



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

PASCAGOULA SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013

Charles L. Shivers, CPA
Ridgeland, MS

This page left blank intentionally.

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS.....	13
Government-wide Financial Statements	
Exhibit A Statement of Net Position.....	15
Exhibit B Statement of Activities.....	16
Governmental Funds Financial Statements	
Exhibit C Balance Sheet – Governmental Funds.....	17
Exhibit C-1 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	18
Exhibit D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Exhibit D-1 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	20
Fiduciary Funds Financial Statements	
Exhibit E Statement of Fiduciary Assets and Liabilities	21
Notes to the Financial Statements.....	23
REQUIRED SUPPLEMENTARY INFORMATION.....	35
Budgetary Comparison Schedule for the General Fund.....	37
Notes to the Required Supplementary Information.....	38
SUPPLEMENTARY INFORMATION.....	39
Schedule of Expenditures of Federal Awards.....	41
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	43
OTHER INFORMATION.....	45
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund, Last Four Years.....	47
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds, Last Four Years	48
REPORTS ON INTERNAL CONTROLS AND COMPLIANCE.....	49
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	51
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance as Required by OMB Circular A-133.....	53
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	55
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	59

This page left blank intentionally.

INDEPENDENT AUDITOR'S REPORT

This page left blank intentionally.

CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Pascagoula School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Pascagoula 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, as required by the Mississippi State Auditor's Office, are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my 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, as required by the Mississippi Department of Education, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated February 19, 2014, on my consideration of the Pascagoula School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pascagoula School District's internal control over financial reporting and compliance.

Charles L Shivers, CPA

Ridgeland, MS
February 19, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

This page left blank intentionally.

PASCAGOULA SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013

The following discussion and analysis of Pascagoula 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 \$16,966,521, including a prior period adjustment of (\$5,193,974), which represents a 20.6% increase from fiscal year 2012. Total net position for 2012 increased \$1,148,022, including a prior period adjustment of (\$160,706), which represents a 1.4% increase from fiscal year 2011.
- General revenues amounted to \$82,182,530 and \$63,476,959, or 82.3% and 82.3% 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 \$17,617,132, or 17.7% of total revenues for 2013, and \$13,680,879, or 17.7% of total revenues for 2012.
- The District had \$77,639,167 and \$75,849,110 in expenses for fiscal years 2013 and 2012; only \$17,617,132 for 2013 and \$13,680,879 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$82,182,530 for 2013 and \$63,476,959 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$73,506,900 in revenues and \$63,446,846 in expenditures for 2013, and \$63,752,441 in revenues and \$59,886,231 in expenditures in 2012. The General Fund's fund balance increased by \$9,905,291 from 2012 to 2013, and decreased by \$3,854,112 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, increased by \$9,725,483 for 2013 and decreased by \$18,314 for 2012. The increase for 2013 was due to the addition of capital assets.
- Long-term debt decreased by \$7,551,064 for 2013 and decreased by \$1,883,804 for 2012. This decrease for 2013 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$78,936 for 2013 and decreased by \$108,804 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund 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 \$99,270,265 as of June 30, 2013.

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

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

Table 1
Condensed Statement of Net Position

	June 30, 2013	June 30, 2012	Percentage Change
Current assets	\$ 42,657,997	\$ 45,307,015	-5.85 %
Restricted assets	3,071,499	1,617,874	89.85 %
Capital assets, net	55,627,100	45,901,617	21.19 %
Total assets	101,356,596	92,826,506	9.19 %
Current liabilities	1,441,209	2,326,576	-38.05 %
Long-term debt outstanding	645,122	8,196,186	-92.13 %
Total liabilities	2,086,331	10,522,762	-80.17 %
Net position:			
Net investment in capital assets	55,627,100	38,271,617	45.35 %
Restricted	4,391,797	27,717,201	-84.15 %
Unrestricted	39,251,368	16,314,926	140.59 %
Total net position	\$ 99,270,265	\$ 82,303,744	20.61 %

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 \$9,725,483.
- The principal retirement of \$7,630,000 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 \$99,799,662 and \$77,157,838, respectively. The total cost of all programs and services was \$77,639,167 for 2013 and \$75,849,110 for 2012.

