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Holmes County School District

Audited Financial Statements
For the Year Ended June 30, 2013

Fortenberry & Ballard, PC
Certified Public Accountants

**Holmes County School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS AND SUPPLEMENTARY INFORMATION

Superintendent and School Board
Holmes County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes 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 Holmes County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 to 18 and 53 to 57 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 Holmes County School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived

from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2014, on our consideration of the Holmes 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 Holmes County School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 19, 2014

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

The following discussion and analysis of Holmes County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2013 increased \$756,945, which represents a 5% increase from fiscal year 2012. Total net position for 2012 increased \$261,370, including a prior period adjustment of (\$9,596), which represents a 2% increase from fiscal year 2011.
- General revenues amounted to \$19,882,207 and \$20,481,765, or 71% and 66% 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 \$8,262,193, or 29% of total revenues for 2013, and \$10,357,505, or 34% of total revenues for 2012.
- The District had \$27,387,455 and \$30,568,304 in expenses for fiscal years 2013 and 2012; only \$8,262,193 for 2013 and \$10,357,505 for 2012 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,882,207 for 2013 and \$20,481,765 for 2012 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$17,754,752 in revenues and \$17,597,142 in expenditures for 2013, and \$17,466,751 in revenues and \$18,432,869 in expenditures for 2012. The General Fund's fund balance decreased by \$95,666 from 2012 to 2013, and decreased by \$3,825,989 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, increased by \$3,692,159 for 2013 and increased by \$2,491,338 for 2012. The increase for 2013 was primarily due to the additions to land, construction in progress, and furniture and equipment.
- Long-term debt increased by \$305,000 for 2013 and decreased by \$685,000 for 2012. The increase for 2013 was due primarily to the issuance of a qualified school construction bond in the amount of \$1,000,000. The liability for compensated absences increased by \$3,235 for 2013 and decreased by \$28,415 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Fund Financial Statements

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

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

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$15,876,077 as of June 30, 2013.

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

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

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Table 1
Condensed Statement of Net Position

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Current assets	\$ 4,668,021	7,192,852	(35)%
Restricted	1,778,472	1,792,524	(1)%
Capital assets, net	<u>18,343,061</u>	<u>14,650,902</u>	25%
Total assets	<u>24,789,554</u>	<u>23,636,278</u>	5%
Current liabilities	220,914	132,818	66%
Long-term debt outstanding	<u>8,692,563</u>	<u>8,384,328</u>	4%
Total liabilities	<u>8,913,477</u>	<u>8,517,146</u>	5%
Net position:			
Net investment in capital assets	9,793,061	6,405,902	53%
Restricted	3,845,150	6,376,463	(40)%
Unrestricted	<u>2,237,866</u>	<u>2,336,767</u>	(4)%
Total net position	<u>\$ 15,876,077</u>	<u>15,119,132</u>	5%

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

- Increase in net capital assets in the amount of \$3,692,159.
- The principal retirement of \$695,000 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$28,144,400 and \$30,839,270, respectively. The total cost of all programs and services was \$27,387,455 for 2013 and \$30,568,304 for 2012.

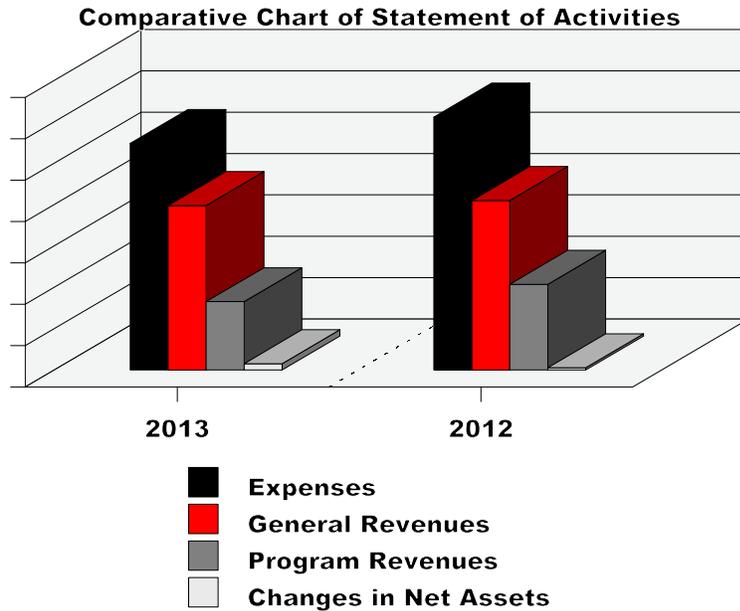
Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Table 2
Changes in Net Position

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 214,924	202,496	6%
Operating grants and contributions	8,047,269	10,121,659	(20)%
Capital grants and contributions	<u>33,350</u>	<u>33,350</u>	(100)%
Total program revenues	<u>8,262,193</u>	<u>10,357,505</u>	(20)%
General Revenues:			
Property taxes	4,145,503	3,961,781	5%
Grants and contributions not restricted	14,524,964	14,298,266	2%
Unrestricted investment earnings	25,620	108,026	(76)%
Decrease in fair market value	(38,442)		
Sixteenth section sources	837,086	1,314,643	(36)%
Other	<u>387,476</u>	<u>799,049</u>	(52)%
Total general revenues	<u>19,882,207</u>	<u>20,481,765</u>	(3)%
Total revenues	<u>28,144,400</u>	<u>30,839,270</u>	(9)%
Expenses:			
Instruction	13,094,675	15,338,912	(15)%
Support services	11,350,609	12,226,553	(7)%
Non-instructional	2,399,726	2,506,584	(4)%
Sixteenth section	288,811	179,249	61%
Interest on long-term liabilities	<u>253,634</u>	<u>317,006</u>	(20)%
Total expenses	<u>27,387,455</u>	<u>30,568,304</u>	(10)%
Increase (Decrease) in net position	<u>756,945</u>	<u>270,966</u>	179%
Net Position, July 1, as previously reported	15,119,132	14,857,762	2%
Prior period adjustment		<u>(9,596)</u>	(100)%
Net position, July 1, as restated	<u>15,119,132</u>	<u>14,848,166</u>	2%
Net Position, June 30	<u>\$ 15,876,077</u>	<u>15,119,132</u>	5%

