reserve for inventory of \$15,461, due primarily to an increase in grants and contributions from state sources. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
Special Note Payment Fund	\$ 394,270
Building Projects Fund	\$ (3,128,022)
QSCB Construction Bond Fund	\$ (3,884,276)
Wind Retrofit Fund	\$ -

**BUDGETARY HIGHLIGHTS**

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

The major budget revisions were made to reflect an increase in revenue from the local sources as well as the reduction of expenditures from instruction and support services and the reduction of transfers out of the General fund to other funds.

A schedule showing the original and final budget amounts compared to the district's actual financial activity for the General Fund is provided in this report as required supplemental information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2013, the district's total capital assets were \$192,199,332, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$10,372,557 from the previous year. Total accumulated depreciation as of June 30, 2013, was \$53,677,893, and total depreciation expense for

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

the year was \$5,092,453. The District disposed of assets with a book value of \$265,421 resulting in total net capital assets at the end of the year of \$138,521,439.

**Table 4**  
**Capital Assets, Net of Depreciation**

	Capital Assets, Net of Depreciation		Percentage Change
	June 30, 2013	June 30, 2012	
Land	\$ 3,494,698	\$ 3,491,736	0.08%
Construction in progress	6,855,523	1,761,713	289.14%
Buildings	107,779,768	110,646,359	-2.59%
Building improvements	5,703,836	4,195,792	35.94%
Improvements other than buildings	5,984,706	6,271,251	-4.57%
Mobile equipment	4,431,423	4,872,461	-9.05%
Furniture and equipment	1,348,750	1,319,458	2.22%
Leased property under capital leases	<u>2,922,735</u>	<u>376,694</u>	675.89%
Total	<u>\$ 138,521,439</u>	<u>\$ 132,935,464</u>	4.20%

The large increase in construction in progress is a result of various construction projects within the district for additional classrooms at certain schools and a new school. The increase in leased property under capital leases is the acquisition of forty new school buses.

Additional information on the District's capital assets can be found in Note (6) included in this report.

**Debt Administration.** At June 30, 2013, the district had \$55,420,516 in outstanding long-term liabilities excluding compensated absences, of which \$4,719,213 is due within one year.

During the year the school district issued \$7,110,000 of state aid capital improvement refunding bonds and \$3,040,000 in lease proceeds. The district issued the refunding bonds to save on total debt service costs over the next six years and the lease proceeds were to finance the purchase of forty new school buses.

The district maintains an A2 bond rating.

The following table shows outstanding debt for fiscal year 2013 compared to fiscal year 2012:

**HARRISON COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

**Table 5**  
**Outstanding Long-Term Debt**

	Outstanding Long-term Debt as of		Percentage Change
	June 30, 2013	June 30, 2012	
General obligation bonds	\$ 6,460,000	\$ 7,860,000	-17.81%
Premium	306,366	408,487	-25.00%
Limited obligation bonds	8,485,000	9,805,000	-13.46%
Premium	217,013	-	100.00%
Three mill notes	15,345,000	16,080,000	-4.57%
Premium	159,714	172,000	-7.14%
Obligations under capital leases	2,346,071	199,991	1073.09%
Obligations under energy efficiency lease	1,878,583	2,197,129	-14.50%
Qualified zone academy bonds	4,394,000	4,394,000	0.00%
Qualified school construction bonds	16,000,000	16,000,000	0.00%
Compensated absences	955,743	1,018,629	-6.17%
Total	<u>\$ 56,547,490</u>	<u>\$ 58,135,236</u>	-2.73%

Additional information on the district's long-term debt can be found in Note (7) included in this report.

**CURRENT ISSUES**

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

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

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

The enrollment for the 2012-2013 year increased by 6.4% from 12,842 to 13,671.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Business Office of the Harrison County School District, Highway 49, Gulfport, MS 39503.

FINANCIAL STATEMENTS

**Harrison County School District**  
**Statement of Net Position**  
**June 30, 2013**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 39,537,245
Due from other governments	3,953,689
Other receivables, net	71,236
Inventories	192,260
Restricted assets	7,595,959
Capital assets not being depreciated:	
Land	3,494,698
Construction in progress	6,855,523
Capital assets, net of accumulated depreciation:	
Buildings	107,779,768
Building Improvements	5,703,836
Improvements other than buildings	5,984,706
Mobile equipment	4,431,423
Furniture and equipment	1,348,750
Leased property under capital leases	2,922,735
Total assets	189,871,828
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Deferred amounts on bond refunding	171,231
Total deferred outflow of resources	171,231
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	3,480,893
Unearned revenue	58,745
Interest payable on long-term liabilities	353,559
Long-term liabilities, due within one year:	
Capital related liabilities	4,438,727
Non-capital related liabilities	280,486
Long-term liabilities, due beyond one year:	
Capital related liabilities	49,274,437
Non-capital related liabilities	2,553,840
Total liabilities	60,440,687
<b>NET POSITION</b>	
Net investment in capital assets	84,979,506
Restricted for:	
Expendable:	
School-based activities	5,366,748
Debt Service	8,502,905
Capital improvements	17,673,159
Forestry improvements	1,785,339
Unemployment benefits	304,587
Non-expendable:	
Sixteenth section	2,007,953
Unrestricted	8,982,175
Total net position	\$ 129,602,372

The accompanying notes are an integral part of these financial statements.

Exhibit B

Harrison County School District  
Statement of Activities  
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
Instruction	\$ 66,179,457	\$ 21,451	\$ 5,171,143	\$ -	\$ (60,986,863)
Support services	41,038,842	899,999	2,968,333	1,448,113	(35,722,397)
Non-instructional	7,470,058	1,479,090	7,137,943	-	1,146,975
Sixteenth section	664,789	-	-	-	(664,789)
Interest on long-term liabilities	1,760,707	-	-	-	(1,760,707)
Total Governmental Activities	117,113,853	2,400,540	15,277,419	1,448,113	(97,987,781)

General Revenues:	
Taxes:	
General purpose levies	36,252,531
Debt purpose levies	3,815,796
Gaming	1,457,943
Unrestricted grants and contributions:	
State	54,750,101
Federal	1,147,526
Unrestricted investment earning	208,445
Sixteenth section sources	2,433,684
Other	169,000
Total General Revenues	100,235,026
Change in Net Position	2,247,245
Net Position - Beginning, as previously reported	127,532,396
Prior Period Adjustments	(177,269)
Net Position - Beginning, as restated	127,355,127
Net Position - Ending	\$ 129,602,372

The accompanying notes are an integral part of these financial statements.

Harrison County School District  
Governmental Funds  
Balance Sheet  
June 30, 2013