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

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,545,199	\$ 1,499,645	3.04 %
Operating grants and contributions	16,071,933	12,181,234	31.94 %
General revenues:			
Property taxes	42,949,698	35,239,114	21.88 %
Grants and contributions not restricted	29,991,043	28,015,547	7.05 %
Investment earnings	264,492	216,038	22.43 %
Sixteenth section sources	46,251	6,215	644.18 %
Other	8,931,046	45	19,846,668.89 %
Total revenues	99,799,662	77,157,838	29.34 %
Expenses:			
Instruction	45,344,181	41,950,026	8.09 %
Support services	27,841,342	29,374,447	(5.22) %
Non-instructional	4,386,922	4,183,686	4.86 %
Interest on long-term liabilities	66,722	340,951	(80.43) %
Total expenses	77,639,167	75,849,110	2.36 %
Increase (Decrease) in net position	22,160,495	1,308,728	1,593.29 %
Net Position, July 1, as previously reported	82,303,744	81,155,722	1.41 %
Prior Period Adjustment	(5,193,974)	(160,706)	(3,131.97) %
Net Position, July 1, as restated	77,109,770	80,995,016	(4.80) %
Net Position, June 30	\$ 99,270,265	\$ 82,303,744	20.61 %

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ 45,344,181	\$ 41,950,026	8.09 %
Support services	27,841,342	29,374,447	(5.22) %
Non-instructional	4,386,922	4,183,686	4.86 %
Interest on long-term liabilities	66,722	340,951	(80.43) %
Total expenses	\$ 77,639,167	\$ 75,849,110	2.36 %
	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ (37,505,921)	\$ (32,618,732)	14.98 %
Support services	(22,526,065)	(29,374,447)	(23.31) %
Non-instructional	76,673	165,899	(53.78) %
Interest on long-term liabilities	(66,722)	(340,951)	(80.43) %
Total net (expense) revenue	\$ (60,022,035)	\$ (62,168,231)	(3.45) %

- Net cost of governmental activities (\$60,022,035 for 2013 and \$62,168,231 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$42,949,698 for 2013 and \$35,239,114 for 2012) and state and federal revenues (\$29,991,043 for 2013 and \$28,015,547 for 2012). In addition, there was \$46,251 and \$6,215 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$264,492 for 2013 and \$216,038 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$44,288,287, an increase of \$4,499,602, which includes a prior period adjustment of (\$204,907) and a decrease in inventory of \$1,634. \$10,718,260 or 24.2% 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 \$33,570,027 or 75.8% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$9,905,291. The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,964,646, which includes a prior period adjustment of (\$204,907) and a decrease in reserve for inventory of \$1,634. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Future Capital Projects Fund	\$ (3,441,043)

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$84,024,091, including land, construction in progress, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$11,245,429 from 2012. Total accumulated depreciation as of June 30, 2013, was \$28,396,991, and total depreciation expense for the year was \$1,742,781, resulting in total net capital assets of \$55,627,100.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 2,140,042	\$ 2,140,042	0.00 %
Construction in Progress	10,828,265	3,729,683	190.33 %
Buildings	37,853,919	35,733,608	5.93 %
Improvements other than buildings	1,436,540	1,435,739	0.06 %
Mobile equipment	2,978,349	2,404,991	23.84 %
Furniture and equipment	389,985	457,554	(14.77) %
Total	<u>\$ 55,627,100</u>	<u>\$ 45,901,617</u>	21.19 %

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

Debt Administration. At June 30, 2013, the District had \$645,122 in outstanding long-term debt, of which \$56,610 is due within one year. The liability for compensated absences increased \$78,936 from the prior year. During the fiscal year, the school district retired all outstanding bonds and notes of the district.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 0	\$ 1,865,000	(100.00) %
Three mill notes payable	0	5,765,000	(100.00) %
Compensated absences payable	645,122	566,186	13.94 %
Total	<u>\$ 645,122</u>	<u>\$ 8,196,186</u>	(92.13) %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Pascagoula School District, 1006 Communny Avenue, Pascagoula, MS 39567.

BASIC FINANCIAL STATEMENTS

This page left blank intentionally.

