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HARRISON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2014

HARRISON COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Harrison County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Harrison County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District, as of June 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-14 and 45-46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2014, on our consideration of the Harrison County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Harrison County School District's internal control over financial reporting and compliance.

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Gulfport, Mississippi

November 14, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

The following discussion and analysis of Harrison County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2014. 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 2014 increased \$1,970,016, which represents a 1.5% increase from fiscal year 2013. Total net position for 2013 increased \$2,069,976, including a prior period adjustment of \$(177,269), which represents a 1.6% increase from fiscal year 2012.
- General revenues amounted to \$102,411,375 and \$100,235,026, or 82% and 84% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$22,523,467, or 18% of total revenues for 2014, and \$19,126,072, or 16% of total revenues for 2013.
- The District had \$122,964,826 and \$117,113,853 in expenses for fiscal years 2014 and 2013; only \$22,523,467 for 2014 and \$19,126,072 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$102,411,375 for 2014 and \$100,235,026 for 2013 were adequate to provide for these programs.
- Among major funds, the General Fund had \$93,967,941 in revenues and \$92,142,333 in expenditures for 2014, and \$90,857,148 in revenues and \$92,412,705 in expenditures in 2013. The General Fund's fund balance increased by \$476,430 from 2013 to 2014, and decreased by \$21,268, which includes a prior period adjustment in the amount of \$126,765 from 2012 to 2013.
- Capital assets, net of accumulated depreciation, increased by \$3,300,727 for 2014 and increased by \$5,585,975 for 2013. The increase for 2014 was due to the addition of construction projects within the District coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$6,724,795 for 2014 and increased by \$1,467,782 for 2013. The decrease for 2014 was due primarily to the repayment of general/limited obligation bonds/principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$133,570 for 2014 and decreased by \$62,886 for 2013.

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.

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

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

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

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

Fund Financial Statements

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

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

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

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

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

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.

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$131,572,388 as of June 30, 2014.

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

Table 1 presents a summary of the District's net position at June 30, 2014 and June 30, 2013

Table 1
Condensed Statement of Net Position

	June 30, 2014	June 30, 2013	Percentage Change
Current assets	\$ 40,599,553	\$ 43,754,430	-7.21 %
Restricted assets	7,120,488	7,595,959	-6.26 %
Capital assets, net	141,822,166	138,521,439	2.38 %
Total assets	189,542,207	189,871,828	-0.17 %
Deferred outflows of resources	114,153	171,231	-33.33 %
Current liabilities	13,105,642	8,553,665	53.22 %
Long-term debt outstanding	44,918,752	51,828,277	-13.33 %
Total liabilities	58,024,394	60,381,942	-3.90 %
Deferred inflows of resources	59,578	58,745	1.42 %
Net position:			
Net investment in capital assets	94,724,542	84,979,506	11.47 %
Restricted	26,832,140	35,640,691	-24.71 %
Unrestricted	10,015,706	8,982,175	11.51 %
Total net position	\$ 131,572,388	\$ 129,602,372	1.52 %

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

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

- Increase in net investment in capital assets in the amount of \$9,745,036.
- Decrease in long-term debt outstanding by \$6,909,525.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$124,934,842 and \$119,361,098, respectively. The total cost of all programs and services was \$122,964,826 for 2014 and \$117,113,853 for 2013.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

Table 2
Changes in Net Position

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 2,444,592	\$ 2,400,540	1.84 %
Operating grants and contributions	16,441,096	15,277,419	7.62 %
Capital grants and contributions	3,637,779	1,448,113	151.21 %
General revenues:			
Property and gaming taxes	44,367,964	41,526,270	6.84 %
Grants and contributions not restricted	55,422,964	55,897,627	(0.85) %
Investment earnings	203,518	208,445	(2.36) %
Sixteenth section sources	2,349,658	2,433,684	(3.45) %
Other	67,271	169,000	(60.19) %
Total revenues	<u>124,934,842</u>	<u>119,361,098</u>	4.67 %
Expenses:			
Instruction	66,819,352	66,179,457	0.97 %
Support services	46,649,093	41,038,842	13.67 %
Non-instructional	7,338,806	7,470,058	(1.76) %
Sixteenth section	1,008,439	664,789	51.69 %
Interest on long-term liabilities	1,149,136	1,760,707	(34.73) %
Total expenses	<u>122,964,826</u>	<u>117,113,853</u>	5.00 %
Increase (Decrease) in net position	<u>1,970,016</u>	<u>2,247,245</u>	(12.34) %
Net Position, July 1, as previously reported	<u>129,602,372</u>	<u>127,532,396</u>	1.62 %
Prior Period Adjustment	<u>-</u>	<u>(177,269)</u>	(100.00) %
Net Position, July 1, as restated	<u>129,602,372</u>	<u>127,355,127</u>	1.76 %
Net Position, June 30	<u>\$ 131,572,388</u>	<u>\$ 129,602,372</u>	1.52 %

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2014	2013	
Instruction	\$ 66,819,352	\$ 66,179,457	0.97 %
Support services	46,649,093	41,038,842	13.67 %
Non-instructional	7,338,806	7,470,058	(1.76) %
Sixteenth section	1,008,439	664,789	51.69 %
Interest on long-term liabilities	1,149,136	1,760,707	(34.73) %
Total expenses	\$ 122,964,826	\$ 117,113,853	5.00 %
	Net (Expense) Revenue		Percentage Change
	2014	2013	
Instruction	\$ (60,383,604)	\$ (60,986,863)	(0.99) %
Support services	(38,376,355)	(35,722,397)	7.43 %
Non-instructional	476,175	1,146,975	(58.48) %
Sixteenth section	(1,008,439)	(664,789)	51.69 %
Interest on long-term liabilities	(1,149,136)	(1,760,707)	(34.73) %
Total net (expense) revenue	\$ (100,441,359)	\$ (97,987,781)	2.50 %