	General Fund	Special Note Payment Fund	Building Projects Fund	QSCB Construction Bond Fund	Wind Retrofit Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 13,049,445	\$ 10,822,186	\$ 1,075,615	\$ 6,537,788	\$ -	\$ 10,060,164	\$ 41,545,198
Cash with fiscal agents	-	-	-	-	-	1,661,641	1,661,641
Investments	-	-	-	-	-	3,926,365	3,926,365
Due from other governments	867,973	2,936	-	-	738,266	2,344,514	3,953,689
Other receivables	-	-	-	-	-	71,236	71,236
Due from other funds	-	1,119,118	258,381	-	5,918	8,797	1,392,214
Inventories	-	-	-	-	-	192,260	192,260
<b>Total assets</b>	<b>\$ 13,917,418</b>	<b>\$ 11,944,240</b>	<b>\$ 1,333,996</b>	<b>\$ 6,537,788</b>	<b>\$ 744,184</b>	<b>\$ 18,264,977</b>	<b>\$ 52,742,603</b>
<b>Liabilities &amp; Fund Balances</b>							
<b>Liabilities</b>							
Accounts payable & accrued liabilities	\$ 712,315	\$ -	\$ 1,024,206	\$ 1,108,813	\$ 485,803	\$ 149,756	\$ 3,480,893
Due to other funds	1,345	-	13,370	-	258,381	1,119,118	1,392,214
Unearned revenue	-	-	-	-	-	58,745	58,745
<b>Total liabilities</b>	<b>713,660</b>	<b>-</b>	<b>1,037,576</b>	<b>1,108,813</b>	<b>744,184</b>	<b>1,327,619</b>	<b>4,931,852</b>
<b>Fund Balances</b>							
<b>Nonspendable:</b>							
Permanent fund purposes	-	-	-	-	-	2,007,953	2,007,953
Inventories	-	-	-	-	-	192,260	192,260
<b>Restricted for:</b>							
Unemployment benefits	-	-	-	-	-	304,587	304,587
Capital projects	-	11,944,240	296,420	5,428,975	-	3,524	17,673,159
Forestry improvement purposes	-	-	-	-	-	1,785,339	1,785,339
Debt service	-	-	-	-	-	8,856,464	8,856,464
Child nutrition	-	-	-	-	-	1,555,289	1,555,289
Instructional	-	-	-	-	-	377,728	377,728
Support services	-	-	-	-	-	1,854,214	1,854,214
<b>Assigned:</b>							
Activities	808,663	-	-	-	-	-	808,663
Athletics	52,630	-	-	-	-	-	52,630
Other purposes	525,964	-	-	-	-	-	525,964
Unassigned	11,816,501	-	-	-	-	-	11,816,501
<b>Total fund balance</b>	<b>13,203,758</b>	<b>11,944,240</b>	<b>296,420</b>	<b>5,428,975</b>	<b>744,184</b>	<b>16,937,358</b>	<b>47,810,751</b>
<b>Total liabilities and fund balance</b>	<b>\$ 13,917,418</b>	<b>\$ 11,944,240</b>	<b>\$ 1,333,996</b>	<b>\$ 6,537,788</b>	<b>\$ 744,184</b>	<b>\$ 18,264,977</b>	<b>\$ 52,742,603</b>

The accompanying notes are an integral part of these financial statements.

**Harrison County School District**  
**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position**  
**June 30, 2013**

		<u>Amount</u>
<b>Total fund balances for governmental funds</b>		<b>\$ 47,810,751</b>
Amounts reported for governmental activities in the statement of net position are different because:		
1. Capital assets used in governmental activities and are not financial resources and therefore are not reported in the funds:		
Land	3,494,698	
Construction in progress	6,855,523	
Buildings	142,312,913	
Building improvements	8,538,261	
Improvements other than buildings	7,296,243	
Mobile equipment	13,473,509	
Furniture and equipment	6,659,984	
Leased property under capital leases	3,568,201	
Accumulated depreciation	<u>(53,677,893)</u>	138,521,439
2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(6,460,000)	
Limited obligation bonds	(8,485,000)	
Notes payable	(15,345,000)	
Capital lease obligations	(4,224,654)	
Qualified zone academy bonds	(4,394,000)	
Qualified school construction bonds	(16,000,000)	
Unamortized charges	171,231	
Unamortized premiums	(683,093)	
Compensated absences	(955,743)	
Accrued interest payable	<u>(353,559)</u>	<u>(56,729,818)</u>
<b>Net position of governmental activities</b>		<b><u>\$ 129,602,372</u></b>

The accompanying notes are an integral part of these financial statements

Exhibit D

Harrison County School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds  
For the Year Ended June 30, 2013

	General Fund	Special Note Payment Fund	Building Projects Fund	QSCB Construction Bond Fund	Wind Retrofit Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Local sources	\$ 36,008,693	\$ 24,690	\$ 6,196	\$ 21,017	\$ -	\$ 7,346,460	\$ 43,407,056
State sources	53,700,929	-	-	-	-	3,347,809	57,048,738
Federal sources	1,147,526	-	-	-	729,722	14,570,531	16,447,779
Sixteenth section revenue	-	51,679	-	-	-	2,382,006	2,433,685
Total revenues	90,857,148	76,369	6,196	21,017	729,722	27,646,806	119,337,258
<b>Expenditures</b>							
Instruction	58,437,961	-	-	-	-	7,188,543	65,626,504
Support services	32,497,883	-	1,035,482	10,912	751,849	6,167,016	40,463,142
Noninstructional services	175,111	-	-	-	-	7,141,725	7,316,836
Sixteenth section	-	-	-	-	-	664,789	664,789
Facilities acquisition and construction	-	-	2,773,310	3,772,227	-	385,199	6,930,736
Debt service:							
Principal	1,208,116	-	-	-	-	3,459,350	4,667,466
Interest	93,634	-	-	-	-	1,445,585	1,539,219
Other debt service costs	-	-	-	122,154	-	192,264	314,418
Total expenditures	92,412,705	-	3,808,792	3,905,293	751,849	26,644,471	127,523,110
Excess (deficiency) of revenues over expenditures	(1,555,557)	76,369	(3,802,596)	(3,884,276)	(22,127)	1,002,335	(8,185,852)
<b>Other financing sources (uses):</b>							
Insurance loss recoveries	8,379	-	-	-	-	-	8,379
Payments held by escrow agents	-	-	-	-	-	430,729	430,729
Proceeds of bond refunding	-	-	-	-	-	7,110,000	7,110,000
Proceeds of capital leases	3,040,000	-	-	-	-	-	3,040,000
Payments to refunded bond escrow agent	-	-	-	-	-	(7,246,861)	(7,246,861)
Premium on bond refunding	-	-	-	-	-	271,266	271,266
Transfers in	237,431	1,017,901	700,000	-	22,127	1,881,585	3,859,044
Transfers out	(1,878,286)	(700,000)	(25,426)	-	-	(1,255,332)	(3,859,044)
Payment to QZAB escrow agent	1,407,524	317,901	674,574	-	22,127	(430,729)	(430,729)
Total other financing sources (uses)	(148,033)	394,270	(3,128,022)	(3,884,276)	-	1,762,993	(5,003,068)
Net change in fund balances	13,225,026	11,540,970	3,424,442	9,313,251	-	15,158,904	52,671,593
Fund balances:							
July 1, 2012, as previously reported	126,765	-	-	-	-	-	126,765
Prior period adjustment	-	-	-	-	-	15,461	15,461
Increase in reserve for inventory	-	-	-	-	-	-	-
June 30, 2013	\$ 13,203,758	\$ 11,944,240	\$ 296,420	\$ 5,428,975	\$ -	\$ 16,937,358	\$ 47,810,751

The accompanying notes are an integral part of these financial statements.

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

	Amount
<b>Net change in fund balances - total governmental funds</b>	<b>\$ (5,003,068)</b>

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 and reported as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 10,943,849	
Depreciation	<u>(5,092,453)</u>	5,851,396

2. In the statement of activities, only gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.

(265,421)

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

Refunding bonds issued	(7,110,000)	
Premiums on refunding bonds issued	(271,266)	
Capital leases issued	(3,040,000)	
Payments of debt principal	4,667,466	
Payments on refunded bonds	7,110,000	
Accrued interest payable	<u>118,209</u>	1,474,409

4. 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	62,886	
Change in inventory reserve	15,461	
Amortization of deferred charges, premiums and discounts	<u>111,582</u>	<u>189,929</u>

<b>Change in net position of governmental activities</b>	<b>\$ 2,247,245</b>
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The accompanying notes are an integral part of these financial statements.

**Harrison County School District**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2013**

	<u>Loss Escrow Fund</u>	<u>Agency Funds</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 16,532	\$ 204,104	\$ 220,636
Total assets	<u>\$ 16,532</u>	<u>\$ 204,104</u>	<u>\$ 220,636</u>
<b>Liabilities</b>			
Due to others	\$ 16,532	\$ -	\$ 16,532
Due to student clubs	-	204,104	204,104
Total liabilities	<u>\$ 16,532</u>	<u>\$ 204,104</u>	<u>\$ 220,636</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

(1) Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Position and Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of the 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 asset 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

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

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 that are clearly identified 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 in another fund.

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

Building Projects Fund – This capital project fund is used to account for expenditures of the various construction projects of the district.

QSCB Construction Bond Fund – This capital project fund is used to account for the use of the prior year's bond proceeds for the construction of the new elementary school during the year.

Wind Retrofit Fund – This capital project fund is used to account for the expenditures and related grant revenues of the Hazard Mitigation wind retrofit project for all of the various schools within the district.