PASCAGOULA SCHOOL DISTRICT
Statement of Net Position
June 30, 2013

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 40,599,561
Due from other governments	1,807,982
Other receivables, net	1,188
Inventories and prepaid items	249,266
Restricted assets (Note 4)	3,071,499
Non-depreciable capital assets (Note 5)	12,968,307
Depreciable capital assets, net (Note 5)	42,658,793
Total Assets	<u>101,356,596</u>
Liabilities	
Accounts payable and accrued liabilities	1,441,209
Long-term liabilities (Due within one year) (Note 6)	
Non-capital related liabilities	56,610
Long-term liabilities (Due beyond one year) (Note 6)	
Non-capital related liabilities	588,512
Total Liabilities	<u>2,086,331</u>
Net Position	
Net investment in capital assets	55,627,100
Restricted net position	
Expendable	
School-based activities	2,146,329
Debt service	1,485
Contractual commitments	1,362,975
Forestry improvements	20,612
Unemployment benefits	251,400
Non-expendable	
Sixteenth section	608,996
Unrestricted	<u>39,251,368</u>
Total Net Position	<u>\$ 99,270,265</u>

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

PASCAGOULA SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2013

Exhibit B

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Instruction	\$ 45,344,181	901,871	6,936,389	(37,505,921)
Support services	27,841,342		5,315,277	(22,526,065)
Non-instructional	4,386,922	643,328	3,820,267	76,673
Interest on long-term liabilities	66,722			(66,722)
Total Governmental Activities	<u>77,639,167</u>	<u>1,545,199</u>	<u>16,071,933</u>	<u>(60,022,035)</u>
General Revenues				
Taxes				
				42,942,900
				6,798
Unrestricted grants and contributions				
				29,467,874
				523,169
				264,492
				46,251
				8,931,046
				<u>82,182,530</u>
				<u>22,160,495</u>
				82,303,744
				(5,193,974)
				<u>77,109,770</u>
				<u>\$ 99,270,265</u>

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

PASCAGOULA SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2013

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Future Capital Projects Fund	Other Governmental Funds	
Assets				
Cash and cash equivalents (Note 2)	\$ 24,680,305	2,595,045	16,395,710	43,671,060
Due from other governments	670,922		1,137,060	1,807,982
Due from other funds (Note 3)	1,108,927	3,500,000		4,608,927
Inventories and Prepaids	142,330		106,936	249,266
Total Assets	26,602,484	6,095,045	17,639,706	50,337,235
Liabilities and Fund Balances				
Liabilities				
Accounts payable & accrued liabilities	816,587		624,622	1,441,209
Due to other funds (Note 3)	3,500,000		1,107,739	4,607,739
Total Liabilities	4,316,587	0	1,732,361	6,048,948
Fund Balances				
Nonspendable				
Inventory			106,936	106,936
Permanent fund principal			608,996	608,996
Prepaid items	142,330			142,330
Restricted				
Debt service			1,485	1,485
Contractual commitments			1,362,975	1,362,975
Forestry improvements			20,612	20,612
Unemployment benefits			251,400	251,400
Grant activities			2,039,393	2,039,393
Assigned				
School activities	635,435			635,435
Instructional enhancement	1,453,231			1,453,231
Bus/vehicle acquisition	1,280,638			1,280,638
Facility repairs/renovations	8,056,003			8,056,003
Future capital projects		6,095,045		6,095,045
Singing River Elementary additions			161,093	161,093
Pascagoula High School baseball/softball facilities			512,000	512,000
Gautier High School baseball/softball facilities			633,450	633,450
Gautier High School classroom additions			2,533,300	2,533,300
Pascagoula High School field house			2,274,250	2,274,250
Gautier High School field house			2,590,600	2,590,600
Pre-K building improvements			47,981	47,981
Martin Bluff classroom additions			10,256	10,256
Gautier elementary additions			6,623	6,623
Trent Lott additions			1,637,200	1,637,200
Pascagoula High School field lighting			716,595	716,595
Gautier transportation facility			392,200	392,200
Unassigned	10,718,260			10,718,260
Total Fund Balances	22,285,897	6,095,045	15,907,345	44,288,287
Total Liabilities and Fund Balances	\$ 26,602,484	6,095,045	17,639,706	50,337,235

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

PASCAGOULA SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
 June 30, 2013

Exhibit C-1

Amount

Total Fund Balance - Governmental Funds

\$ 44,288,287

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	2,140,042	
Construction in progress	10,828,265	
Buildings	59,906,002	
Improvement other than buildings	1,771,576	
Mobile equipment	6,279,149	
Furniture and equipment	3,099,057	
Accumulated depreciation	<u>(28,396,991)</u>	55,627,100

Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Compensated absences		<u>(645,122)</u>
----------------------	--	------------------

Total Net Position - Governmental Activities

\$ 99,270,265

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

PASCAGOULA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended June 30, 2013