Holmes 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

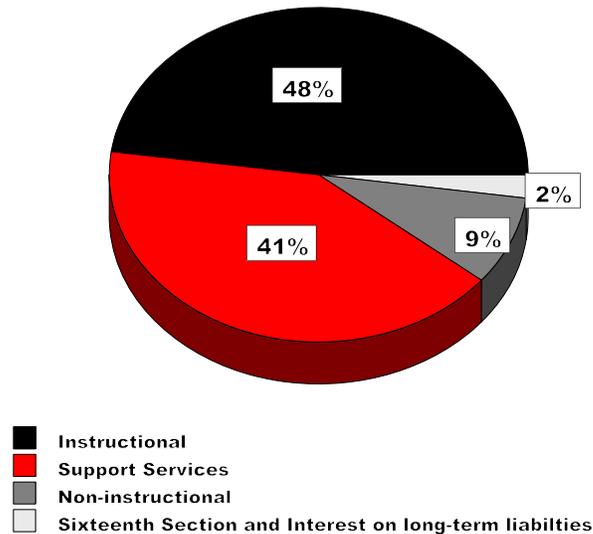
	Total Expenses		
	2013	2012	Percentage Change
Instruction	\$ 13,094,675	15,338,912	(15)%
Support services	11,350,609	12,226,553	(7)%
Non-instructional	2,399,726	2,506,584	(4)%
Sixteenth section	288,811	179,249	61%
Interest on long-term liabilities	253,634	317,006	(20)%
Total expenses	\$ 27,387,455	30,568,304	(10)%

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Net (Expense) Revenue

	<u>2013</u>	<u>2012</u>	<u>Percentage Change</u>
Instruction	\$ (10,384,264)	(11,783,013)	(12)%
Support services	(8,181,652)	(7,896,398)	4%
Non-instructional	(73,458)	(52,014)	41%
Sixteenth section	(232,254)	(162,368)	43%
Interest on long-term liabilities	(253,634)	(317,006)	(20)%
Total net (expense) revenue	<u>\$ (19,125,262)</u>	<u>(20,210,799)</u>	<u>(5)%</u>

Chart of Expenses per Statement of Activities



- Net cost of governmental activities (\$19,125,262 for 2013 and \$20,210,799 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$4,145,503 for 2013 and \$3,961,781 for 2012) and state and federal revenues (\$14,524,964 for 2013 and \$14,298,266 for 2012). In addition, there was \$837,086 and \$1,314,643 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$25,620 for 2013 and \$108,026 for 2012. In addition, there was a decrease in fair market value amounted to \$38,442 for 2013.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$6,322,182, a decrease of \$2,631,252, which includes the increase in inventory of \$10,790. \$1,254,120 or 20% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$5,068,062 or 80% 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 \$95,666. The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,992,295, which includes an increase in inventory of \$10,790. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)	
Title I Fund	no increase or decrease	
Vocational Fund	\$	(38,082)
William Dean Elementary Fund	\$	(749,025)
QZAB Debt Retirement Fund	\$	192,614
Sixteenth Section Principal Fund	\$	51,202

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

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

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$29,963,911, including land, construction in progress, school buildings, building improvements, improvements other than buildings, mobile equipment, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$4,315,588 from 2012. Total accumulated depreciation as of June 30, 2013, was \$11,620,850, and total depreciation expense for the year was \$688,052, resulting in total net capital assets of \$18,343,061.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 256,167	254,486	1%
Construction in progress	7,975,542	3,761,510	112%
Buildings	7,806,909	8,033,882	(3)%
Building improvements	298,128	321,454	(7)%
Improvements other than buildings	832,948	910,168	(8)%
Mobile equipment	857,814	1,041,445	(18)%
Furniture and equipment	315,553	327,957	(4)%
Total	<u>\$ 18,343,061</u>	<u>14,650,902</u>	<u>25%</u>

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

Debt Administration. At June 30, 2013, the District had \$8,692,563 in outstanding long-term debt, of which \$560,000 is due within one year. The liability for compensated absences increased \$3,235 from the prior year.

Holmes County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2013

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 180,000	385,000	(53)%
Limited obligation bonds payable	2,670,000	3,160,000	(16)%
Qualified zone academy bonds payable	2,500,000	2,500,000	0%
Qualified school construction bonds payable	3,200,000	2,200,000	45%
Compensated absences payable	142,563	139,328	2%
Total	<u>\$ 8,692,563</u>	<u>8,384,328</u>	<u>4%</u>

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

CURRENT ISSUES

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

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

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

Enrollment for the 2012 - 2013 year decreased by 10% to 2,768 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Holmes County School District, PO Box 630, Lexington, MS 39095.