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

The District's fiduciary funds include the following:

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

Agency Funds – These fiduciary funds are used to report the various funds held on

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

behalf of the students of the different schools within the district.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

Special Revenue Funds - Special Revenue Funds are used to account for 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.

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

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned, and expenses are recorded when the 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 when they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered 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 of 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

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

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 are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

D. Encumbrances

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

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

E. Assets, liabilities, deferred outflows, 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 "advance to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. Due from Other Governments

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

4. Inventories and Prepaid Items.

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

# HARRISON COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2013

### 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 sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the Sixteenth 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 cost based on appraisals or deflated current replacement cost. Donated capital assets are defined by the District as assets are recorded at estimated fair 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:

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

**HARRISON COUNTY SCHOOL DISTRICT**  
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(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 6 for details.

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

7. Deferred outflows of resources

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

8. Compensated Absences

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

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

9. Long-term Liabilities, 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 7 for details.

10. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy

**HARRISON COUNTY SCHOOL DISTRICT**  
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**For the Year Ended June 30, 2013**

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 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 specific purposes pursuant to constraints imposed by formal action of the School Board, the district's highest level of decision-making authority. This formal action is School board's policy. Currently, there is no committed fund balance for this school district.

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

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

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

**HARRISON COUNTY SCHOOL DISTRICT**  
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(2) Changes in Accounting Standard

For the fiscal year ended June 30, 2013, the district early implemented Governmental Accounting Standards Board (GASB) Statement No. 65 *Items Previously Reported as Assets and Liabilities*. 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. The Statement also provides other financial reporting guidance related to the impact of the financial statement elements of deferred outflows of deferred resources and deferred inflows of resources, such as the changes in the determination of major fund calculations and limiting the use of *deferred* in financial statement presentations.

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments

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

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

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations 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 interest in, and 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 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.

**HARRISON COUNTY SCHOOL DISTRICT**  
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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 \$41,545,198 and \$220,636 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and cash equivalents \$39,537,245 and Restricted Assets \$2,007,953. The bank balance was \$52,994,595.

**Custodial Credit Risk - Deposits.** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the District. As of June 30, 2013, none of the district's bank balance of \$52,978,063 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$1,661,641 and is reported as restricted assets on Exhibit A.

Investments

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

	Maturities (in years)	Fair Value	Rating
Federal National Mortgage Assoc.	Less than 1	\$ 1,850,538	AA+
US Treasury Note	6-10	577,504	AA+
US Treasury STRIPS	6-10	1,015,019	AAAm
MS Noncallable & Tax Exempt	6-10	<u>483,304</u>	AA
		<u>\$ 3,926,365</u>	

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

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

**Custodial Credit Risk – Investments.** Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2013, the district did not have any investments to which this would apply.

**HARRISON COUNTY SCHOOL DISTRICT**  
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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 did not have any investments to which this would apply.

(4) 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
Special Note Payment Fund	Other governmental funds	1,119,118
Building Projects Fund	Wind Retrofit Fund	258,381
Wind Retrofit Fund	Building Projects Fund	5,918
Other governmental funds	General Fund	1,345
Other governmental funds	Building Projects Fund	7,452
Total		<u>\$ 1,392,214</u>

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

B. Transfers In/Out:

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 1,878,286
Special Note Payment Fund	Building Projects Fund	700,000
Building Projects Fund	Wind Retrofit Fund	22,127
	Other governmental funds	3,299
Other governmental funds	General Fund	237,431
	Special Note Payment Fund	1,017,901
Total		<u>\$ 3,859,044</u>

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

(5) Restricted Assets

The restricted assets totaling \$7,595,959 include the cash balance of \$2,007,953 of 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 include cash with fiscal agents and investment balance, totaling \$1,661,641 and \$3,926,365 respectively, of the MAEP Limited Obligation

**HARRISON COUNTY SCHOOL DISTRICT**  
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Bond Fund, QZAB Bond Retirement Funds and the QSCB Bond Retirement Fund.

(6) Capital Assets

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

Governmental Activities:	Balance 7/1/2012	Increases	Decreases	Balance 6/30/2013
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 3,491,736	\$ 2,962	\$ -	\$ 3,494,698
Construction in progress	1,761,713	6,930,736	(1,836,926)	6,855,523
Total non-depreciable capital assets	<u>5,253,449</u>	<u>6,933,698</u>	<u>(1,836,926)</u>	<u>10,350,221</u>
<b>Depreciable Capital Assets:</b>				
Buildings	142,456,685	-	(143,772)	142,312,913
Building Improvements	6,701,335	-	1,836,926	8,538,261
Improvements other than Buildings	7,296,243	-	-	7,296,243
Mobile Equipment	13,219,046	259,827	(5,364)	13,473,509
Furniture & Equipment	6,145,788	710,324	(196,128)	6,659,984
Leased Property under Capital Leases	754,229	3,040,000	(226,028)	3,568,201
Total depreciable capital assets	<u>176,573,326</u>	<u>4,010,151</u>	<u>1,265,634</u>	<u>181,849,111</u>
<b>Less accumulated depreciation:</b>				
Buildings	(31,810,326)	(2,754,449)	31,630	(34,533,145)
Building Improvements	(2,505,543)	(328,882)	-	(2,834,425)
Improvements other than Buildings	(1,024,992)	(286,545)	-	(1,311,537)
Mobile Equipment	(8,346,585)	(699,639)	4,138	(9,042,086)
Furniture & Equipment	(4,826,330)	(676,525)	191,621	(5,311,234)
Leased Property under Capital Leases	(377,535)	(346,413)	78,482	(645,466)
Total accumulated depreciation	<u>(48,891,311)</u>	<u>(5,092,453)</u>	<u>305,871</u>	<u>(53,677,893)</u>
Total depreciable capital assets, (net)	<u>127,682,015</u>	<u>(1,082,302)</u>	<u>1,571,505</u>	<u>128,171,218</u>
Governmental activities capital assets, (net)	<u>\$ 132,935,464</u>	<u>\$ 5,851,396</u>	<u>\$ (265,421)</u>	<u>\$ 138,521,439</u>

**HARRISON COUNTY SCHOOL DISTRICT**  
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Depreciation expense was charged to the following governmental functions:

Instruction	\$	579,978
Support services		4,325,829
Non instructional		186,646
Total depreciation expense	\$	<u>5,092,453</u>

Commitments under construction contracts at June 30, 2013, are summarized as follows:

Project Description	Spent as of 06/30/13	Remaining Financial Commitment
North Woolmarket School Additions	1,195,135	156,865
D'Iberville High School Additions	1,702,654	257,346
River Oaks Elementary School	3,957,734	7,682,885
	<u>\$ 6,855,523</u>	<u>\$ 8,097,096</u>

Construction projects included in governmental activities are funded with QSCB Construction Bond funds, Hazard Mitigation Grant funds and other revenues of the district.