- Net cost of governmental activities, \$(100,441,359) for 2014 and \$(97,987,781) for 2013 was financed by general revenue, which is primarily made up of property and gaming taxes of \$44,367,964 for 2014 and \$41,526,270 for 2013, and state and federal revenues \$55,422,964 for 2014 and \$55,897,627 for 2013. In addition, there was \$2,349,658 and \$2,433,684 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$203,518 for 2014 and \$208,445 for 2013.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

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 \$39,599,661, a decrease of \$8,225,494, and an increase in inventory of \$14,404. \$12,435,976 or 31% 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 \$27,163,685 or 69% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$476,430. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,921,167, which includes an increase in reserve for inventory of \$14,404, due primarily to a transfer from construction fund. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Special Note Payment Fund	\$ (5,179,712)
QSCB Construction Bond Fund	\$ (5,428,975)
Wind Retrofit Fund	no increase or decrease

BUDGETARY HIGHLIGHTS

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

The major budget revisions were made to reflect an increase in local property taxes as well as the reduction of instruction expenditures.

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, 2014, the District's total capital assets were \$198,255,584, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents an increase of \$6,056,252 from 2013. Total accumulated depreciation as of June 30, 2014, was \$56,433,418, and total depreciation expense for the year was \$5,076,588, resulting in total net capital assets of \$141,822,166.

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 3,494,698	\$ 3,494,698	0.00 %
Construction in progress	11,728,290	6,855,523	71.08 %
Buildings	107,989,119	107,779,768	0.19 %
Building improvements	5,374,959	5,703,836	(5.77) %
Improvements other than buildings	5,698,164	5,984,706	(4.79) %
Mobile equipment	4,028,500	4,431,423	(9.09) %
Furniture and equipment	1,015,585	1,348,750	(24.70) %
Leased property under capital leases	2,492,851	2,922,735	(14.71) %
Total	<u>\$ 141,822,166</u>	<u>\$ 138,521,439</u>	2.38 %

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

Debt Administration. At June 30, 2014, the District had \$48,809,874 in outstanding long-term debt, of which \$4,713,295 is due within one year. The liability for compensated absences decreased \$133,570 from the prior year.

The District maintains an A2 bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
General obligation bonds payable	\$ 4,975,000	\$ 6,460,000	(22.99) %
Premium	204,245	306,366	(33.33)
Limited obligation bonds payable	7,110,000	8,485,000	(16.21) %
Premium	162,760	217,013	(25.00)
Three mill notes payable	14,585,000	15,345,000	(4.95) %
Premium	147,428	159,714	(7.69)
Obligations under capital leases	1,527,344	2,346,071	(34.90) %
Obligations under energy efficiency leases	1,598,097	1,878,583	(14.93) %
Qualified zone academy bonds payable	2,500,000	4,394,000	(43.10) %
Qualified school construction bonds payable	16,000,000	16,000,000	0.00 %
Compensated absences payable	822,173	955,743	(13.98) %
Total	<u>\$ 49,632,047</u>	<u>\$ 56,547,490</u>	(12.23) %

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

Harrison County School District
Management Discussion and Analysis
For the Year Ended June 30, 2014

CURRENT ISSUES

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

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

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

The enrollment for the 2013-2014 year increased by 2.6% from 12,842 to 13,181.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Business Office of the Harrison County School District, Highway 49, Gulfport, MS 39503.

FINANCIAL STATEMENTS

Harrison County School District
Statement of Net Position
June 30, 2014

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 35,602,607
Due from other governments	4,779,971
Other receivables, net	10,311
Inventories	206,664
Restricted assets	7,120,488
Capital assets, not being depreciated:	
Land	3,494,698
Construction in progress	11,728,290
Capital assets, net of accumulated depreciation:	
Buildings	107,989,119
Building improvements	5,374,959
Improvements other than buildings	5,698,164
Mobile equipment	4,028,500
Furniture and equipment	1,015,585
Leased property under capital leases	2,492,851
Total assets	<u>189,542,207</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amounts on bond refunding	<u>114,153</u>
Total deferred outflows of resources	<u>114,153</u>
LIABILITIES	
Accounts payable and accrued liabilities	8,060,802
Interest payable on long-term liabilities	331,545
Long-term liabilities (due within one year)	
Capital-related liabilities	4,395,400
Non-capital related liabilities	317,895
Long-term liabilities (due beyond one year)	
Capital-related liabilities	42,816,377
Non-capital liabilities	2,102,375
Total liabilities	<u>58,024,394</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amounts on student lunch overpayments	<u>59,578</u>
Total deferred inflows of resources	<u>59,578</u>
NET POSITION	
Net investment in capital assets	94,724,542
Restricted for:	
Expendable:	
School-based activities	5,874,109
Debt service	7,860,860
Capital improvements	9,354,041
Forestry improvements	1,326,936
Unemployment benefits	408,243
Nonexpendable:	
Sixteenth section	2,007,951
Unrestricted	<u>10,015,706</u>
Total net position	<u>\$ 131,572,388</u>