FINANCIAL STATEMENTS

HOLMES COUNTY SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 JUNE 30, 2013

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,359,323
Due from other governments	1,257,470
Inventories	51,228
Restricted assets	1,778,472
Capital assets, non-depreciable:	
Land	256,167
Construction in progress	7,975,542
Capital assets, net of accumulated depreciation:	
Buildings	7,806,909
Building improvements	298,128
Improvements other than buildings	832,948
Mobile equipment	857,814
Furniture and equipment	315,553
Total Assets	<u>24,789,554</u>
Liabilities	
Accounts payable and accrued liabilities	124,311
Interest payable on long-term liabilities	96,603
Long-term liabilities (due within one year):	
Capital related liabilities	560,000
Long-term liabilities (due beyond one year):	
Capital related liabilities	7,990,000
Non-capital related liabilities	142,563
Total Liabilities	<u>8,913,477</u>
Net Position	
Net Investment in Capital Assets	9,793,061
Restricted For:	
Expendable:	
School-based activities	595,981
Debt service	1,364,410
Capital improvements	809,264
Forestry improvements	86,733
Unemployment benefits	105,449
Nonexpendable:	
Sixteenth section	883,313
Unrestricted	2,237,866
Total Net Position	<u>\$ 15,876,077</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Position
				Governmental Activities
Governmental Activities:				
Instruction	13,094,675	115,699	2,594,712	(10,384,264)
Support services	11,350,609	--	3,168,957	(8,181,652)
Noninstructional services	2,399,726	42,668	2,283,600	(73,458)
Sixteenth section	288,811	56,557	--	(232,254)
Interest on long-term liabilities	253,634	--	--	(253,634)
Total Governmental Activities	<u>\$ 27,387,455</u>	<u>\$ 214,924</u>	<u>\$ 8,047,269</u>	<u>(19,125,262)</u>
General Revenues:				
Taxes:				
General purpose levies				3,904,544
Debt purpose levies				240,959
Unrestricted grants and contributions:				
State				13,875,797
Federal				649,167
Unrestricted investment earnings				25,620
Decrease in fair market value				(38,442)
Sixteenth section sources				837,086
Other				387,476
Total General Revenues				<u>19,882,207</u>
Change in Net Position				<u>756,945</u>
Net Position - Beginning				15,119,132
Net Position - Ending				<u>\$ 15,876,077</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT
 BALANCE SHEET - GOVERNMENTAL FUNDS
 JUNE 30, 2013

	General Fund	Title I Fund	Vocational Fund
Assets			
Cash and cash equivalents	\$ 1,550,591	\$ --	\$ --
Cash with fiscal agents	--	--	--
Investments	--	--	--
Due from other governments	195,955	427,984	20,225
Due from other funds	979,900	--	278,670
Advances to other funds	4,050	--	--
Inventories	--	--	--
Total Assets	\$ 2,730,496	\$ 427,984	\$ 298,895
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 71,397	\$ 3,199	\$ 293
Due to other funds	278,670	424,785	298,602
Total Liabilities	350,067	427,984	298,895
Fund Balances:			
Nonspendable:			
Permanent fund principal	--	--	--
Advances	4,050	--	--
Inventory	--	--	--
Restricted:			
Unemployment benefits	--	--	--
Forestry improvements	--	--	--
Capital improvements	--	--	--
Debt service	--	--	--
Grant activities	--	--	--
Food service	--	--	--
Sixteenth section interest	--	--	--
Committed:			
Working capital	1,099,562	--	--
Assigned:			
Activity funds	22,697	--	--
Unassigned	1,254,120	--	--
Total Fund Balances	2,380,429	--	--
Total Liabilities and Fund Balances	\$ 2,730,496	\$ 427,984	\$ 298,895

The accompanying notes are an integral part of this statement.

William Dean Elementary Fund	QZAB Debt Retirement Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ 544,805	\$ --	\$ 883,313	\$ 1,263,927	\$ 4,242,636
--	7,670	--	--	7,670
--	882,489	--	5,000	887,489
--	--	--	609,256	1,253,420
--	--	--	47,787	1,306,357
--	--	--	--	4,050
--	--	--	51,228	51,228
<u>\$ 544,805</u>	<u>\$ 890,159</u>	<u>\$ 883,313</u>	<u>\$ 1,977,198</u>	<u>\$ 7,752,850</u>
\$ 7,512	\$ --	\$ --	\$ 41,910	\$ 124,311
--	--	--	304,300	1,306,357
<u>7,512</u>	<u>--</u>	<u>--</u>	<u>346,210</u>	<u>1,430,668</u>
--	--	883,313	--	883,313
--	--	--	--	4,050
--	--	--	51,228	51,228
--	--	--	105,449	105,449
--	--	--	86,733	86,733
537,293	--	--	271,971	809,264
--	890,159	--	570,854	1,461,013
--	--	--	19,849	19,849
--	--	--	342,347	342,347
--	--	--	182,557	182,557
--	--	--	--	1,099,562
--	--	--	--	22,697
--	--	--	--	1,254,120
<u>537,293</u>	<u>890,159</u>	<u>883,313</u>	<u>1,630,988</u>	<u>6,322,182</u>
<u>\$ 544,805</u>	<u>\$ 890,159</u>	<u>\$ 883,313</u>	<u>\$ 1,977,198</u>	<u>\$ 7,752,850</u>

HOLMES COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2013

Total fund balances for governmental funds	\$ 6,322,182
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	18,343,061
Liabilities due in one year are not reported in the funds.	(560,000)
Payables for bond principal which are not due in the current period are not reported in the funds.	(7,990,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(96,603)
Payables for compensated absences not due in the current period are not reported in the funds.	<u>(142,563)</u>
Net position of governmental activities	<u>\$ 15,876,077</u>

The accompanying notes are an integral part of this statement.