**HARRISON COUNTY SCHOOL DISTRICT**  
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(7) 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	Amount due within one year
A. General obligation bonds	\$ 7,860,000	\$ -	\$ 1,400,000	\$ 6,460,000	\$ 1,485,000
Add deferred amounts:					
For issuance premiums	408,487	-	102,121	306,366	-
Less deferred amounts:					
On refunding	(228,309)	-	(57,078)	(171,231)	-
Total general obligation bonds	<u>8,040,178</u>	<u>-</u>	<u>1,445,043</u>	<u>6,595,135</u>	<u>1,485,000</u>
B. Limited obligation bonds	9,805,000	7,110,000	8,430,000	8,485,000	1,375,000
Less deferred amounts:					
For issuance premiums	-	271,266	54,253	217,013	-
Total limited obligation bonds	<u>9,805,000</u>	<u>7,381,266</u>	<u>8,484,253</u>	<u>8,702,013</u>	<u>1,375,000</u>
C. Three mill notes	16,080,000	-	735,000	15,345,000	760,000
Add deferred amounts:					
For issuance premiums	172,000	-	12,286	159,714	-
Total three mill notes	<u>16,252,000</u>	<u>-</u>	<u>747,286</u>	<u>15,504,714</u>	<u>760,000</u>
D. Obligations under capital lease	199,991	3,040,000	893,920	2,346,071	818,727
E. Obligations under energy efficiency lease	2,197,129	-	318,546	1,878,583	280,486
F. Qualified zone academy bonds	4,394,000	-	-	4,394,000	-
G. Qualified school construction bonds	16,000,000	-	-	16,000,000	-
H. Compensated absences	1,018,629	-	62,886	955,743	-
Total	<u>\$ 57,906,927</u>	<u>\$ 10,421,266</u>	<u>\$ 11,951,934</u>	<u>\$ 56,376,259</u>	<u>\$ 4,719,213</u>

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

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	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2005	3.25%-5.0%	7/5/2005	3/1/2017	\$ 13,955,000	\$ 6,460,000

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

Year Ending June 30,	Principal	Interest	Total
2014	\$ 1,485,000	\$ 323,000	\$ 1,808,000
2015	1,570,000	248,750	1,818,750
2016	1,660,000	200,750	1,860,750
2017	<u>1,745,000</u>	<u>56,750</u>	<u>1,801,750</u>
	<u>\$ 6,460,000</u>	<u>\$ 829,250</u>	<u>\$ 7,289,250</u>

The amount of bonded indebtedness that can be incurred by the School District is limited by state statute. 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 state statutes, have been met. As of June 30, 2013, the amount of outstanding bonded indebtedness was equal to .78% of property assessments as of October 1, 2012. This debt will be retired from the debt service fund.

B. Limited obligation notes payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement refunding bonds, Series 2006	3.625-5.0%	2/1/2007	2/1/2018	\$ 9,910,000	\$ 1,375,000
State aid capital improvement refunding bonds, Series 2013	3.625-3.8%	5/23/2013	2/1/2018	<u>7,110,000</u>	<u>7,110,000</u>
				<u>\$ 17,020,000</u>	<u>\$ 8,485,000</u>

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

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

Year Ending June 30,	Principal	Interest	Total
2014	1,375,000	125,360	1,500,360
2015	1,275,000	129,450	1,404,450
2016	1,555,000	101,150	1,656,150
2017	1,590,000	69,700	1,659,700
2018	2,690,000	37,650	2,727,650
Total	<u>\$ 8,485,000</u>	<u>\$ 463,310</u>	<u>\$ 8,948,310</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the District receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP State Aid Capital Improvement 98 Pledge Fund and the MAEP State Aid 1998 Refund Escrow Fund.

**Advance Refunding**

On May 23, 2013, the district issued \$7,110,000 of refunding bonds with an average interest rate of 4.96% to advance refund \$7,110,000 of the state aid capital improvement refunding bonds, Series 2006 with an average interest rate of 3.7%. The net proceeds of \$7,246,861 after payments of \$134,405 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the state aid capital improvement refunding bonds, Series 2006.

As a result, the state aid capital improvement refunding bonds, Series 2006 are considered to be defeased and the liability for those bonds had been removed from long-term liabilities.

The district advance refunded the state aid capital improvement bonds, Series 2006 to reduce its total debt service payments over the remaining six years of the debt by approximately \$459,406 and to realize an economic gain of \$455,401.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note, 2007	4.0-5.0%	6/22/2007	6/1/2027	\$17,755,000	\$15,345,000
Year Ending					
June 30,	Principal	Interest	Total		
2014	760,000	676,469	1,436,469		
2015	790,000	661,269	1,451,269		
2016	825,000	629,669	1,454,669		
2017	855,000	596,669	1,451,669		
2018	890,000	562,469	1,452,469		
2019-2023	5,055,000	2,214,177	7,269,177		
2024-2027	6,170,000	860,726	7,030,726		
Total	<u>\$ 15,345,000</u>	<u>\$ 6,201,448</u>	<u>\$ 21,546,448</u>		

This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund. The District has pledged the monies received from the Education Enhancement Funds to pay on the debt service of this note.

D. Obligations under capital leases

The school district has entered into two lease agreements as lessee for financing the acquisition of school buses and copier machines. These leases qualify as capital leases for accounting purposes.

Description	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Copier lease	3.40%	2/16/2009	11/10/2014	\$ 538,973	\$ 87,434
Bus lease	1.88%	9/1/2012	9/20/2015	<u>3,040,000</u>	<u>2,258,637</u>
				<u>\$3,578,973</u>	<u>\$2,346,071</u>

**HARRISON COUNTY SCHOOL DISTRICT**  
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The following is a schedule by years of the total payments due on this debt:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 818,727	\$ 45,904	\$ 864,631
2015	760,400	29,112	789,512
2016	766,944	14,419	781,363
Total	<u>\$ 2,346,071</u>	<u>\$ 89,435</u>	<u>\$ 2,435,506</u>

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

This debt will be retired from the District Maintenance Fund.

E. Obligations under energy efficient lease

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Hancock Bank Energy Efficient Lease	4.06%	6/15/2004	2/15/2019	\$4,168,343	\$ 1,878,583

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

Year Ending June 30,	Principal	Interest	Total
2014	\$ 280,486	\$ 70,407	\$ 350,893
2015	317,895	57,993	375,888
2016	330,814	45,074	375,888
2017	344,257	31,631	375,888
2018	358,247	17,641	375,888
2018-2019	246,884	4,019	250,903
Total	<u>\$ 1,878,583</u>	<u>\$ 226,765</u>	<u>\$ 2,105,348</u>

An energy efficient lease agreement dated June 15, 2004, was executed by and between the district, the lessee, and Hancock Bank, the lessor. The agreement authorized the borrowing of

**HARRISON COUNTY SCHOOL DISTRICT**  
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\$4,168,343 for the purchase of energy efficiency equipment, machinery, supplies, building modifications, and other energy saving items. Payments of the lease shall not exceed (15) years and will be retired from the District Maintenance Fund.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

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

F. Qualified zone academy bonds payable

As more fully explained in Note 14, debt has been issued by the school district that qualifies as Qualified Zone Academy Bonds.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2004	N/A	5/3/2004	5/3/2014	\$ 1,894,000	\$ 1,894,000
Series 2008	N/A	6/17/2008	6/17/2020	<u>2,500,000</u>	<u>2,500,000</u>
				<u>\$ 4,394,000</u>	<u>\$ 4,394,000</u>

This debt will be retired from the QZAB 2004 Debt Retirement Fund and the QZAB 2008 Debt Retirement Fund.

G. Qualified school construction bonds payable

As more fully explained in Note 15, 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
Series 2009	N/A	12/29/2009	9/15/2022	\$ 3,000,000	\$ 3,000,000
Series 2010	N/A	12/20/2010	12/15/2020	3,000,000	3,000,000
Series 2012	N/A	5/16/2012	12/15/2026	<u>10,000,000</u>	<u>10,000,000</u>
				<u>\$ 16,000,000</u>	<u>\$ 16,000,000</u>

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

H. Compensated absences payable

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

(8) Other Commitments

Commitments under construction contracts are described in Note 6.

The School District replaced copiers previously under operating leases for lease purchased copiers and has only one operating lease for a digital mailing machine remaining.

Future lease payments for this remaining operating lease are as follows:

Year Ending June 30,	Amount
2014	\$ 4,092
2015	4,092
Total	<u>\$ 8,184</u>

(9) 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% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for the fiscal year ended June 30, 2013 is 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 \$9,109,494, \$7,756,823, and \$7,098,244, respectively, which equaled the required contributions for each year.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

(10) Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools.

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

Year Ending June 30	Amount
2014	\$ 2,099,054
2015	2,174,774
2016	2,256,263
2017	2,342,527
2018	2,440,161
2019-2023	13,833,492
2024-2028	17,181,846
2029-2033	21,431,573
2034-2038	26,016,736
Thereafter	<u>80,469,514</u>
Total	<u>\$ 170,245,940</u>

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

(11) Prior Period Adjustment

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

Exhibit B - Statement of Activities	
Explanation	Amount
Prior year gaming receivable	\$ 126,765
GASB 65 implementation	<u>(304,034)</u>
	<u>\$ (177,269)</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances	
Explanation	Amount
Prior year gaming receivable	\$ 126,765

(12) 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 for 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.