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

Exhibit B

Harrison County School District
Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Instruction	\$ 66,819,352	\$ 908,317	\$ 5,527,431	\$ -	\$ (60,383,604)
Support services	46,649,093	177,373	4,457,586	3,637,779	(38,376,355)
Non-instructional	7,338,806	1,358,902	6,456,079	-	476,175
Sixteenth section	1,008,439	-	-	-	(1,008,439)
Interest on long-term liabilities	1,149,136	-	-	-	(1,149,136)
Total governmental activities	\$ 122,964,826	\$ 2,444,592	\$ 16,441,096	\$ 3,637,779	(100,441,359)
General Revenues:					
Taxes:					
General purpose levies					39,102,294
Debt purpose levies					3,990,585
Gaming					1,275,085
Unrestricted grants and contributions:					
State					55,390,749
Federal					32,215
Unrestricted investment earnings					203,518
Sixteenth section sources					2,349,658
Other					67,271
Total general revenues					102,411,375
Change in Net Position					1,970,016
Net Position - Beginning					129,602,372
Net Position - Ending					\$ 131,572,388

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

Harrison County School District
Balance Sheet - Governmental Funds
June 30, 2014

	Major Funds					Total Governmental Funds
	General Fund	Special Note Fund	QSCB Construction Bond Fund	Wind Retrofit Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 18,782,909	\$ 5,762,246	\$ 964,605	\$ -	\$ 12,101,692	\$ 37,611,452
Cash with fiscal agents	-	-	-	-	1,486,874	1,486,874
Investments	-	-	-	-	3,624,769	3,624,769
Due from other governments	604,283	-	-	2,160,371	2,015,317	4,779,971
Other receivables	-	-	-	-	10,311	10,311
Due from other funds	1,145	1,002,282	208,619	5,918	1,707,423	2,925,387
Inventories	-	-	-	-	206,664	206,664
Total assets	\$ 19,388,337	\$ 6,764,528	\$ 1,173,224	\$ 2,166,289	\$ 21,153,050	\$ 50,645,428
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable & accrued liabilities	\$ 5,705,659	\$ -	\$ 1,173,224	\$ 461,356	\$ 720,563	\$ 8,060,802
Due to other funds	2,490	-	-	1,704,933	1,217,964	2,925,387
Total liabilities	5,708,149	-	1,173,224	2,166,289	1,938,527	10,986,189
Deferred inflows of resources	-	-	-	-	59,578	59,578
Student lunch overpayments	-	-	-	-	59,578	59,578
Total deferred inflows of resources	-	-	-	-	59,578	59,578
Fund Balances:						
Nonspendable:						
Permanent fund purposes	-	-	-	-	2,007,951	2,007,951
Inventory	-	-	-	-	206,664	206,664
Restricted for:						
Unemployment benefits	-	-	-	-	408,243	408,243
Capital projects	-	6,764,528	-	-	2,589,513	9,354,041
Forestry improvements purposes	-	-	-	-	1,326,936	1,326,936
Debt service	-	-	-	-	8,192,405	8,192,405
Child nutrition	-	-	-	-	2,119,360	2,119,360
Instructional	-	-	-	-	188,902	188,902
Support services	-	-	-	-	2,114,971	2,114,971
Assigned:						
Activities	735,967	-	-	-	-	735,967
Athletics	11,849	-	-	-	-	11,849
Other purposes	496,396	-	-	-	-	496,396
Unassigned	12,435,976	-	-	-	-	12,435,976
Total fund balances	13,680,188	6,764,528	-	-	19,154,945	39,599,661
Total liabilities & fund balances	\$ 19,388,337	\$ 6,764,528	\$ 1,173,224	\$ 2,166,289	\$ 21,153,050	\$ 50,645,428

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

Harrison County School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014

		Amount
Total Fund Balance - Governmental Funds	\$	39,599,661
Amounts reported for governmental activities in the statement of net position are different because:		
1 Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds:		
Land	3,494,698	
Construction in progress	11,728,290	
Buildings	145,331,407	
Building improvements	8,538,261	
Improvements other than buildings	7,296,243	
Mobile equipment	11,794,635	
Furniture and equipment	7,027,041	
Leased property under capital leases	3,045,009	
Accumulated depreciation	(56,433,418)	141,822,166
2 Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:		
General obligation bonds	(4,975,000)	
Limited obligation bonds	(7,110,000)	
Notes payable	(14,585,000)	
Capital lease obligations	(3,125,441)	
Qualified zone academy bonds	(2,500,000)	
Qualified school construction bonds	(16,000,000)	
Deferred amount on refunding	114,153	
Unamortized premiums	(514,433)	
Compensated absences	(822,173)	
Accrued interest payable	(331,545)	(49,849,439)
Net Position - Governmental Activities	\$	131,572,388

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

Harrison County School District
 Statement of Revenues, Expenditures, and Changes in Fund Balances For Governmental Funds
 For the Year Ended June 30, 2014