Exhibit D

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Future Capital Projects Fund		
Revenues				
Local sources	\$ 43,469,606	101,151	1,276,048	44,846,805
State sources	29,467,874		1,107,764	30,575,638
Federal sources	523,169		14,872,786	15,395,955
Sixteenth section sources	46,251		3,967	50,218
Total Revenues	73,506,900	101,151	17,260,565	90,868,616
Expenditures				
Instruction	38,198,400		6,147,943	44,346,343
Support services	25,176,351		3,127,851	28,304,202
Noninstructional services	130		4,259,431	4,259,561
Facilities acquisition and construction	71,965		10,306,312	10,378,277
Debt service				
Principal (Note 6)			7,630,000	7,630,000
Interest			172,903	172,903
Other			2,233	2,233
Total Expenditures	63,446,846	0	31,646,673	95,093,519
Excess (Deficiency) of Revenues Over Expenditures	10,060,054	101,151	(14,386,108)	(4,224,903)
Other Financing Sources (Uses)				
Insurances loss recoveries	777			777
Sale of other property	5,234			5,234
Operating transfers in (Note 3)	5,925,463	13,283,002	20,664,936	39,873,401
Other financing sources (Note 15)	8,925,035			8,925,035
Operating transfers out (Note 3)	(15,011,272)	(16,825,196)	(8,036,933)	(39,873,401)
Total Other Financing Sources (Uses)	(154,763)	(3,542,194)	12,628,003	8,931,046
Net Change in Fund Balances	9,905,291	(3,441,043)	(1,758,105)	4,706,143
Fund Balances				
July 1, 2012, as previously reported	12,380,606	9,536,088	17,871,991	39,788,685
Prior period adjustments (Note 9)			(204,907)	(204,907)
July 1, 2012, as restated	12,380,606	9,536,088	17,667,084	39,583,778
Decrease in reserve for inventory			(1,634)	(1,634)
June 30, 2013	\$ 22,285,897	6,095,045	15,907,345	44,288,287

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

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

Exhibit D-1

Amount

Net Change in Fund Balance - Governmental Funds

\$ 4,706,143

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

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

Capital outlay	11,565,465	
Depreciation expense	<u>(1,742,781)</u>	9,822,684

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

(26,176)

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

Payments of debt principal	7,630,000	
Accrued interest payable	<u>108,414</u>	7,738,414

Some items reported in the Statement of Activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds. These activities include:

Change in compensated absences	(78,936)	
Change in inventory reserve	<u>(1,634)</u>	<u>(80,570)</u>

Changes in Net Position of Governmental Activities

\$ 22,160,495

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

PASCAGOULA SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2013

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 2,141,163
Total Assets	<u>2,141,163</u>
Liabilities	
Accounts payable and accrued liabilities	2,037,486
Due to other funds (Note 3)	1,188
Due to student clubs	<u>102,489</u>
Total Liabilities	<u>\$ 2,141,163</u>

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

This page left blank intentionally.

PASCAGOULA SCHOOL DISTRICT
Notes to the Financial Statements
For 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Pascagoula since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

B. Government-wide and Fund Financial Statements

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

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

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

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.

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

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.

Future Capital Projects Fund - This Capital Projects Fund is used at the discretion of the school board to finance facility acquisitions, repairs and renovations.

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:

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

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

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

absences and judgments, are recorded only when payment is due.

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

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

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

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

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

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

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

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

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 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.

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

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

5. Restricted Assets

Certain resources are classified as restricted assets on the Statement of Net Position because their use is limited by applicable statutes, e.g. 16th Section Principal Fund and various other funds whose cash is legally restricted.

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

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

8. Compensated Absences

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

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

9. Long-term Liabilities

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

10. Fund Balances

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

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

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

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

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

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

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive

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

unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

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

It is the policy of the School District to maintain a minimum fund balance in the General Fund that is not less than 7% of the total district revenues.

Note 2 – Cash and Cash Equivalents

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

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$43,671,060 and \$2,141,163, respectively. The carrying amount of deposits reported in the government-wide financial statements was \$40,599,561.

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.

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	Other governmental funds	\$ 1,107,739
	Fiduciary funds	1,188
Major fund - Future Capital Projects Fund	General Fund	<u>3,500,000</u>
Total		<u>\$ 4,608,927</u>

The purpose of the more significant inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments. The inter-fund loan associated with the Major Fund-Future Capital Projects Fund was to provide financing for capital projects of the district.