(13) 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.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to members' 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 for each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(14) Qualified Zone Academy Bonds

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community.

Series 2004

The school district, in agreement with Bell South Telecommunications, Inc. has entered into such an arrangement date March 2, 2004. The agreement schedules Bell South Telecommunications, Inc., to provide a total of 1,448 hours to be made in approximately equal amounts over a 5 year period ending June 30, 2008.

This agreement establishes a method of repayment for a qualified interest-free debt instrument, and requires the School District to deposit funds annually into a sinking fund on or before May 5 of each year. The amount on deposit at June 30, 2013 was \$1,852,105. The amount accumulated in the sinking fund account at the end of the ten year period will be sufficient to retire the debt.

Series 2008

The school district, in agreement with Cyber Learning, entered into another such an arrangement dated June 17, 2008. The agreement schedules Cyber Learning to provide a total of 2,200 software licenses. This contribution has a present value of \$152,556. This agreement establishes a method of repayment for a qualified interest-free debt instrument, and requires the School District to deposit funds annually into a sinking fund account on or before July 1 each year. The amount on deposit at June 30, 2013 was \$2,097,048. The amount accumulated in the sinking fund account at the end of the twelve year period will be sufficient to retire the debt.

The following schedule reports the yearly deposits to be made to the sinking funds by the school district:

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

Year Ending June 30,	Amount
2014	\$ 63,600
2015	65,300
2016	67,000
2017	68,400
2018	69,900
2019-2022	<u>215,300</u>
Total	<u>\$ 549,500</u>

(15) 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 exceeded 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 pay off 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 \$942,388. The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits, inclusive of interest earnings from the prior twelve months, to be made to the sinking fund by the school district:

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2013**

Year Ending June 30,	Amount
2014	\$ 1,202,000
2015	1,202,000
2016	1,203,000
2017	1,203,000
2018	1,203,000
2019-2023	5,661,000
2024-2027	<u>3,220,000</u>
Total	<u>\$ 14,894,000</u>

(16) Subsequent Events

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

Management of Harrison County School District evaluated the activity of the district through February 20, 2014, (the date the financial statements were available to be issued), and determined that there were not any subsequent events have occurred that require disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTAL INFORMATION

**Harrison County School District  
Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	<b>REVENUES</b>				
Local sources	\$ 35,092,833	\$ 36,022,351	\$ 36,008,693	\$ 929,518	\$ (13,658)
State sources	53,533,111	53,678,603	53,700,929	145,492	22,326
Federal sources	655,000	1,147,526	1,147,526	492,526	-
Total revenues	<u>89,280,944</u>	<u>90,848,480</u>	<u>90,857,148</u>	<u>1,567,536</u>	<u>8,668</u>
<b>EXPENDITURES</b>					
Instruction	61,773,518	58,441,129	58,437,961	3,332,389	3,168
Support services	32,941,635	30,820,101	32,497,883	2,121,534	(1,677,782)
Noninstructional services	6,560	117,234	175,111	(110,674)	(57,877)
Debt Service:					
Principal	-	-	1,208,116	-	(1,208,116)
Interest	-	-	93,634	-	(93,634)
Total Expenditures	<u>94,721,713</u>	<u>89,378,464</u>	<u>92,412,705</u>	<u>5,343,249</u>	<u>(3,034,241)</u>
Excess (deficiency) of revenues over expenditures	<u>(5,440,769)</u>	<u>1,470,016</u>	<u>(1,555,557)</u>	<u>6,910,785</u>	<u>(3,025,573)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Insurance loss recoveries	-	8,379	8,379	8,379	-
Proceeds of capital leases	-	-	3,040,000	-	3,040,000
Operating transfers in	1,419,623	235,872	237,431	(1,183,751)	1,559
Operating transfers out	(2,865,892)	(1,878,286)	(1,878,286)	987,606	-
Total other financing sources (uses)	<u>(1,446,269)</u>	<u>(1,634,035)</u>	<u>1,407,524</u>	<u>(187,766)</u>	<u>3,041,559</u>
Net change in Fund Balances	<u>(6,887,038)</u>	<u>(164,019)</u>	<u>(148,033)</u>	<u>6,723,019</u>	<u>15,986</u>
Fund balances:					
July 1, 2012, as previously reported	13,082,589	13,356,147	13,225,026	273,558	(131,121)
Prior period adjustments	-	-	126,765	-	126,765
July 1, 2012, as restated	<u>13,082,589</u>	<u>13,356,147</u>	<u>13,351,791</u>	<u>273,558</u>	<u>(4,356)</u>
June 30, 2013	<u>\$ 6,195,551</u>	<u>\$ 13,192,128</u>	<u>\$ 13,203,758</u>	<u>\$ 6,996,577</u>	<u>\$ 11,630</u>

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

**HARRISON COUNTY SCHOOL DISTRICT**  
**Notes to the Budgetary Comparison Schedules**  
**For the Year Ended June 30, 2013**

Budgetary Comparison Schedules

(1) Basis of Presentation.

The Budgetary Comparison Schedules present the original legally adopted budget, the final legally adopted budget, the actual data on 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.

SUPPLEMENTAL INFORMATION

**Harrison County School District**  
**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>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 1,631,940
National school lunch program	10.555	4,705,046
Summer food service program for children	10.559	251,858
Total child nutrition cluster		<u>6,588,844</u>
Passed-through Harrison County, Mississippi:		
Schools and Roads - Grants to States	10.665	106,726
Total U. S. Department of Agriculture		<u>6,695,570</u>
<u>U. S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.xxx	191,445
Total U. S. Department of Defense		<u>191,445</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	670,412
Total Federal Communications Commission		<u>670,412</u>
<u>U. S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	133,493
Total		<u>133,493</u>
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	146,134
Education of homeless children and youth	84.196	79,303
English language acquisition grants	84.365	33,868
Improving teacher quality - state grants	84.367	741,536
Subtotal		<u>1,000,841</u>
Title I Part A cluster:		
Title I - Grants to local education agencies	84.010	3,161,504
Total Title I Part A cluster		<u>3,161,504</u>
Special education cluster:		
Special education - grants to states	84.027	3,017,010
Special education - preschool grants	84.173	83,940
Total Special education cluster		<u>3,100,950</u>
Total passed-through Mississippi Department of Education		<u>7,263,295</u>
Total U. S. Department of Education		<u>7,396,788</u>
<u>Social Security Administration</u>		
Passed-through Mississippi Department of Education:		
Social Security - Work incentives planning and assistance program	96.008	45,450
Total Social Security Administration		<u>45,450</u>
<u>U. S. Department of Homeland Security</u>		
Hazard Mitigation Grant Program	97.039	705,876
Total Department of Homeland Security		<u>705,876</u>
Total for All Federal Awards		<u>\$ 15,705,541</u>

NOTES TO SCHEDULE

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

OTHER INFORMATION

**Harrison County 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	\$ 86,291,283	\$ 66,440,175	\$ 1,526,768	\$ 6,287,520	\$ 12,036,820
Other	41,231,827	7,386,215	3,001,715	131,775	30,712,122
Total	\$ 127,523,110	\$ 73,826,390	\$ 4,528,483	\$ 6,419,295	\$ 42,748,942
Total number of students *	13,671				
Cost per student	\$ 9,328	\$ 5,400	\$ 331	\$ 470	\$ 3,127

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. (all the 1000, 2100, & 2200 functional codes).