	Major Funds					Total Governmental Funds
	General Fund	Special Note Fund	QSCB Construction Bond Fund	Wind Retrofit Fund	Other Governmental Funds	
REVENUES						
Local sources	\$ 39,554,321	\$ 20,664	\$ 6,033	\$ -	\$ 7,397,496	\$ 46,978,514
State sources	53,833,883	-	-	-	3,384,447	57,218,330
Federal sources	579,737	-	-	3,637,779	14,065,993	18,283,509
Sixteenth section revenue	-	261,361	-	-	2,088,297	2,349,658
Total revenues	93,967,941	282,025	6,033	3,637,779	26,936,233	124,830,011
EXPENDITURES						
Instruction	59,453,319	-	-	-	6,959,346	66,412,665
Support services	31,409,555	-	-	3,637,779	7,771,484	42,818,818
Noninstructional services	40,965	-	-	-	7,122,464	7,163,429
Sixteenth section	-	-	-	-	1,008,439	1,008,439
Facilities acquisition and construction	-	-	7,643,627	-	247,634	7,891,261
Debt Service:						
Principal	1,099,214	-	-	-	5,514,000	6,613,214
Interest	139,280	-	-	-	1,119,829	1,259,109
Other	-	-	-	-	23,623	23,623
Total expenditures	92,142,333	-	7,643,627	3,637,779	29,766,819	133,190,558
Excess (deficiency) of revenues over expenditures	1,825,608	282,025	(7,637,594)	-	(2,830,586)	(8,360,547)
OTHER FINANCING SOURCES (USES)						
Insurance loss recoveries	32,334	-	-	-	72,500	104,834
Sale of transportation equipment	30,219	-	-	-	-	30,219
Payments held by escrow agents	-	-	-	-	1,220,305	1,220,305
Transfers in	328,147	1,538,263	2,208,619	-	6,739,878	10,814,907
Transfers out	(1,739,878)	(7,000,000)	-	-	(2,075,029)	(10,814,907)
Payment to QZAB escrow agent	-	-	-	-	(1,220,305)	(1,220,305)
Total other financing sources and uses	(1,349,178)	(5,461,737)	2,208,619	-	4,737,349	135,053
Net change in fund balances	476,430	(5,179,712)	(5,428,975)	-	1,906,763	(8,225,494)
Fund Balances:						
July 1, 2013	13,203,758	11,944,240	5,428,975	-	17,233,778	47,810,751
Increase in reserve for inventory	-	-	-	-	14,404	14,404
June 30, 2014	\$ 13,680,188	\$ 6,764,528	\$ -	\$ -	\$ 19,154,945	\$ 39,599,661

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

Harrison County School District
Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2014

		Amount
Net change in fund balances - governmental funds		\$ (8,225,494)
Amounts reported for governmental activities in the statement of activities are different because:		
1 Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period, these amounts are:		
Capital outlay	8,757,875	
Depreciation	(5,076,588)	3,681,287
2 In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the assets sold.		
		(380,560)
3 The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
Payments of debt principal	6,613,213	
Accrued interest payable	22,014	6,635,227
4 Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
Change in compensated absences	133,570	
Change in inventory reserve	14,404	
Amortization of deferred charges, premiums and discounts	111,582	259,556
Change in net position of governmental activities		\$ 1,970,016

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

**Harrison County School District
Statement of Fiduciary Assets and Liabilities
June 30, 2014**

	Loss Escrow Fund	Agency Funds	Total
Assets			
Cash and cash equivalents	\$ 24,923	\$ 270,513	\$ 295,436
Total Assets	\$ 24,923	\$ 270,513	\$ 295,436
Liabilities			
Due to others	\$ 24,923	\$ -	\$ 24,923
Due to student clubs	-	270,513	270,513
Total Liabilities	\$ 24,923	\$ 270,513	\$ 295,436

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

NOTES TO THE FINANCIAL STATEMENTS

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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 Standard Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

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

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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

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

The school district reports the following major governmental funds:

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

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

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

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

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

The District's fiduciary funds include the following:

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

Agency Funds – These fiduciary funds are used to report the various funds held on behalf of the students of the different schools within the District.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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

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

The effect of interfund 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 in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

D. Encumbrances

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

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

1. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

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

Investments

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 3 months when acquired.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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 interfund loans) or "advances to/from other funds" (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

5. Restricted Assets

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

6. Capital Assets

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details the capitalization thresholds:

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

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

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one deferred outflow of resources which is a deferred amount on bond refunding. See Note 7 and 14 for details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one deferred inflow which is a deferred amount of unused prepaid lunch monies from students. See Note 14 for details.

8. Compensated Absences

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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

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

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

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

10. Fund Balances

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

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

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

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

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

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

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure 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.

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

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$37,611,452, and \$295,436 respectively. The carrying

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$35,602,607 and restricted assets cash of \$2,008,845.

Custodial credit risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the school district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The school district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the school 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 school district. As of June 30, 2014, none of the school district's bank balance of \$42,703,579 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$1,486,874 and is reported as restricted assets on Exhibit A.

Investments

At June 30, 2014, the District had the following investments: (reported as restricted assets on Exhibit A)

<u>Investment Type</u>	<u>Maturities (in Years)</u>	<u>Fair Value</u>	<u>Rating</u>
US Treasury Note	6-8	\$ 2,105,867	AA+
US Treasury STRIPS	6	1,035,586	AAAm
MS Noncallabale & Tax Exempt	5	483,316	AA
		<u>\$ 3,624,769</u>	

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

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

Custodial credit risk – Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the school district will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The school district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2014, the District did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2014, the District did not have any investments to which this would apply.

Note 3 - Interfund Receivables, Payables and Transfers

The following is a summary of interfund transactions and balances:

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
Special Note Payment Fund	Other governmental funds	\$ 1,002,282
Wind Retrofit Fund	Other governmental funds	5,918
General Fund	Other governmental funds	1,145
QSCB Construction Bond Fund	Other governmental funds	208,619
Other governmental funds	General Fund	2,490
	Wind Retrofit Fund	1,704,933
Total		\$ 2,925,387

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

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 1,739,878
Special Note Payment Fund	QSCB Construction Bond Fund	2,000,000
	Other governmental funds	5,000,000
Other governmental funds	Special Note Payment Fund	1,538,263
	QSCB Construction Fund	208,619
	General Fund	328,147
Total		\$ 10,814,907

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

Note 4 - Restricted Assets

The restricted assets, totaling \$7,120,488, include the cash balance of \$2,008,845 of Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. Also, the restricted assets include the cash with fiscal agents and investment balance, totaling \$1,486,874 and \$3,624,769, respectively, of the QZAB Bond Requirement Funds, the QSCB Bond Retirement Funds, and the MAEP Limited Obligation Bond Fund.