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

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Major fund - Future Capital Projects Fund	\$ 12,425,035
	Other governmental funds	2,586,237
Major fund - Future Capital Projects Fund	Other governmental funds	16,825,196
Other governmental funds	General Fund	5,925,463
	Major fund - Future Capital Projects Fund	857,967
	Other governmental funds	1,253,503
Total		\$ 39,873,401

The transfer out of the General Fund was for the purpose of funding the Future Capital Projects Fund and capital projects funds and other various funds in the Other Governmental Funds. The transfer out of the Future Capital Projects Fund was for the purpose of funding capital projects funds in the Other Governmental Funds. The transfer out of the Other Governmental Funds was for transfers of FEMA collections to the General Fund, providing funding for the Future Capital Projects Fund and financing of capital projects within the Other Governmental Funds.

Note 4 – Restricted Assets

The restricted assets (\$3,071,499) represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) and other various Federal Programs which are legally restricted and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

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

	Balance 7/1/2012	Increases	Decreases	Completed Construction	Adjustments	Balance 6/30/2013
Governmental Activities:						
<u>Non-depreciable capital assets:</u>						
Land	\$ 2,140,042					2,140,042
Construction-in-progress	3,729,683	10,306,312		(3,136,705)	(71,025)	10,828,265
Total non-depreciable capital assets	5,869,725	10,306,312	0	(3,136,705)	(71,025)	12,968,307
<u>Depreciable capital assets:</u>						
Buildings	56,769,297			3,136,705		59,906,002
Improvements other than buildings	1,699,611	71,965				1,771,576
Mobile equipment	5,392,114	1,056,896	(169,861)			6,279,149
Furniture and equipment	3,047,915	130,292	(79,150)			3,099,057
Total depreciable capital assets	66,908,937	1,259,153	(249,011)	3,136,705	0	71,055,784
<u>Less accumulated depreciation for:</u>						
Buildings	21,035,689	1,016,394				22,052,083
Improvements other than buildings	263,872	71,164				335,036
Mobile equipment	2,987,123	458,153	(144,476)			3,300,800
Furniture and equipment	2,590,361	197,070	(78,359)			2,709,072
Total accumulated depreciation	26,877,045	1,742,781	(222,835)	0	0	28,396,991
Total depreciable capital assets, net	40,031,892	(483,628)	(26,176)	3,136,705	0	42,658,793
Governmental activities capital assets, net	\$ 45,901,617	9,822,684	(26,176)	0	(71,025)	55,627,100

Depreciation expense was charged to the following governmental functions:

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

	Amount
Governmental activities:	
Instruction	\$ 958,370
Support services	658,684
Non-instructional	125,727
Total depreciation expense - Governmental activities	\$ 1,742,781

Construction in progress is composed of:

	Spent to June 30, 2013	Remaining Commitment
Governmental Activities:		
Singing River High School classrooms	\$ 6,095,165	322,603
Pascagoula High School ball fields	23,400	0
Gautier High School ball fields	23,550	0
Gautier High School classrooms	11,300	0
Pascagoula High School field house	70,750	0
Gautier High School field house	59,400	0
Martin Bluff classrooms	2,572,211	732,372
Gautier Elementary School classrooms	1,831,451	308,000
Gautier High School / Singing River Elementary road	42,580	0
Trent Lott Academy classrooms/bandhall	67,753	0
Pascagoula High School athletic lighting	30,705	0
Total governmental activities	\$ 10,828,265	1,362,975

Construction projects included in governmental activities are funded with local funds.

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. Limited obligation bonds payable	\$ 1,865,000		1,865,000	0	
B. Three mill notes payable	5,765,000		5,765,000	0	
C. Compensated absences payable	566,186	78,936		645,122	56,610
Total	\$ 8,196,186	78,936	7,630,000	645,122	56,610

A. Limited obligation bonds payable

The limited obligation bonds were paid in full during the fiscal year.

B. Three mill notes payable

The three mill notes were paid in full during the fiscal year.

C. Compensated absences payable

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

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

Note 7 – 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 \$6,556,864, \$5,538,859 and \$5,266,566, respectively, which equaled the required contributions for each year.