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HOLMES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Title I Fund	Vocational Fund
Revenues:			
<i>Local sources</i>	\$ 4,102,401	\$ 733	\$ 275
<i>Decrease in fair market value</i>	--	--	--
<i>State sources</i>	12,951,992	--	658,458
<i>Federal sources</i>	700,359	3,108,612	76,554
<i>Sixteenth section sources</i>	--	--	--
Total Revenues	<u>17,754,752</u>	<u>3,109,345</u>	<u>735,287</u>
Expenditures:			
Instruction	9,555,001	1,016,053	789,414
Support services	7,819,323	1,909,525	260,081
Noninstructional services	2,899	172,703	--
Sixteenth section	--	--	--
Facilities acquisition and construction	1,681	--	--
Debt service:			
<i>Principal</i>	67,015	--	--
<i>Interest</i>	148,223	--	--
<i>Other</i>	3,000	--	--
Total Expenditures	<u>17,597,142</u>	<u>3,098,281</u>	<u>1,049,495</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>157,610</u>	<u>11,064</u>	<u>(314,208)</u>
Other Financing Sources (Uses):			
Bonds issued	--	--	--
Transfers in	22,850	--	276,126
Payments held by escrow agents	--	--	--
Transfers out	(276,126)	(11,064)	--
Payment to Qualified Zone Academy debt escrow agent	--	--	--
Total Other Financing Sources (Uses)	<u>(253,276)</u>	<u>(11,064)</u>	<u>276,126</u>
Net change in Fund Balances	<u>(95,666)</u>	<u>--</u>	<u>(38,082)</u>
Fund Balances:			
July 1, 2012	2,476,095	--	38,082
Increase (decrease) in inventory	--	--	--
June 30, 2013	<u>\$ 2,380,429</u>	<u>\$ --</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT D

William Dean Elementary Fund	QZAB Debt Retirement Fund	Sixteenth Section Principal Fund	Other Governmental Funds	Total Governmental Funds
\$ --	\$ 14,350	\$ --	\$ 384,678	\$ 4,502,437
--	(38,442)	--	--	(38,442)
--	--	--	783,129	14,393,579
72,008	--	--	4,218,135	8,175,668
--	--	53,579	840,064	893,643
<u>72,008</u>	<u>(24,092)</u>	<u>53,579</u>	<u>6,226,006</u>	<u>27,926,885</u>
--	--	--	1,031,821	12,392,289
136,423	--	--	1,252,144	11,377,496
--	--	--	2,166,109	2,341,711
--	--	--	288,811	288,811
3,484,610	--	--	729,422	4,215,713
--	--	--	627,985	695,000
--	--	--	103,250	251,473
--	809	--	2,625	6,434
<u>3,621,033</u>	<u>809</u>	<u>--</u>	<u>6,202,167</u>	<u>31,568,927</u>
<u>(3,549,025)</u>	<u>(24,901)</u>	<u>53,579</u>	<u>23,839</u>	<u>(3,642,042)</u>
--	--	--	1,000,000	1,000,000
2,800,000	--	--	28,399	3,127,375
--	890,159	--	--	890,159
--	--	(2,377)	(2,837,808)	(3,127,375)
--	(672,644)	--	(217,515)	(890,159)
<u>2,800,000</u>	<u>217,515</u>	<u>(2,377)</u>	<u>(2,026,924)</u>	<u>1,000,000</u>
<u>(749,025)</u>	<u>192,614</u>	<u>51,202</u>	<u>(2,003,085)</u>	<u>(2,642,042)</u>
1,286,318	697,545	832,111	3,623,283	8,953,434
--	--	--	10,790	10,790
<u>\$ 537,293</u>	<u>\$ 890,159</u>	<u>\$ 883,313</u>	<u>\$ 1,630,988</u>	<u>\$ 6,322,182</u>

HOLMES COUNTY SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Net change in fund balances - total governmental funds	\$ (2,642,042)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	4,380,864
The depreciation of capital assets used in governmental activities is not reported in the funds.	(688,052)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(653)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	695,000
(Increase) decrease in accrued interest from beginning of period to end of period.	4,273
Change in inventory affect fund balance in the funds but expense in the SOA.	10,790
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(3,235)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	<u>(1,000,000)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 756,945</u>

The accompanying notes are an integral part of this statement.

HOLMES COUNTY SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 FIDUCIARY FUNDS
 JUNE 30, 2013

	Agency Funds
Assets	
Cash and other deposits	\$ 1,467,319
Total Assets	\$ 1,467,319
Liabilities	
Accounts Payable & Accrued Liabilities	\$ 1,440,749
Due to student clubs	22,520
Advances from other funds	4,050
Total Liabilities	\$ 1,467,319

The accompanying notes are an integral part of this statement.

Holmes County School District

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

Holmes County School District

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

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

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

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

Holmes County School District

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

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consist of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Title I Fund - This is the school district's federal reimbursable fund that serves to fund remedial mathematics and reading services to low-income, program eligible students.

Vocational Fund - This fund is used to account for the revenues and expenditures of local programs of vocational education.

William Dean Elementary Fund - This is a capital project fund which is used to account for funds and the expenditures associated with the construction of William Dean Elementary School.

QZAB Debt Retirement Fund - This a debt service fund that accounts for annual deposits to be paid to the Qualified Zone Academy Bond Debt.

Holmes County School District

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

Sixteenth Section Principal Fund - This is a permanent fund used to account for the nonexpendable resources generated from the sale of non-renewable resources on sixteenth section lands.

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

The District's fiduciary funds include the following:

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

Student Club Funds - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

Capital Projects Funds - Capital Project 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.

Holmes County School District

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

FIDUCIARY FUNDS

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

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

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

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

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

Property 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

Holmes County School District

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

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 position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

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

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

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

D. Encumbrances

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

E. Assets, liabilities, 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

Holmes County School District

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

deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

Holmes County School District

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

Holmes County School District

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

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

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

7. Compensated Absences

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

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

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

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

Holmes County School District

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

Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority.