Note 5 - Capital Assets

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

	<u>Balance</u> <u>7/1/2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>6/30/2014</u>
Governmental Activities:				
Non-depreciable capital assets:				
Land	\$ 3,494,698	\$ -	\$ -	\$ 3,494,698
Construction in progress	6,855,523	7,891,261	(3,018,494)	11,728,290
Total non-depreciable capital assets	<u>10,350,221</u>	<u>7,891,261</u>	<u>(3,018,494)</u>	<u>15,222,988</u>
Depreciable capital assets:				
Buildings	142,312,913	-	3,018,494	145,331,407
Building improvements	8,538,261	-	-	8,538,261
Improvements other than buildings	7,296,243	-	-	7,296,243
Mobile equipment	13,473,509	483,032	(2,161,906)	11,794,635
Furniture and equipment	6,659,984	383,582	(16,525)	7,027,041
Leased property under capital leases	3,568,201	-	(523,192)	3,045,009
Total depreciable capital assets	<u>181,849,111</u>	<u>866,614</u>	<u>316,871</u>	<u>183,032,596</u>
Less accumulated depreciation for:				
Buildings	(34,533,145)	(2,809,143)	-	(37,342,288)
Building improvements	(2,834,425)	(328,877)	-	(3,163,302)
Improvements other than buildings	(1,311,537)	(286,542)	-	(1,598,079)
Mobile equipment	(9,042,086)	(669,765)	1,945,716	(7,766,135)
Furniture and equipment	(5,311,234)	(708,661)	8,439	(6,011,456)
Leased property under capital leases	(645,466)	(273,600)	366,908	(552,158)
Total accumulated depreciation	<u>(53,677,893)</u>	<u>(5,076,588)</u>	<u>2,321,063</u>	<u>(56,433,418)</u>
Total depreciable capital assets, net	<u>128,171,218</u>	<u>(4,209,974)</u>	<u>2,637,934</u>	<u>126,599,178</u>
Governmental activities capital assets, net	<u>\$ 138,521,439</u>	<u>\$ 3,681,287</u>	<u>\$ (380,560)</u>	<u>\$ 141,822,166</u>

Depreciation expense was charged to the following governmental functions:

Instruction	\$ 496,848
Support services	4,385,016
Non-instructional	194,724
Total depreciation expense	<u>\$ 5,076,588</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

Commitments under construction contracts at June 30, 2014, are summarized as follows:

	Spent to June 30, 2014	Remaining Commitment
River Oaks Elementary School	\$ 11,599,658	\$ 268,180
D'Iberville High Pressbox	67,545	73,980
Harrison Central High Pressbox	61,087	131,616
Total	\$ 11,728,290	\$ 473,776

The school district will use construction bond proceeds to complete these project commitments.

Note 6 - Long-term Liabilities

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

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Amount due within one Year
A. General obligation bonds	\$ 6,460,000	\$ -	\$ 1,485,000	\$ 4,975,000	\$ 1,570,000
Add deferred amounts:					
For issuance premiums	306,366	-	102,121	204,245	-
Less deferred amounts:					
On refunding	(171,231)	-	(57,078)	(114,153)	-
Total general obligation bonds	6,595,135	-	1,530,043	5,065,092	1,570,000
B. Limited obligations bonds	8,485,000	-	1,375,000	7,110,000	1,275,000
Add deferred amounts:					
For issuance premiums	217,013	-	54,253	162,760	-
Total limited obligation bonds	8,702,013	-	1,429,253	7,272,760	1,275,000
C. Three mill notes	15,345,000	-	760,000	14,585,000	790,000
Add deferred amounts:					
For issuance premiums	159,714	-	12,286	147,428	-
Total three mill notes	15,504,714	-	772,286	14,732,428	790,000
D. Obligations under capital leases	2,346,071	-	818,727	1,527,344	760,400
E. Obligations under energy efficiency lease	1,878,583	-	280,486	1,598,097	317,895
F. Qualified zone academy bonds	4,394,000	-	1,894,000	2,500,000	-
G. Qualified school construction bonds	16,000,000	-	-	16,000,000	-
H. Compensated absences	955,743	-	133,570	822,173	-
Total	\$ 56,376,259	\$ -	\$ 6,858,365	\$ 49,517,894	\$ 4,713,295

A. General obligation bonds payable

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2005	3.25%-5.0%	7/5/2005	3/3/2017	\$ 13,955,000	\$ 4,975,000

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,570,000	\$ 248,750	\$ 1,818,750
2016	1,660,000	170,250	1,830,250
2017	1,745,000	87,250	1,832,250
Total	\$ 4,975,000	\$ 506,250	\$ 5,481,250

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonding indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such a district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes has been met. As of June 30, 2014, the amount of outstanding bonded indebtedness was equal to .78% of property assessments as of October 1, 2013. This debt will be retired from the Debt Service Fund.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Refunding bonds Series 2013	3.625-3.8%	5/23/2013	2/1/2018	\$ 7,110,000	\$ 7,110,000

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

Limited obligation bond issue of 5/23/2013:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 1,275,000	\$ 129,450	\$ 1,404,450
2016	1,555,000	101,150	1,656,150
2017	1,590,000	69,700	1,659,700
2018	2,690,000	37,650	2,727,650
Total	\$ 7,110,000	\$ 337,950	\$ 7,447,950

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill note, 2007	4.0-5.0%	6/22/2007	6/1/2027	\$ 17,755,000	\$ 14,585,000

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

Year Ending June, 30	Principal	Interest	Total
2015	\$ 790,000	\$ 661,269	\$ 1,451,269
2016	825,000	629,669	1,454,669
2017	855,000	596,669	1,451,669
2018	890,000	562,469	1,452,469
2019	925,000	526,869	1,451,869
2020-2024	5,280,000	1,979,119	7,259,119
2025-2028	5,020,000	568,918	5,588,918
Total	\$ 14,585,000	\$ 5,524,982	\$ 20,109,982

This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund.