Note 8 – Sixteenth Section Lands

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

Year Ending June 30	Amount
2014	\$ 62,814
2015	62,814
2016	62,814
2017	61,902
2018	2,814
2019 – 2023	6,570
2024 – 2028	5,256
Total	<u>\$ 264,984</u>

Note 9 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. Correction of a prior year asset	\$ (204,907)
2. Correction of a prior year liability	(4,918,042)
3. Correction to capital assets	(71,025)
Total	<u>\$ (5,193,974)</u>

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

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

Fund	Explanation	Amount
Other governmental funds	Correction of a prior year asset	<u>(204,907)</u>

Note 10 – Contingencies

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

Note 11 – Risk Management

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

Note 12 – Special Education Consortium

The school district entered into a special education consortium dated June 15, 1988 creating the Exceptional School Program. This consortium was created pursuant to the provisions of Section 37-7-403 through 37-7-415 Miss. Code Ann. (1972), and was approved by the Mississippi Department of Education. The consortium includes the following participants: Jackson County School District, Pascagoula School District, Ocean Spring School District, Moss Point School District and the Jackson County Board of Supervisors.

The building housing the Exceptional School Program is the property of the Jackson County Board of Supervisors and they are responsible for the constructing, erecting, equipping, alterations, and major maintenance of the building.

Operating expenses for the educational programs are shared in direct proportion to each school district’s monthly enrollment of students placed by each school district in the Exceptional School Program. Each school district is billed by the fiscal agent. The Jackson County Board of Supervisors provides funding by levying an ad valorem tax at a rate of not less than 0.5 mills. Transportation for students attending the special education program is the responsibility of the individual school district sending the students.

The Pascagoula School District has been designated as the lead school district (fiscal agent) and the operations of the consortium are included in its financial statements.

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Special Education Consortium.

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

Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds
For the Year Ended June 30, 2013

Revenues	
Local sources:	
Ad valorem taxes	\$ 352,137
Tuition from other LEA's within the state	163,789
Total Revenues	<u>515,926</u>
 Expenditures	
Salaries	495,755
Employee benefits	172,976
Purchased property services	27,270
Other purchased services	4,812
Supplies	7,536
Property	1,206
Total Expenditures	<u>709,555</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(193,629)</u>
 Other Financing Sources/Uses:	
Operating transfers in	193,629
Total Other Financing Sources/Uses	<u>193,629</u>
Net Change in Fund Balance	<u>0</u>
 Fund Balance:	
July 1, 2012	<u>0</u>
June 30, 2013	<u>\$ 0</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 School District evaluated the activity of the district through February 19, 2014, and determined that no subsequent events have occurred that require disclosure in the notes to the financial statements.

Note 14 – Economic Dependency

The school district is significantly economically dependent on two ad valorem tax payers (Chevron Corporation and Huntington Ingalls Corporation). In the event of a loss of these ad valorem taxes, the district would encounter an economic hardship.

Note 15 – Other Financing Sources

The school district was successful in winning its lawsuit which deemed a previously enacted state law to be unconstitutional. The district received \$8,925,035 as a settlement of the lawsuit from other schools district in Jackson County.

This page left blank intentionally.

REQUIRED SUPPLEMENTARY INFORMATION

This page left blank intentionally.

PASCAGOULA SCHOOL DISTRICT
 Budgetary Comparison Schedule for the General Fund
 For the Year Ended June 30, 2013

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues					
Local sources	\$ 43,439,491	43,465,160	43,469,606	25,669	4,446
State sources	28,128,407	29,467,874	29,467,874	1,339,467	0
Federal sources	0	523,169	523,169	523,169	0
Sixteenth section sources	0	0	46,251	0	46,251
Total Revenues	71,567,898	73,456,203	73,506,900	1,888,305	50,697
Expenditures					
Instruction	41,584,417	38,198,986	38,198,400	3,385,431	586
Support services	26,895,231	25,176,956	25,176,351	1,718,275	605
Noninstructional services	0	130	130	(130)	0
Facilities acquisition and construction	0	71,965	71,965	(71,965)	0
Total Expenditures	68,479,648	63,448,037	63,446,846	5,031,611	1,191
Excess (Deficiency) of Revenues Over Expenditures	3,088,250	10,008,166	10,060,054	6,919,916	51,888
Other Financing Sources (Uses)					
Insurance loss recoveries	0	777	777	777	0
Sale of other property	0	3,942	5,234	3,942	1,292
Operating transfers in	10,036,237	33,286,760	5,925,463	23,250,523	(27,361,297)
Other financing sources	0	8,925,035	8,925,035	8,925,035	0
Operating transfers out	(16,239,617)	(42,799,624)	(15,011,272)	(26,560,007)	27,788,352
Total Other Financing Sources (Uses)	(6,203,380)	(583,110)	(154,763)	5,620,270	428,347
Net Change in Fund Balances			9,905,291		
Fund Balances					
July 1, 2012			12,380,606		
June 30, 2013			<u>\$ 22,285,897</u>		

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

PASCAGOULA SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2013

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTARY INFORMATION

This page left blank intentionally.