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

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

Holmes County School District

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

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

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 7% of actual received revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or

Holmes County School District

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

closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,242,636 and \$1,467,319, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2013, none of the district's bank balance of \$6,451,007 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 \$7,670. This amount is reflected as restricted assets on Exhibit A (See Note 4).

Investments

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

Investment Type	Rating	Maturities (in years)	Fair Value
Hancock Horizon Treasury Securities	A	N/A	\$ 5,000
US Government Securities	AAA	1 to 5	882,489
			<u>\$ 887,489</u>

This amount is reflected as restricted assets on Exhibit A (See Note 4).

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.

Holmes County School District

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. The investments in the Hancock Horizon Treasury Securities Money Market Mutual Funds are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

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

Issuer	Fair Value	% of Total Investments
Hancock Horizon Treasury Securities	\$ 5,000	1%
US Government Securities	882,489	99%
Total	\$ 887,489	100%

Note 3 - Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title I Fund	\$ 424,785
	Vocational Fund	298,602
	Other Governmental Funds	256,513
Vocational Fund	General Fund	278,670
	Other Governmental Funds	47,787
Total		\$ 1,306,357

Holmes County School District

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

The primary purpose of the inter-fund receivables and payables are to close out the federal programs at year end.

B. Advances To/From Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Fiduciary Funds	\$ <u><u>4,050</u></u>

Advances were for cash flow purposes

C. Inter-fund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Title I Fund	\$ 11,064
	Other Governmental Funds	11,786
Vocational Fund	General Fund	276,126
William Dean Elementary Fund	Other Governmental Funds	2,800,000
Other Governmental Funds	Sixteenth Section Principal Fund	2,377
	Other Governmental Funds	26,022
Total		\$ <u><u>3,127,375</u></u>

The primary purpose of the inter-fund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is for the sinking fund payment to the QZAB escrow agent.

Note 4 - Restricted Assets

The restricted assets represent the cash balance totaling \$883,313, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the investment balance totaling \$5,000, MAEP Limited Obligation Bond/Note Fund.

In addition, the restricted assets represent the cash with fiscal agents and investment balances, totaling \$7,670 and \$882,489, respectively, of the QSCB Debt Retirement Fund.

Holmes County School District

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

Note 5- Capital Assets

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

	Balance 7-1-2012	Additions	Retirements	Balance 6-30-2013
<u>Non-depreciable capital assets:</u>				
Land	\$ 254,486	1,681		256,167
Construction in progress	3,761,510	4,214,032		7,975,542
Total non-depreciable capital assets	<u>4,015,996</u>	<u>4,215,713</u>	<u>0</u>	<u>8,231,709</u>
<u>Depreciable capital assets:</u>				
Buildings	13,926,873			13,926,873
Building improvements	583,157			583,157
Improvements other than buildings	1,930,514			1,930,514
Mobile equipment	3,641,493			3,641,493
Furniture and equipment	1,550,290	165,151	65,276	1,650,165
Total depreciable capital assets	<u>21,632,327</u>	<u>165,151</u>	<u>65,276</u>	<u>21,732,202</u>
<u>Less accumulated depreciation for:</u>				
Buildings	5,892,991	226,973		6,119,964
Building improvements	261,703	23,326		285,029
Improvements other than buildings	1,020,346	77,220		1,097,566
Mobile equipment	2,600,048	183,631		2,783,679
Furniture and equipment	1,222,333	176,902	64,623	1,334,612
Total accumulated depreciation	<u>10,997,421</u>	<u>688,052</u>	<u>64,623</u>	<u>11,620,850</u>
Total depreciable capital assets, net	<u>10,634,906</u>	<u>(522,901)</u>	<u>653</u>	<u>10,111,352</u>
Governmental activities capital assets, net	<u>\$ 14,650,902</u>	<u>3,692,812</u>	<u>653</u>	<u>18,343,061</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 481,636
Support services	137,611
Non-instructional	68,805
Total depreciation expense	<u>\$ 688,052</u>

Construction in progress is composed of:

	Spent to June 30, 2013	Remaining Commitment
William Dean, Jr. Elementary School	\$ 7,975,542	375,123

Construction projects included in governmental activities are funded from the QSCB Construction Fund and District Maintenance Fund.

Holmes County School District

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

Note 6 - Long-term liabilities

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

	Balance 7-1-2012	Additions	Reductions	Balance 6-30-2013	Amounts due within one year
A. General obligation bonds payable	\$ 385,000		205,000	180,000	60,000
B. Limited obligation bonds payable	3,160,000		490,000	2,670,000	500,000
C. Qualified zone academy bonds payable	2,500,000			2,500,000	
D. Qualified school construction bonds payable	2,200,000	1,000,000		3,200,000	
E. Compensated absences payable	139,328	3,235		142,563	
Total	\$ 8,384,328	1,003,235	695,000	8,692,563	560,000

A. General Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Bonds, Refunding Series 2003	1.4-4.4%	07-01-03	04-15-16	\$ <u>2,580,000</u>	<u>180,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 60,000	7,920	67,920
2015	60,000	5,280	65,280
2016	60,000	2,640	62,640
Total	\$ <u>180,000</u>	<u>15,840</u>	<u>195,840</u>

This debt will be retired from the District Maintenance Fund and the Buildings and Buses Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2013, the amount of outstanding bonded indebtedness was equal to 0.19% of property assessments as of October 1, 2012.