**General Administration** - includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s).

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

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

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

**Harrison County School District**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**General Fund**  
**Last Four Years**

<b>Revenues</b>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Local sources	36,008,693	\$ 33,166,370	\$ 31,030,287	\$ 25,702,414
State sources	53,700,929	52,123,097	47,953,998	48,647,541
Federal sources	<u>1,147,526</u>	<u>795,772</u>	<u>1,018,281</u>	<u>652,049</u>
Total revenues	<u>90,857,148</u>	<u>86,085,239</u>	<u>80,002,566</u>	<u>75,002,004</u>
<b>Expenditures</b>				
Instruction	58,437,961	54,685,275	45,795,705	47,526,332
Support services	32,497,883	28,471,821	26,467,706	26,781,628
Noninstructional services	175,111	1,991	2,169	1,693
Facilities acquisition and construction	-	46,000	125,911	-
Debt service:				
Principal	1,208,116	386,587	374,755	353,716
Interest	<u>93,634</u>	<u>104,835</u>	<u>110,977</u>	<u>127,425</u>
Total expenditures	<u>92,412,705</u>	<u>83,696,509</u>	<u>72,877,223</u>	<u>74,790,794</u>
Excess (deficiency) of revenues over expenditures	<u>(1,555,557)</u>	<u>2,388,730</u>	<u>7,125,343</u>	<u>211,210</u>
<b>Other financing sources (uses):</b>				
Inception of capital leases	3,040,000	-	-	95,415
Insurance loss recoveries	8,379	6,464	5,516	3,777
Sales of assets	-	84,840	15,867	-
Operating transfers in	237,431	302,429	394,393	4,240,709
Operating transfers out	<u>(1,878,286)</u>	<u>(1,580,555)</u>	<u>(1,691,851)</u>	<u>(2,480,423)</u>
Total other financing sources (uses)	<u>1,407,524</u>	<u>(1,186,822)</u>	<u>(1,276,075)</u>	<u>1,859,478</u>
<b>Speical item:</b>				
Forgiveness of small community disaster loan	-	-	831,596	-
Net change in fund balances	(148,033)	1,201,908	6,680,864	2,070,688
Fund balances:				
July 1, as originally reported	13,225,026	12,023,118	5,342,254	3,271,566
Prior period adjustments	<u>126,765</u>	<u>-</u>	<u>-</u>	<u>-</u>
July 1, as restated	<u>13,351,791</u>	<u>12,023,118</u>	<u>5,342,254</u>	<u>3,271,566</u>
June 30,	<u>\$ 13,203,758</u>	<u>\$ 13,225,026</u>	<u>\$ 12,023,118</u>	<u>\$ 5,342,254</u>

\* SOURCE - PRIOR YEAR AUDIT REPORTS

"UNAUDITED"

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

<b>Revenues</b>	2013	2012	2011	2010
Local sources	43,407,056	\$ 40,828,318	\$ 38,234,363	\$ 33,631,896
State sources	57,048,738	55,323,838	51,059,803	51,684,429
Federal sources	16,447,779	16,590,250	23,540,198	20,121,247
Sixteenth section sources	2,433,685	1,795,041	2,462,205	2,141,201
Total revenues	<u>119,337,258</u>	<u>114,537,447</u>	<u>115,296,569</u>	<u>107,578,773</u>
<b>Expenditures</b>				
Instruction	65,626,504	62,510,978	61,033,397	61,243,494
Support services	40,463,142	36,553,675	34,415,835	32,647,573
Noninstructional services	7,316,836	6,822,139	6,684,146	6,542,487
Sixteenth section	664,789	843,314	660,090	718,140
Facilities acquisition and construction	6,930,736	2,861,799	1,421,980	1,524,482
Debt service:				
Principal	4,667,466	3,690,972	4,321,261	2,907,630
Interest and other debt service costs	1,853,637	1,717,764	1,900,437	2,023,096
Total expenditures	<u>127,523,110</u>	<u>115,000,641</u>	<u>110,437,146</u>	<u>107,606,902</u>
Excess (deficiency) of revenues over expenditures	<u>(8,185,852)</u>	<u>(463,194)</u>	<u>4,859,423</u>	<u>(28,129)</u>
<b>Other financing sources (uses):</b>				
Proceeds of loans	-	10,000,000	3,000,000	3,000,000
Proceeds of bond refunding	7,110,000	-	-	-
Inception of capital leases	3,040,000	-	-	95,415
Insurance loss recoveries	8,379	7,501	10,773	3,777
Payment to refunded bond escrow agent	(7,246,861)	-	-	-
Premium on bond refunding	271,266	-	-	-
Payments to escrow agent for QZAB	(430,729)	(958,020)	(1,277,755)	(515,000)
Payment held by escrow agent for QZAB	430,729	958,020	1,277,755	515,000
Sales of assets	-	84,840	15,867	-
Operating transfers in	3,859,044	7,321,212	3,652,073	8,480,250
Operating transfers out	(3,859,044)	(7,321,212)	(3,652,073)	(8,480,250)
Total other financing sources (uses)	<u>3,182,784</u>	<u>10,092,341</u>	<u>3,026,640</u>	<u>3,099,192</u>
<b>Speical item:</b>				
Forgiveness of small community disaster loan	-	-	7,152,102	-
Net change in fund balances	<u>(5,003,068)</u>	<u>9,629,147</u>	<u>15,038,165</u>	<u>3,071,063</u>
<b>Fund balances:</b>				
July 1, as originally reported	52,671,593	42,961,829	27,893,828	24,789,547
Prior period adjustments	126,765	43,622	-	-
July 1, as restated	<u>52,798,358</u>	<u>43,005,451</u>	<u>27,893,828</u>	<u>24,789,547</u>
Increase in reserve for inventory	15,461	36,995	29,836	33,218
June 30,	<u>\$ 47,810,751</u>	<u>\$ 52,671,593</u>	<u>\$ 42,961,829</u>	<u>\$ 27,893,828</u>

\* SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

# WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

*Certified Public Accountants*

HANCOCK BANK BUILDING

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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*

February 20, 2014

To the Superintendent and School Board  
Harrison County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 Harrison County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Harrison County School District's basic financial statements and have issued our report thereon dated February 20, 2014.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Harrison 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 Harrison County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Harrison County School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. 2013-1, 2013-2, 2013-3 and 2013-4.

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. We do not consider the deficiencies described in the accompany schedule of findings and questioned costs to be significant deficiencies.

### **Compliance and Other Matters**

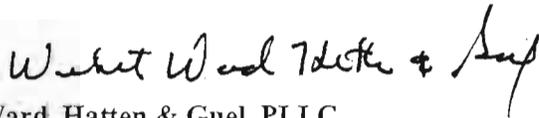
As part of obtaining reasonable assurance about whether Harrison County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2013-1, 2013-2, 2013-3 and 2013-4.

### **Harrison County School District's Response to Findings**

Harrison County School District's response to the findings identified in our audit is described in the accompanying auditee's corrective action plan. Harrison County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

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



Wright, Ward, Hatten & Guel, PLLC  
Gulfport, Mississippi

# WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

*Certified Public Accountants*

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## REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

February 20, 2014

To the Superintendent and School Board  
Harrison County School District

### Report on Compliance for Each Major Federal Program

We have audited Harrison 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 Harrison County School District's major federal programs for the year ended June 30, 2013. Harrison 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 Harrison 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 Harrison 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 Harrison County School District's compliance.

### ***Opinion on Each Major Federal Program***

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

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2013-5. Our opinion on each major federal program is not modified with respect to this matter.

Harrison County School District's response to the noncompliance finding identified in our audit is described in the accompanying auditee's corrective action plan. Harrison County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of Harrison 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 Harrison 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 Harrison 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.

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.



Wright, Ward, Hatten & Guel, PLLC  
Gulfport, Mississippi

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

# WRIGHT, WARD, HATTEN & GUEL

PROFESSIONAL LIMITED LIABILITY COMPANY

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

*Certified Public Accountants*

HANCOCK BANK BUILDING

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH MISSISSIPPI STATE LAWS AND REGULATIONS

February 20, 2014

To the Superintendent and School Board  
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2013, which collectively comprise Harrison County School District's basic financial statements and have issued our report thereon dated February 20, 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 \$127,292 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 disclosed instances of noncompliance described in Findings 2013-1, 2013-2, 2013-3, and 2013-4 in the Schedule of Findings and Questioned Costs and the following immaterial instances of noncompliance with other state laws and regulations. Our immaterial findings and recommendations and your responses are as follows:

1. Untimely Reporting of Form 4B and Re-employed Retirees Were Paid More than State Allowance

Finding

Section 25-11-127(4)(a), Miss. Code Ann (1972), states "...The provisions of this section shall not be construed to prohibit any retiree, regardless of age, from being employed and drawing retirement allowance either: (a) For a period of time not to exceed one-half of the normal working days for the position in any fiscal year during which the retiree will receive no more than one-half of the salary in effect for the position at the time of employment, or (b) For a period of time in any fiscal year sufficient in length to permit a retiree to earn not in excess of twenty-five percent (25%) of the retiree's average compensation".