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

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 1,369,550
National school lunch program	10.555	3,042,560
Summer food service program for children	10.599	17,328
Total child nutrition cluster		<u>4,429,438</u>
Total U.S. Department of Agriculture		<u>4,429,438</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	500,081
Total Federal Communications Commission		<u>500,081</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Board for Community and Junior Colleges:		
Adult education - state grant program	84.002	101,914
Total		<u>101,914</u>
Passed-through Mississippi Department of Education:		
Title I – grants to local educational agencies	84.010	2,319,379
Career and technical education - basic grants to states	84.048	91,149
Education technology - state grants	84.318	72,562
English language acquisition state grants	84.365	186,983
Improving teacher quality - state grants	84.367	547,266
Total		<u>3,217,339</u>
Special education cluster:		
Special education - grants to states	84.027	1,822,621
Special education - preschool grants	84.173	50,580
Total special education cluster		<u>1,873,201</u>
Total passed-through Mississippi Department of Education		<u>5,090,540</u>
Passed-through the Mississippi Institution of Higher Learning		
Gaining early awareness & readiness for undergraduate programs (gear-up)	84.334	35,620
Total passed-through the Mississippi Institution of Higher Learning		<u>35,620</u>
Total U.S. Department of Education		<u>5,228,074</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	23,088
Total U.S. Department of Health and Human Services		<u>23,088</u>

PASCAGOULA 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>Other Federal Assistance</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	154,707
Total Other Federal Assistance		154,707
 Total for All Federal Awards		 \$ 10,335,388

NOTES TO SCHEDULE

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

PASCAGOULA SCHOOL DISTRICT

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 71,948,634	\$ 50,642,728	\$ 1,316,444	\$ 5,281,682	\$ 14,707,780
Other	\$ 23,144,885	\$ 5,667,072	\$ 510,183	\$ 72,184	\$ 16,895,446
Total	<u>\$ 95,093,519</u>	<u>\$ 56,309,800</u>	<u>\$ 1,826,627</u>	<u>\$ 5,353,866</u>	<u>\$ 31,603,226</u>
Total number of students	<u>6,726</u>				
Cost per student	<u>\$ 14,139</u>	<u>\$ 8,372</u>	<u>\$ 272</u>	<u>\$ 796</u>	<u>\$ 4,699</u>

Notes to the schedule.

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

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

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

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

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

This page left blank intentionally.

OTHER INFORMATION

This page left blank intentionally.

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

UNAUDITED

	2013	2012*	2011*	2010*
Revenues				
Local sources	\$ 43,469,606	35,218,508	32,325,997	33,417,904
State sources	29,467,874	27,987,834	26,271,147	26,930,999
Federal sources	523,169	546,099	451,013	505,554
Sixteenth section sources	46,251	0	0	0
Total Revenues	73,506,900	63,752,441	59,048,157	60,854,457
Expenditures				
Instruction	38,198,400	35,249,639	31,436,205	33,307,052
Support services	25,176,351	24,635,531	24,656,201	27,421,535
Noninstructional services	130	1,061	0	0
Facilities acquisition and construction	71,965	0	0	406,627
Total Expenditures	63,446,846	59,886,231	56,092,406	61,135,214
Excess (Deficiency) of Revenues Over Expenditures	10,060,054	3,866,210	2,955,751	(280,757)
Other Financing Sources (Uses)				
Insurances loss recoveries	777	843	0	8,790
Sale of other property	5,234	0	1,191	120
Operating transfers in	5,925,463	1,462,670	8,642,445	59,792
Other financing sources	8,925,035	0	0	0
Operating transfers out	(15,011,272)	(9,323,942)	(13,395,334)	(4,597,253)
Total Other Financing Sources (Uses)	(154,763)	(7,860,429)	(4,751,698)	(4,528,551)
Net Change in Fund Balances	9,905,291	(3,994,219)	(1,795,947)	(4,809,308)
Fund Balances				
July 1, as previously reported	12,380,606	16,234,718	18,030,665	22,670,169
Prior period adjustments	0	140,107	0	169,804
July 1, as restated	12,380,606	16,374,825	18,030,665	22,839,973
June 30	\$ 22,285,897	12,380,606	16,234,718	18,030,665

* Source - Prior year audit reports.