D. Obligations under capital leases

The school district has entered into two lease agreements as lessee for financing the acquisition of school buses and copier machines. These leases qualify as capital leases for accounting purposes. The District Maintenance fund will be used to retire this debt.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Copier Lease	3.4%	2/16/2009	11/10/2014	\$ 538,973	\$ 7,608
Bus Lease	1.88%	9/1/2012	9/20/2015	3,040,000	1,519,736
				<u>\$ 3,578,973</u>	<u>\$ 1,527,344</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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

Year Ending June 30,	Principal	Interest and Maintenance	Total
2015	\$ 760,400	\$ 29,112	\$ 789,512
2016	766,944	14,419	781,363
Total	<u>\$ 1,527,344</u>	<u>\$ 43,531</u>	<u>\$ 1,570,875</u>

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

E. Obligations under energy efficiency lease

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Hancock Bank Energy Efficiency Lease	4.06%	6/15/2004	2/15/2019	\$ 4,168,343	\$ 1,598,097

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

Year Ending June 30,	Principal	Interest	Total
2015	\$ 317,895	\$ 57,993	\$ 375,888
2016	330,814	45,074	375,888
2017	344,257	31,631	375,888
2018	358,247	17,641	375,888
2019	246,884	4,019	250,903
Total	<u>\$ 1,598,097</u>	<u>\$ 156,358</u>	<u>\$ 1,754,455</u>

An energy efficiency lease agreement dated June 15, 2004, was executed by and between the District, the lessee, and Hancock Bank, the lessor. The agreement authorized the borrowing of \$4,168,343 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall not exceed (15) years and will be retired from the District Maintenance Fund.

The District entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972). Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

F. Qualified zone academy bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2008	N/A	6/17/2008	6/17/2020	\$ 2,500,000	\$ 2,500,000

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

G. Qualified school construction bonds payable

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2009	N/A	12/29/2009	9/15/2022	\$ 3,000,000	\$ 3,000,000
Series 2010	N/A	12/20/2010	12/15/2020	3,000,000	3,000,000
Series 2012	N/A	5/16/2012	12/15/2026	<u>10,000,000</u>	<u>10,000,000</u>
				<u>\$ 16,000,000</u>	<u>\$ 16,000,000</u>

H. Compensated absences payable

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

Note 7 - Prior Year Defeasance of Debt

In prior years, the Harrison County School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2014, there are no bonds outstanding that were defeased.

Note 8 - Defined Benefit Pension Plan

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

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

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 for the fiscal year ended June 30, 2014 was 15.75% 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, 2014, 2013, and 2012 were \$10,341,430, \$9,109,494, and \$7,756,823, respectively, which equaled the required contributions for each year.

Note 9 - Other Commitments

Commitments under construction contracts are described in Note 5.

In March 2014 the school district replaced copiers formerly under lease purchase with a forty-eight month operating lease, and has only one other older operating lease for a digital mailing machine remaining. Future lease payments for these remaining operating leases are as follows:

Year Ending June 30,	Amount
2015	\$ 117,672
2016	113,580
2017	113,580
2018	94,650
Total	<u>\$ 439,482</u>

Note 10 - Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and 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
2015	\$ 2,122,967
2016	2,205,523
2017	2,292,877
2018	2,391,560
2019	2,495,834
2020-2024	14,216,977
2025-2029	17,755,845
2030-2034	22,225,349
2035-2039	26,740,214
Thereafter	74,608,509
Total	<u>\$ 167,055,655</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

Note 11 - Risk Management

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

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 94 school districts and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The District has not had an additional assessment for excess losses incurred by the pool.

Note 12 - Qualified Zone Academy Bonds

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

Series 2008

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

Year Ending June 30,	Amount
2015	\$ 65,600
2016	67,000
2017	68,400
2018	69,900
2019	71,000
2020-2021	144,300
Total	<u>\$ 486,200</u>

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

Note 13 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance.

The amount accumulated in the sinking fund at the end of the fourteen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits, inclusive of interest earnings from the prior twelve months, to be made to the sinking fund by the school district:

Year Ending June 30,	Amount
2015	\$ 1,202,000
2016	1,203,000
2017	1,203,000
2018	1,203,000
2019	1,203,000
2020-2024	5,263,000
2025-2027	2,415,000
Total	<u>\$ 13,692,000</u>

Note 14 - Effect of Deferred Amounts on Net Position

Deferred Outflow

The net investment in capital assets net position amount of \$94,724,542 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from advance refunding of school district debt. The \$114,153 balance of the deferred outflow of resources at June 30, 2014 will be recognized as an expense and decrease the net investment in capital assets net position over the next two years.

Deferred Inflow

The restricted for school-based activities net position amount of \$5,874,109 relative to child nutrition includes the effect of deferring the recognition of revenue from the student lunch overpayments into the online account "My Lunch Money". The \$59,578 balance of the deferred inflow of resources at June 30, 2014 will be recognized as revenue during the fiscal year ending 2015.

Harrison County School District
Notes to Financial Statements
For the Year Ended June 30, 2014

Note 15 – Contingencies

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

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

Note 16 - Insurance Loss Recoveries

The school district received \$32,334 in insurance loss recoveries related to automobile and bus accidents and \$72,500 for a school cafeteria fire. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and were allocated among the expense functions based on the following percentages:

<u>Insurance Loss Recoveries</u>	<u>Percentage</u>	<u>Expense Function</u>
\$ 32,334	100%	Support Services
\$ 72,500	100%	Non-instructional

Note 17 - Subsequent Events

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

Management of the Harrison County School District evaluated the activity of the district through November 14, 2014, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements.