During our testing of re-employed retirees, we noted the following instances of noncompliance:

The district is not timely reporting of Form 4B and failed to report the date of rehire and date of certification in several instances.

In two instances employees earned more salary than the state allowed per PERS Form 4B.

Recommendation

We recommend in the future the district implement policies and procedures to ensure the district complies with Section 25-11-127(4) (a) concerning the salary limitations of its re-employed retired employees.

School District's Response

The district has implemented policies to prevent overpayment of PERS retirees re-employed by the district. The policies implemented have significantly reduced the instances that may result in an overpayment. However, the policies have not eliminated the chance of error. The district is working diligently to identify additional policies to identify errors. In one of the instances noted in the finding, an employee was erroneously not identified as a retiree until later in the school term. By the time the employee was identified as a retiree, the overpayment had occurred. In the 2<sup>nd</sup> instance, the district had identified the employee as a retiree and had notified the employee they could not work additional hours. Despite the notification, the employee chose to work the additional hours. Because the hours had been worked, the employee was paid.

2. Untimely Presentation of Financial Statement to School Board

Finding

Section 37-9-18, Miss. Code Ann (1972), states "...The Superintendent must furnish the school board a financial statement of receipts and disbursements, by funds, on or before the last working day of the following month covering the prior month."

During our testing of financial statements presented to the school board, we noted the following instance of noncompliance:

The financial statement for September 2012 was not submitted to the board until late November 2012.

Recommendation

We recommend that the Superintendent timely submit the required financial statements to the school board in accordance with state code.

School District's Response

The district has implemented procedures to ensure the timely submission of monthly financial statements. As of January 2014, financial statements will be a board agenda item at the second meeting of every month.

3. Surety Bonds Issued for Indefinite Period of Time

Finding

Section 25-1-15, Miss. Code Ann (1972), states "...a new bond in the amount required by law shall be secured at the beginning of each new term of office or every four years, whichever is less."

During our testing of surety bonds, we noted the following instance of noncompliance:

Some of the surety bonds that were reviewed were issued for an indefinite period of time and were not concurrent with the four year term of office.

Recommendation

We recommend that the district comply with state code and secure new surety bonds every four years or less for all employees that are required to have a bond.

School District's Response

The district will work with the bonding company to ensure that all surety bonds have a termination date and that new bonds are issued every four years.

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

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

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



**Wright, Ward, Hatten & Guel, PLLC**  
Gulfport, Mississippi

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**HARRISON COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2013**

**SECTION 1 – SUMMARY OF AUDITORS’ RESULTS**

Type of Auditors’ Report Issued	Unqualified
Internal Control over Financial Reporting:	
Material weakness(es) identified	Yes
Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	Yes

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified not considered to be material weaknesses?	None reported
Type of auditors’ report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133, Section .510(a)?	Yes

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
CFDA# 10.553	Child Nutrition Cluster
CFDA# 10.555	Child Nutrition Cluster
CFDA# 10.559	Child Nutrition Cluster
CFDA# 84.010	Title I - Part A Cluster
CFDA# 84.367	Improving Teacher Quality Grant
CFDA# 97.039	Hazard Mitigation Grant

Dollar threshold used to distinguish between Type A and Type B programs:	\$471,166
Auditee qualified as low risk auditee?	No
Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133?	No

**HARRISON COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2013**

**SECTION II – FINANCIAL STATEMENT FINDINGS**

**2013-1 *Criteria:* Procurement procedures and documentation**

***Material weakness    Prior year finding***

Proper internal control over the purchasing and accounts payable function requires that approval is obtained and documented for all items that are purchased by the district that are non-service related and that all purchases have adequate support documentation. Bidding and procurement procedures should comply with state laws.

*Condition:* During our audit testing, we noted there were several invoices not stamped “received” in accordance with the financial accounting manual for Mississippi Public School District’s policy. Some of the invoices tested were paid from a copy of the invoice, not the original invoice.

We were unable to obtain documentation in two instances to verify the contract price, and we could not verify board approval on other purchases tested.

*Cause:* District personnel are not familiar with the requirements of the financial accounting manual for Mississippi Public School Districts. They did not maintain supporting documentation to substantiate purchases and were also unaware of other bidding and procurement guidelines.

*Effect:* This may cause the district to be noncompliant with state procurement laws and other guidelines and the district may incur expenditures that are not properly authorized.

*Recommendation:* We recommend that the district implement and enforce proper procurement policies so that adequate support documentation is maintained on all purchases within the district and that state procurement laws and other guidelines are adhered to.

**2013-2 *Criteria:* Activity fund cash management, purchases and reporting**

***Material weakness    Prior year finding***

Activity fund disbursements and other transactions should be presented to the board for approval and should be properly documented in the board minutes. Activity fund cash should only be expended in accordance with sound business practices and only for allowed purposes. These funds should also be reported in accordance with state law and all deposits should be made daily.

*Condition:* During our audit of athletic activities, it appeared that the controls over ticket stubs and cash reported for these athletic events are not sufficient to deter misappropriation of cash.

It appeared that some schools within the district were not making timely deposits of the cash received. We also noted that some schools had not correctly reported or used certain activity funds in accordance with the district’s policy.

*Cause:* Some schools purchased items that were unallowed with activity funds and they did not adhere to the district policy regarding the use, management and reporting of the activity funds. Some bookkeepers were not depositing money daily. Proper controls over athletic events are not implemented or enforced.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2013**

*Effect:* This causes the district to be noncompliant with state law regarding the accounting and reporting of activity funds in addition to violation of district policy. Failure to properly manage and account for athletic activities tickets and related cash received can lead to misappropriation of cash collected.

*Recommendation:* We recommend that the district enforce the policies regarding the accounting, reporting and safeguarding of all activity money and ensure that deposits are made daily. We recommend that the district implement and enforce better controls over athletic ticket sales monies.

**2013-3** *Criteria:* Record-keeping and financial management of 16<sup>th</sup> Section transactions, collection of 16<sup>th</sup> Section revenues, and adherence to lease contract terms - State legal noncompliance Section 29-3-57 Miss. Code Ann. (1972) Lease Termination  
*Material weakness* **Prior year finding**

16<sup>th</sup> Section revenues and expenditures should be accounted for in accordance with district policy which states 16<sup>th</sup> Section lands will be managed in such a way to provide maximum benefits to the school district." All 16<sup>th</sup> Section revenues from leases are to be collected within sixty (60) days of payment due date. All contracts on leases should be current and appraisals performed on all property in a timely manner. Consistent treatment should be given to all leases and contract terms should be enforced.

*Condition:* During our testing of 16<sup>th</sup> Section properties we noted that five properties tested made untimely rental payments to the district. These property leases contribute a substantial amount of 16<sup>th</sup> Section revenue to the district and other school districts. This amount due was well beyond the sixty (60) day default period, in which it is the duty of the superintendent to declare the lease terminated unless the board of education finds extenuating circumstances were present.

We also noted that some of the contracts were expired and others had not had a property appraisal performed in the time period stated within the lease contract.

During our audit testing, we noted that some contracts were terminated early for late or no payment; and monies due to the district including penalties were not collected in accordance with the lease contract.

Billing and collection procedures for 16<sup>th</sup> Section leases were inconsistently applied by district personnel.

*Cause:* Management failed to employ a system to verify that all lease payments are remitted to the district timely nor has notification been given to the board to terminate the leases once the default period has expired. All lease contracts are not periodically reviewed to ensure that compliance is being adhered to in accordance with contract terms.