PASCAGOULA 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	\$ 44,846,805	37,164,945	35,778,070	37,177,098
State sources	30,575,638	30,273,960	28,600,587	29,120,035
Federal sources	15,395,955	11,189,965	15,485,164	13,349,013
Sixteenth section sources	50,218	6,215	3,186	8,826
Total Revenues	<u>90,868,616</u>	<u>78,635,085</u>	<u>79,867,007</u>	<u>79,654,972</u>
Expenditures				
Instruction	44,346,343	41,261,445	45,261,915	42,219,274
Support services	28,304,202	28,875,014	29,700,752	33,560,247
Noninstructional services	4,259,561	4,069,780	3,792,444	3,881,065
Facilities acquisition and construction	10,378,277	1,402,062	2,230,273	1,137,054
Debt service				
Principal	7,630,000	1,775,000	1,710,000	935,000
Interest	172,903	339,364	405,780	456,659
Other	2,233	2,365	1,835	3,476
Total Expenditures	<u>95,093,519</u>	<u>77,725,030</u>	<u>83,102,999</u>	<u>82,192,775</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(4,224,903)</u>	<u>910,055</u>	<u>(3,235,992)</u>	<u>(2,537,803)</u>
Other Financing Sources (Uses)				
Proceeds of loans	0	0	1,692,846	0
Insurances loss recoveries	777	843	36,273	8,790
Sale of other property	5,234	0	1,191	120
Operating transfers in	39,873,401	19,580,616	16,426,757	9,333,031
Other financing sources	8,925,035	0	0	0
Operating transfers out	(39,873,401)	(19,580,616)	(16,426,757)	(9,333,031)
Total Other Financing Sources (Uses)	<u>8,931,046</u>	<u>843</u>	<u>1,730,310</u>	<u>8,910</u>
Net Change in Fund Balances	4,706,143	910,898	(1,505,682)	(2,528,893)
Fund Balances				
July 1, as previously reported	39,788,685	39,029,637	40,649,303	43,969,793
Prior period adjustments	(204,907)	(160,706)	(96,971)	(774,311)
July 1, as restated	<u>39,583,778</u>	<u>38,868,931</u>	<u>40,552,332</u>	<u>43,195,482</u>
Increase (Decrease) in reserve for inventory	<u>(1,634)</u>	<u>8,856</u>	<u>(17,013)</u>	<u>(17,286)</u>
June 30	<u>\$ 44,288,287</u>	<u>39,788,685</u>	<u>39,029,637</u>	<u>40,649,303</u>

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

This page left blank intentionally.

CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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

Independent Auditor's Report

Superintendent and School Board
Pascagoula School District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, (*the business-type activities, the aggregate discretely presented component units*), each major fund, and the aggregate remaining fund information of Pascagoula School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Pascagoula School District's basic financial statements, and have issued my report thereon dated February 19, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Charles L. Shivers, CPA

Ridgeland, MS
February 19, 2014

CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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

Independent Auditor's Report

Superintendent and School Board
Pascagoula School District

Report on Compliance for Each Major Federal Program

I have audited Pascagoula 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 Pascagoula School District's major federal programs for the year ended June 30, 2013. Pascagoula School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In my opinion, Pascagoula 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 Pascagoula School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Pascagoula School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and

to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Pascagoula School District's internal control over compliance.

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

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

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

Charles L Shivers, CPA

Ridgeland, MS
February 19, 2014

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

This page left blank intentionally.

CHARLES L. SHIVERS

Certified Public Accountant

Post Office Box 2775
Ridgeland, Mississippi 39158

Phone: 601.941.6649
Email: clscpa@bellsouth.net

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

Superintendent and School Board
Pascagoula School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pascagoula School District as of and for the year ended June 30, 2013, which collectively comprise Pascagoula School District's basic financial statements and have issued my report thereon dated February 19, 2014. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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

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

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

Charles L. Shivers, CPA

Ridgeland, MS
February 19, 2014

This page left blank intentionally.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This page left blank intentionally.

PASCAGOULA SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the basic financial statements: | Unqualified |
| 2. | Noncompliance material to the basic financial statements noted? | No |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |

Federal Awards:

- | | | |
|-----|--|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Child nutrition cluster | |
| | CFDA #: 10.553 | |
| | CFDA #: 10.555 | |
| | CFDA #: 10.559 | |
| | b. Title I grants to local educational agencies | |
| | CFDA #: 84.010 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$310,061 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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

This page left blank intentionally.