On September 3, 2014 the school board approved the issuance of \$9,470,000 Limited Tax Refunding Notes Series 2014 to take advantage of lower interest rates.

REQUIRED SUPPLEMENTARY INFORMATION

Harrison County School District
Budgetary Comparison Schedule
General Fund
For the Year ended June 30, 2014

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 36,873,075	\$ 38,799,462	\$ 39,554,321	\$ 1,926,387	\$ 754,859
State sources	54,166,012	54,724,177	53,833,883	558,165	(890,294)
Federal sources	680,000	579,737	579,737	(100,263)	-
Total Revenues	<u>91,719,087</u>	<u>94,103,376</u>	<u>93,967,941</u>	<u>2,384,289</u>	<u>(135,435)</u>
Expenditures:					
Instruction	64,815,600	59,540,142	59,453,319	5,275,458	86,823
Support services	32,971,568	32,621,958	31,409,555	349,610	1,212,403
Noninstructional services	5,270	98,842	40,965	(93,572)	57,877
Debt Service:					
Principal	-	-	1,099,214	-	(1,099,214)
Interest	-	-	139,280	-	(139,280)
Total Expenditures	<u>97,792,438</u>	<u>92,260,942</u>	<u>92,142,333</u>	<u>5,531,496</u>	<u>118,609</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(6,073,351)</u>	<u>1,842,434</u>	<u>1,825,608</u>	<u>7,915,785</u>	<u>(16,826)</u>
Other Financing Sources (Uses):					
Sale of transportation equipment	-	30,219	30,219	30,219	-
Insurance loss recoveries	-	32,334	32,334	32,334	-
Operating transfers in	1,765,474	335,518	328,147	(1,429,956)	(7,371)
Operating transfers out	<u>(3,376,560)</u>	<u>(1,746,728)</u>	<u>(1,739,878)</u>	<u>1,629,832</u>	<u>6,850</u>
Total Other Financing Sources (Uses)	<u>(1,611,086)</u>	<u>(1,348,657)</u>	<u>(1,349,178)</u>	<u>262,429</u>	<u>(521)</u>
Net Change in Fund Balances	<u>(7,684,437)</u>	<u>493,777</u>	<u>476,430</u>	<u>8,178,214</u>	<u>(17,347)</u>
Fund Balances:					
July 1, 2013	<u>13,186,932</u>	<u>13,186,932</u>	<u>13,203,758</u>	<u>-</u>	<u>16,826</u>
June 30, 2014	<u>\$ 5,502,495</u>	<u>\$ 13,680,709</u>	<u>\$ 13,680,188</u>	<u>\$ 8,178,214</u>	<u>\$ (521)</u>

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

Harrison County School District
Notes to the Required Supplementary Information
For the Year Ended June 30, 2014

Budgetary Comparison Schedules

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

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

SUPPLEMENTARY INFORMATION

Harrison County School District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2014

Federal Grantor/ Pass- through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 1,690,233
National school lunch program	10.555	4,957,860
Summer food service program for children	10.559	190,135
Total child nutrition cluster		<u>6,838,228</u>
Schools and Roads - Grants to States	10.665	39,404
Total U. S. Department of Agriculture		<u>6,877,632</u>
<u>U. S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.xxx	189,024
Total U. S. Department of Defense		<u>189,024</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	260,608
Total Federal Communications Commission		<u>260,608</u>
<u>U. S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	50,021
Total		<u>50,021</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local education agencies	84.010	3,069,031
Career and technical education - basic grants to states	84.048	193,098
Education for homeless children and youth	84.196	97,438
English language acquisition state grants	84.365	55,281
Improving teacher quality state grants	84.367	573,555
Total		<u>3,988,403</u>
Special education cluster:		
Special education - grants to states	84.027	3,062,599
Special education - preschool grants	84.173	60,852
Total		<u>3,123,451</u>
Total passed-through Mississippi Department of Education		<u>7,111,854</u>
Total U. S. Department of Education		<u>7,161,875</u>
<u>Social Security Administration</u>		
Passed-through Mississippi Department of Education:		
Social Security - work incentives planning and assistance program	96.008	18,979
Total Social Security Administration		<u>18,979</u>
<u>Department of Homeland Security</u>		
Hazard Mitigation Grant Program	97.039	3,657,113
Total Department of Homeland Security		<u>3,657,113</u>
Total for All Federal Awards		<u>\$ 18,165,231</u>

Notes to Schedule

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

Harrison County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2014

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 88,241,764	\$ 67,547,377	\$ 1,589,020	\$ 6,583,194	\$ 12,522,173
Other	44,948,794	7,778,807	644,187	176,059	36,349,741
Total	\$ 133,190,558	\$ 75,326,184	\$ 2,233,207	\$ 6,759,253	\$ 48,871,914
Total number of students*	13,181				
Cost per student	\$ 10,105	\$ 5,715	\$ 169	\$ 513	\$ 3,708

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes).