Holmes County School District

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

B. Limited Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State Aid Capital Improvements Refunding Bonds, Series 2009	3.0-4.0%	10-01-09	02-01-18	\$ <u>4,395,000</u>	<u>2,670,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 500,000	88,550	588,550
2015	515,000	73,550	588,550
2016	535,000	58,100	593,100
2017	550,000	42,050	592,050
2018	<u>570,000</u>	<u>22,800</u>	<u>592,800</u>
Total	\$ <u>2,670,000</u>	<u>285,050</u>	<u>2,955,050</u>

This debt will be retired from the MAEP Bond Issue Fund.

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

C. Qualified zone academy bonds payable

As more fully explained in Note 11, 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
Qualified zone academy bonds payable	0%	07-23-08	07-15-20	\$ <u>2,500,000</u>	<u>2,500,000</u>

Holmes County School District

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

D. Qualified school construction bonds payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Qualified school construction bonds payable	0.40%	12-17-10	12-01-25	\$ 2,200,000	2,200,000
Qualified school construction bonds payable	0.17%	12-07-12	12-15-27	1,000,000	1,000,000
				<u>\$ 3,200,000</u>	<u>3,200,000</u>

E. Compensated absences payable

As more fully explained in Note 1(E)(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.

Note 7 - Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 - Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2013, 2012, and 2011 were \$2,020,040, \$2,005,611, and \$1,793,316, respectively, which equaled the required contributions for each year.

Holmes County School District

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

Note 9 - Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the 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 of 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 account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 10 - Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and 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 users 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.

Holmes County School District

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

Year Ending June 30		Amount
2014	\$	389,028
2015		280,599
2016		139,477
2017		28,193
2018		16,693
2019 - 2023		4,375
2024 - 2028		4,375
2029 - 2033		1,625
2034 - 2038		1,625
Total	\$	<u>865,990</u>

Note 11 - 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 at 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. The school district, in agreement in Hancock Bank, has entered into such an arrangement dated July 23, 2008.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before July 22nd of each year. The amount on deposit at June 30, 2013 was \$890,159. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2014	\$	150,000
2015		150,000
2016		150,000
2017		150,000
2018		150,000

Holmes County School District

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

2019 - 2021		377,000
Total	\$	<u>1,127,000</u>

Note 12 - Qualified School Construction Bonds

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

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

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. Annual sinking fund deposit amounts are inclusive of any interest earnings for the prior 12 months. The indicated deposit amount will be reduced by the amount of the prior 12 months' interest earnings. The amount on deposit at June 30, 2013 was \$0. 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 to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2014	\$	66,000
2015		66,000
2016		66,000
2017		116,000
2018		116,000

Holmes County School District

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

2019	253,000
2020	253,000
2021	253,000
2022 - 2026	1,877,000
2027 - 2028	134,000
Total	\$ <u>3,200,000</u>

Note 13 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Holmes County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statement:

On October 11, 2013, the Board approved of a bid in the amount of \$1,166,000 for construction of a gymnasium at the William Dean, Jr. Elementary School.

Note 14 - 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 federally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

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

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2013

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 4,121,294	4,102,402	4,102,401	(18,892)	(1)
State sources	12,220,920	12,952,284	12,951,992	731,364	(292)
Federal sources	273,200	599,694	700,359	326,494	100,665
Total Revenues	<u>16,615,414</u>	<u>17,654,380</u>	<u>17,754,752</u>	<u>1,038,966</u>	<u>100,372</u>
Expenditures:					
Instruction	10,104,039	9,553,983	9,555,001	550,056	(1,018)
Support services	8,381,369	7,646,612	7,819,323	734,757	(172,711)
Noninstructional services	800	2,899	2,899	(2,099)	0
Facilities acquisition and construction		1,681	1,681	(1,681)	0
Debt service:					
Principal	67,015	67,015	67,015	0	0
Interest	148,222	148,223	148,223	(1)	0
Other	4,000	3,000	3,000	1,000	0
Total Expenditures	<u>18,705,445</u>	<u>17,423,413</u>	<u>17,597,142</u>	<u>1,282,032</u>	<u>(173,729)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,090,031)</u>	<u>230,967</u>	<u>157,610</u>	<u>2,320,998</u>	<u>(73,357)</u>
Other Financing Sources (Uses):					
Transfers In	1,182,118	163,957	22,850	(1,018,161)	(141,107)
Transfers Out	(1,106,576)	(15,282)	(276,126)	1,091,294	(260,844)
Total Other Financing Sources (Uses)	<u>75,542</u>	<u>148,675</u>	<u>(253,276)</u>	<u>73,133</u>	<u>(401,951)</u>
Net Change in Fund Balances	<u>(2,014,489)</u>	<u>379,642</u>	<u>(95,666)</u>	<u>2,394,131</u>	<u>(475,308)</u>
Fund Balances:					
July 1, 2012	<u>3,216,657</u>	<u>2,478,438</u>	<u>2,476,095</u>	<u>(738,219)</u>	<u>(2,343)</u>
June 30, 2013	<u>\$ 1,202,168</u>	<u>2,858,080</u>	<u>2,380,429</u>	<u>1,655,912</u>	<u>(477,651)</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2013

Exhibit 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	733	733	733	0
Federal sources	2,781,305	3,801,685	3,108,612	1,020,380	(693,073)
Total Revenues	<u>2,781,305</u>	<u>3,802,418</u>	<u>3,109,345</u>	<u>1,021,113</u>	<u>(693,073)</u>
Expenditures:					
Instruction	647,926	1,404,077	1,016,053	(756,151)	388,024
Support services	1,933,243	2,127,180	1,909,525	(193,937)	217,655
Noninstructional services	176,758	219,559	172,703	(42,801)	46,856
Total Expenditures	<u>2,757,927</u>	<u>3,750,816</u>	<u>3,098,281</u>	<u>(992,889)</u>	<u>652,535</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>23,378</u>	<u>51,602</u>	<u>11,064</u>	<u>28,224</u>	<u>(40,538)</u>
Other Financing Sources (Uses):					
Operating transfers out	<u>(23,378)</u>	<u>(51,602)</u>	<u>(11,064)</u>	<u>(28,224)</u>	<u>40,538</u>
Total Other Financing Sources (Uses)	<u>(23,378)</u>	<u>(51,602)</u>	<u>(11,064)</u>	<u>(28,224)</u>	<u>40,538</u>
Net Change in Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
July 1, 2012	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2013	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