*Effect:* This causes the district to inadequately collect or report the 16<sup>th</sup> Section revenue to the other shared school districts based on the allocation of students within each district. This lack of proper financial accounting for 16<sup>th</sup> Section lands is also detrimental to the district since it receives a majority of the shared revenue. It also allows lessees to continue to occupy the 16<sup>th</sup> Section parcels without repercussions for nonpayment.

If appraisals are not performed when stipulated by the contract this allows the lessee to pay a lease amount that could be much less than current market value.

**HARRISON COUNTY SCHOOL DISTRICT**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended June 30, 2013**

*Recommendation:* We recommend that the district implement procedures to properly account for 16<sup>th</sup> Section land transactions and to follow state law and other guidelines regarding the billing, collection and reporting of 16<sup>th</sup> Section land transactions. The district should adhere to the terms of the lease contracts.

**2013-4 Criteria:** Payroll recordkeeping and documentation

*Material weakness*      *Prior year finding*

Payroll procedures and adequate time keeping should be implemented to properly document an employee's time worked. Proper internal controls over compensated absences should be implemented and district policies should be enforced regarding personnel terminations or resignations. Regulatory guidelines and other laws should be followed in reporting employee payroll forms. Personnel files should contain all required employee documentation.

*Condition:* In our payroll testing, we noted several instances where personnel files were missing required employee documentation.

Employees are calculating their own compensatory time and some are calculating the time earned incorrectly. Employees are not using the compensatory time earned in the following pay period as required by the district's personnel policy.

Some employees' time sheets were missing department head approval and several were calculated incorrectly. It appeared that there was inconsistent reporting of holiday time by employees on their time cards.

In testing retired, terminated or resigned employees, we noted that one employee had received their last paycheck before the board approved termination of employment, and one employee was paid after he was terminated and has not returned the money back to the district. Two other rehired retirees were overpaid in violation of Section 25-11-127 of Miss. State Code Ann (1972).

*Cause:* Employee documentation was not obtained and placed in personnel files as required. District personnel did not adhere to district policy regarding compensatory time and treatment of paid time off, and there has not been adequate review by management of compensated absences' records of district employees. Proper documentation was not submitted to regulatory agencies in a timely manner and compliance with state laws and other guidelines were not adequately monitored.

*Effect:* Lack of adequate payroll recordkeeping can cause the district to be noncompliant with Department of Labor laws and other compliance regulations. Inaccurate timekeeping increases the risk to the district of overpayment or underpayment of employees' time worked. Some employees are accumulating significant compensatory hours by not adhering to district policy.

*Recommendation:* We recommend that the district implement policies and procedures to insure that all necessary employee payroll information is adequately maintained in employee files. Procedures should be implemented to insure that all required forms are timely remitted to regulatory agencies. Management should insure that district policies as well as the Department of Labor and state laws are followed for payroll recordkeeping, processing and reporting.

HARRISON COUNTY SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2013

SECTION III – FEDERAL AWARD FINDING AND QUESTIONED COST

2013-5 U. S. Department of Homeland Security – Hazard Mitigation Grant CFDA #97.039 - Reporting

Financial reports are to be submitted to the granting agency in accordance with grant compliance requirements

*Condition:* During our testing of the hazard mitigation grant, we noted that the district failed to submit one report within 15 days of the end of the quarter and one report was not submitted at all.

*Cause:* District personnel did not remit the reports in conformity with grant compliance requirements.

*Effect:* This causes the district to be non-compliant with grant requirements.

*Questioned Costs:* There are no questioned costs associated with this finding.

*Recommendation:* We recommend that the district adhere to the grant compliance requirements and submit all necessary reports in a timely manner.

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

# Harrison County School District

**HENRY A. ARLEDGE**  
Superintendent of Education

11072 Highway 49  
Gulfport, Mississippi 39503  
(228) 539-6500  
Fax (228) 539-6507

**E. MITCHELL KING**  
Assistant Superintendent

## Auditee's Corrective Action Plan For the Year Ended June 30, 2013

### Section 2: Financial Statement Findings

**2013-1 Condition:** During our audit testing, we noted there were several invoices not stamped "received" in accordance with the financial accounting manual for Mississippi Public School District's policy. Some of the invoices tested were paid from a copy of the invoice, not the original invoice.

We were unable to obtain documentation in two instances to verify the contract price, and we could not verify board approval on other purchases tested.

**Corrective action:** The district is enforcing policies and procedures so that adequate support documentation is maintained on all purchases within the district.

**Contact person:**

Mitchell King

Phone: (228) 539-6500

**Anticipated completion date:**

June 30, 2014

**2013-2 Condition:** During our audit of athletic activities, it appeared that the controls over ticket stubs and cash reported for these athletic events are not sufficient to deter misappropriation of cash.

It appeared that some schools within the district were not making timely deposits of the cash received. We also noted that some schools had not correctly reported or used certain activity funds in accordance with the district's policy.

**Corrective action:** The district is in the process of instituting policies and reinforcing existing policies regarding activity funds. The district is continually monitoring and reviewing the activity funds to ensure proper use and safeguarding of the funds.

*Contact person:*

Mitchell King

Phone: (228) 539-6500

*Anticipated completion date:*

June 30, 2014

**2013-3 Condition:** During our testing of 16<sup>th</sup> Section properties we noted that five properties tested made untimely rental payments to the district. These property leases contribute a substantial amount of 16<sup>th</sup> Section revenue to the district and other school districts. This amount due was well beyond the sixty (60) day default period, in which it is the duty of the superintendent to declare the lease terminated unless the board of education finds extenuating circumstances were present.

We also noted that some of the contracts were expired and others had not had a property appraisal performed in the time period stated within the lease contract.

During our audit testing, we noted that some contracts were terminated early for late or no payment; and monies due to the district including penalties were not collected in accordance with the lease contract.

Billing and collection procedures for 16<sup>th</sup> Section leases were inconsistently applied by district personnel.

*Corrective action:* The district is in the process of implementing more stringent policies and procedures that will ensure compliance with state law.

*Contact person:*

Mitchell King

Phone: (228) 539-6500

*Anticipated completion date:*

June 30, 2014

**2013-4 Condition:** In our payroll testing, we noted several instances where personnel files were missing required employee documentation.

Employees are calculating their own compensatory time and some are calculating the time earned incorrectly. Employees are not using the compensatory time earned in the following pay period as required by the district's personnel policy.

Some employees' time sheets were missing department head approval and several were calculated incorrectly. It appeared that there was inconsistent reporting of holiday time by employees on their time cards.

In testing retired, terminated or resigned employees, we noted that one employee had received their last paycheck before the board approved termination of employment, and one employee was paid after he was terminated and has not returned the money back to the district. Two other rehired retirees were overpaid in violation of Section 25-11-127 of Miss. State Code Ann (1972).

*Corrective action:* The district is aware of the existing deficiencies within the payroll time and record keeping system as well as the issues that may arise from these deficiencies. The district is in the process of implementing a more accurate and effective timekeeping system. The new timekeeping system should allow payroll personnel more time to adequately review payroll documents and forms for accuracy and timeliness, thus ensuring fewer payment errors.

*Contact person:*

Mitchell King

Phone: (228) 539-6500

*Anticipated completion date:*

June 30, 2014

### **Section 3: Federal Award Finding and Questioned Cost**

**2013-5 Condition:** U. S. Department of Homeland Security – Hazard Mitigation Grant CFDA #97.039 - Reporting

*Condition:* During our testing of the hazard mitigation grant, we noted that the district failed to submit one report within 15 days of the end of the quarter and one report was not submitted at all.

*Corrective action:* The district is aware of the failure to timely submit the financial report. The district has implemented policies to ensure that all required reports are submitted timely.

*Contact person:*

Mitchell King

Phone: (228) 539-6500

*Anticipated completion date:*

June 30, 2014

# Harrison County School District

11072 Highway 49  
Gulfport, MS 39503  
228-539-6500

Henry A. Arledge  
Superintendent

E. Mitchell King  
Assistant Superintendent

## Summary of Prior Year Audit Findings For the Year Ended June 30, 2013

<u>Finding Number</u>	<u>Prior Audit Finding</u>
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There are no prior year federal award findings.