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

HOLMES COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Vocational Fund
 For the Year Ended June 30, 2013

Exhibit 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$	275	275	275	0
State sources	539,976	658,164	658,458	118,188	294
Federal sources	36,000	76,555	76,554	40,555	(1)
Total Revenues	<u>575,976</u>	<u>734,994</u>	<u>735,287</u>	<u>159,018</u>	<u>293</u>
Expenditures:					
Instructional	824,809	789,415	789,414	35,394	1
Support services	250,625	259,787	260,081	(9,162)	(294)
Total Expenditures	<u>1,075,434</u>	<u>1,049,202</u>	<u>1,049,495</u>	<u>26,232</u>	<u>(293)</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(499,458)</u>	<u>(314,208)</u>	<u>(314,208)</u>	<u>185,250</u>	<u>0</u>
Other Financing Sources (Uses):					
Operating transfers in	499,458	278,670	276,126	(220,788)	(2,544)
Total Other Financing Sources (Uses)	<u>499,458</u>	<u>278,670</u>	<u>276,126</u>	<u>(220,788)</u>	<u>(2,544)</u>
Net Change in Fund Balances	<u>0</u>	<u>(35,538)</u>	<u>(38,082)</u>	<u>(35,538)</u>	<u>(2,544)</u>
Fund Balances:					
July 1, 2012	0	38,082	38,082	38,082	0
June 30, 2013	<u>\$ 0</u>	<u>2,544</u>	<u>0</u>	<u>2,544</u>	<u>(2,544)</u>

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

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Holmes County School District

Notes to the Required Supplementary Information
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 the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget Amendments and Revisions

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

SUPPLEMENTARY INFORMATION

HOLMES 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 the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 710,024
National School Lunch Program	10.555	1,464,451
Summer Food Service Program for Children	10.559	64,512
Total Child Nutrition cluster		<u>2,238,987</u>
Total passed-through the Mississippi Department of Education		<u>2,238,987</u>
Total U.S. Department of Agriculture		<u><u>2,238,987</u></u>
 <u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The School and Libraries Program of The Universal Service Fund	32.xxx	649,167
Total Federal Communications Commission		<u>649,167</u>
 <u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Cluster:		
Title I Grants to Local Educational Agencies	84.010	3,109,345
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	102,633
Total Title I Cluster		<u>3,211,978</u>
Career and Technical Education - Basic Grants to States	84.048	76,555
Rural Education	84.358	55,000
Improving Teacher Quality - State Grants	84.367	361,708
School Improvement Grants	84.377	785,188
Subtotal		<u>1,278,451</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	615,674
Special Education - Preschool Grants	84.173	58,945
Total Special Education Cluster		<u>674,619</u>
Total passed-through the Mississippi Department of Education		<u>5,165,048</u>
Total U.S. Department of Education		<u><u>5,165,048</u></u>
 Total for All Federal Awards		 \$ <u><u>8,053,202</u></u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and significant accounting policies, 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.

HOLMES 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	\$ 22,670,890	11,603,486	873,108	1,393,192	8,801,104
Other	8,898,037	773,427	425,540	8,193	7,690,877
Total	\$ <u>31,568,927</u>	<u>12,376,913</u>	<u>1,298,648</u>	<u>1,401,385</u>	<u>16,491,981</u>
Total number of students *	<u>2,768</u>				
Cost per student	\$ <u>11,404</u>	<u>4,471</u>	<u>469</u>	<u>506</u>	<u>5,958</u>

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

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

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

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

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

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

OTHER INFORMATION

HOLMES COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 4,102,401	3,962,851	4,807,367	4,549,159
State sources	12,951,992	13,203,295	12,743,049	13,215,583
Federal sources	700,359	300,605	153,010	202,598
Total Revenues	<u>17,754,752</u>	<u>17,466,751</u>	<u>17,703,426</u>	<u>17,967,340</u>
Expenditures:				
Instruction	9,555,001	10,486,088	8,781,236	9,739,819
Support services	7,819,323	7,716,951	7,639,738	8,060,490
Noninstructional services	2,899	2,538	33,163	35,167
Facilities acquisition and construction	1,681	1,785	285,500	56,424
Debt service:				
Principal	67,015	71,961	92,015	122,015
Interest	148,223	150,546	33,038	42,138
Other	3,000	3,000	4,000	53,500
Total Expenditures	<u>17,597,142</u>	<u>18,432,869</u>	<u>16,868,690</u>	<u>18,109,553</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>157,610</u>	<u>(966,118)</u>	<u>834,736</u>	<u>(142,213)</u>
Other Financing Sources (Uses):				
Insurance loss recoveries			49,145	
Operating transfers in	22,850	49,986	9,821	624,645
Operating transfers out	(276,126)	(2,887,287)	(715,585)	(705,439)
Other financing uses		(22,570)	(9,173)	(2,300)
Total Other Financing Sources (Uses)	<u>(253,276)</u>	<u>(2,859,871)</u>	<u>(665,792)</u>	<u>(83,094)</u>
Net Change in Fund Balances	<u>(95,666)</u>	<u>(3,825,989)</u>	<u>168,944</u>	<u>(225,307)</u>
Fund Balances:				
July 1,	2,476,095	6,302,084	6,133,140	6,358,447
June 30,	<u>\$ 2,380,429</u>	<u>2,476,095</u>	<u>6,302,084</u>	<u>6,133,140</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

HOLMES COUNTY SCHOOL DISTRICT

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

"UNAUDITED"

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 4,502,437	4,426,971	5,250,528	4,859,557
Decrease in fair market value	(38,442)			
Intermediate sources	14,393,579	14,692,507	13,997,445	14,875,557
State sources	8,175,668	9,760,268	10,385,345	10,766,608
Federal sources	893,643	1,331,524	922,321	1,081,925
Total Revenues	<u>27,926,885</u>	<u>30,211,270</u>	<u>30,555,639</u>	<u>31,583,647</u>
Expenditures:				
Instruction	12,392,289	14,020,217	13,702,898	15,432,973
Support services	11,377,496	12,223,998	11,808,493	12,085,351
Noninstructional services	2,341,711	2,434,306	2,300,298	2,435,313
Sixteenth section	288,811	179,249	242,866	84,465
Facilities acquisition and construction	4,215,713	3,055,217	653,219	56,424
Debt service:				
Principal	695,000	685,000	690,000	560,000
Interest	251,473	268,046	164,338	88,905
Other	6,434	5,625	6,624	468,288
Total Expenditures	<u>31,568,927</u>	<u>32,871,658</u>	<u>29,568,736</u>	<u>31,211,719</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(3,642,042)</u>	<u>(2,660,388)</u>	<u>986,903</u>	<u>371,928</u>
Other Financing Sources (Uses):				
Refunding bonds issues				4,395,000
Bonds and notes issued	1,000,000		2,200,000	
Insurance loss recoveries			49,145	
Payment held by escrow agents	890,159			
Operating transfers in	3,127,375	2,946,760	1,345,209	1,347,803
Other financing sources		628,000	6,411	
Transfer from QZAB debt service agent			427,900	
Operating transfers out	(3,127,375)	(2,946,760)	(1,345,209)	(1,347,803)
Other financing uses		(864,348)	(9,173)	(2,300)
Payment to QZAB debt escrow agent	(890,159)		(427,900)	
Payment to refunded bond escrow agent				(4,305,000)
Total Other Financing Sources (Uses)	<u>1,000,000</u>	<u>(236,348)</u>	<u>2,246,383</u>	<u>87,700</u>
Net Change in Fund Balances	<u>(2,642,042)</u>	<u>(2,896,736)</u>	<u>3,233,286</u>	<u>459,628</u>
Fund Balances:				
July 1,	8,953,434	11,853,482	8,616,944	8,148,339
Increase (Decrease) in inventory	10,790	(3,312)	3,252	8,977
June 30,	<u>\$ 6,322,182</u>	<u>8,953,434</u>	<u>11,853,482</u>	<u>8,616,944</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes 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 Holmes 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 Holmes County School District's basic financial statements, and have issued our report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a certain deficiency in internal control that we consider to be a material weakness.

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 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 deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness. Finding 2013-1.

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.

Compliance and Other Matters

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

Holmes County School District's Response to Finding

The Holmes County School District's response to the finding identified in our audit is described in the accompanying auditee's corrective action plan. The Holmes 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.

This report is intended solely for the information and use of management, the school board, others within the entity, and 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 19, 2014

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes County School District

Report on Compliance for Each Major Federal Program

We have audited Holmes 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 Holmes County School District's major federal program for the year ended June 30, 2013. The Holmes County School District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the Holmes County School District is responsible for establishing and maintaining effective internal control over compliance with the type of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Holmes 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 the school district's internal control over compliance.

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

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

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

This report is intended solely for the information and use of management, the school board, others within the entity, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 19, 2014

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2013, which collectively comprise Holmes County School District's basic financial statements and have issued our report thereon dated February 19, 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 ensure 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 \$21,198 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 ensure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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

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

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 19, 2014

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Holmes County School District

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

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? No.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unqualified
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Identification of major programs:

CFDA Numbers:	Name of Federal Program or Cluster
84.010 & 84.389	Title I Cluster
84.367	Improving Teacher Quality - State Grants
32.xxx	The School and Libraries Program of the Universal Service Fund

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? No

Section II: Financial Statements Findings

The results of our tests disclosed the following finding related to the financial statements that is required to be reported by *Government Auditing Standards*.

Material Weakness:

Finding 2013-1:

Condition:

The school district failed to timely reconcile accounts payable and payroll.

Criteria:

Management is responsible for establishing an internal control system that ensures timely and accurate bank reconciliations of accounts payable and other liabilities.

Cause:

Controls were not in place to ensure the timely reconciliation of accounts payable and payroll throughout the year.

Effect:

The risk of misstatements was increased and controls were not in place to prevent, detect or correct them.

Recommendation:

We recommend management implement policies or procedures to establish an internal control system that will ensure the accounts payable and payroll clearing cash accounts are reconciled in a timely manner to the books.

Section III: Federal Awards Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

Holmes County School District
PO Box 630
Lexington, MS 39095
Powell Rucker - Superintendent
Kathy Sample - Business Manager

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section __.315(c) of OMB Circular A-133, the Holmes County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2013

Finding

Corrective Action Plan Details

2013-1

a. Name of Contact Person Responsible for Corrective Action

Name: Kathy Sample
Title: Business Manager
Phone Number: 662-834-2175

b. Corrective Action Planned:

Management will implement policies or procedures to establish an internal control system that will ensure the accounts payable and payroll clearing cash accounts are reconciled to the books.

c. Anticipated Completion Date:

6-30-2014