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

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

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

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

OTHER INFORMATION

Harrison County School District

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

"UNAUDITED"

	2014	2013	2012	2011
Revenues:				
Local sources	\$ 39,554,321	\$ 36,008,693	\$ 33,166,370	\$ 31,030,287
State sources	53,833,883	53,700,929	52,123,097	47,953,998
Federal sources	579,737	1,147,526	795,772	1,018,281
Total Revenues	<u>93,967,941</u>	<u>90,857,148</u>	<u>86,085,239</u>	<u>80,002,566</u>
Expenditures:				
Instruction	59,453,319	58,437,961	54,685,275	45,795,705
Support services	31,409,555	32,497,883	28,471,821	26,467,706
Noninstructional services	40,965	175,111	1,991	2,169
Facilities acquisition and construction	-	-	46,000	125,911
Debt service:				
Principal	1,099,214	1,208,116	386,587	374,755
Interest	139,280	93,634	104,835	110,977
Total Expenditures	<u>92,142,333</u>	<u>92,412,705</u>	<u>83,696,509</u>	<u>72,877,223</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,825,608</u>	<u>(1,555,557)</u>	<u>2,388,730</u>	<u>7,125,343</u>
Other Financing Sources (Uses):				
Inception of capital leases	-	3,040,000	-	-
Insurance loss recoveries	32,334	8,379	6,464	5,516
Sale of other property	30,219	-	84,840	15,867
Operating transfers in	328,147	237,431	302,429	394,393
Operating transfers out	<u>(1,739,878)</u>	<u>(1,878,286)</u>	<u>(1,580,555)</u>	<u>(1,691,851)</u>
Total Other Financing Sources (Uses)	<u>(1,349,178)</u>	<u>1,407,524</u>	<u>(1,186,822)</u>	<u>(1,276,075)</u>
Special Item:				
Forgiveness of community disaster loan	-	-	-	831,596
Net Change in Fund Balances	<u>476,430</u>	<u>(148,033)</u>	<u>1,201,908</u>	<u>6,680,864</u>
Fund Balances:				
July 1, as originally reported	13,203,758	13,225,026	12,023,118	5,342,254
Prior period adjustment	-	126,765	-	-
July 1, as restated	<u>13,203,758</u>	<u>13,351,791</u>	<u>12,023,118</u>	<u>5,342,254</u>
June 30,	<u>\$ 13,680,188</u>	<u>\$ 13,203,758</u>	<u>\$ 13,225,026</u>	<u>\$ 12,023,118</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

Harrison County School District

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

"UNAUDITED"

	2014	2013	2012	2011
Revenues:				
Local sources	\$ 46,978,514	\$ 43,407,056	\$ 40,828,318	\$ 38,234,363
State sources	57,218,330	57,048,738	55,323,838	51,059,803
Federal sources	18,283,509	16,447,779	16,590,250	23,540,198
Sixteenth section sources	2,349,658	2,433,685	1,795,041	2,462,205
Total Revenues	124,830,011	119,337,258	114,537,447	115,296,569
Expenditures:				
Instruction	66,412,665	65,626,504	62,510,978	61,033,397
Support services	42,818,818	40,463,142	36,553,675	34,415,835
Noninstructional services	7,163,429	7,316,836	6,822,139	6,684,146
Sixteenth section	1,008,439	664,789	843,314	660,090
Facilities acquisition and construction	7,891,261	6,930,736	2,861,799	1,421,980
Debt service:				
Principal	6,613,214	4,667,466	3,690,972	4,321,261
Interest and other debt service costs	1,282,732	1,853,637	1,717,764	1,900,437
Total Expenditures	133,190,558	127,523,110	115,000,641	110,437,146
Excess (Deficiency) of Revenues over Expenditures	(8,360,547)	(8,185,852)	(463,194)	4,859,423
Other Financing Sources (Uses):				
Proceeds of loans	-	-	10,000,000	3,000,000
Proceeds of refunding bonds	-	7,110,000	-	-
Inception of capital leases	-	3,040,000	-	-
Insurance loss recoveries	104,834	8,379	7,501	10,773
Payment to refunded escrow agent	-	(7,246,861)	-	-
Premium on bond refunding	-	271,266	-	-
Payment to escrow agent for QZAB	(1,220,305)	(430,729)	(958,020)	(1,277,755)
Payment held by escrow agent for QZAB	1,220,305	430,729	958,020	1,277,755
Sale of other property	30,219	-	84,840	15,867
Operating transfers in	10,814,907	3,859,044	7,321,212	3,652,073
Operating transfers out	(10,814,907)	(3,859,044)	(7,321,212)	(3,652,073)
Total Other Financing Sources (Uses)	135,053	3,182,784	10,092,341	3,026,640
Special item:				
Forgiveness of community disaster loan	-	-	-	7,152,102
Net Change in Fund Balances	(8,225,494)	(5,003,068)	9,629,147	15,038,165
Fund Balances:				
July 1, as originally reported	47,810,751	52,671,593	42,961,829	27,893,828
Prior period adjustments	-	126,765	43,622	-
July 1, as restated	47,810,751	52,798,358	43,005,451	27,893,828
Increase (Decrease) in reserve for inventory	14,404	15,461	36,995	29,836
June 30,	\$ 39,599,661	\$ 47,810,751	\$ 52,671,593	\$ 42,961,829

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

Superintendent and School Board
Harrison County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the financial statements of *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District ("the District"), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2014-1 and 2014-2..

Compliance and Other Matters

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

However, we noted certain immaterial instances of noncompliance or other matters that we reported to management of the school district in a separate letter dated November 14, 2014, which is included in this report.

District's Response to Finding

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Certified Public Accountants
Gulfport, MS

November 14, 2014

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

Superintendent and School Board
Harrison County School District

Report on Compliance for Each Major Federal Program

We have audited the Harrison County School District (the 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 the District's major federal programs for the year ended June 30, 2014. The District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Harrison County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-3, that we consider to be a significant deficiency.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying auditee's corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

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

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P.A.
Certified Public Accountants
Gulfport, MS

November 14, 2014

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

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

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District (the District) as of and for the year ended June 30, 2014, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 14, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Untimely Reporting of Form 4B for Re-employed Retirees

Finding

Section 25-11-127(4)(a), Miss. Code Ann. (1972), restricts the amount of pay that a re-employed retiree can earn and section 25-11-103 requires the reporting of amounts to the retirement system on forms 4B to be done within five days of the re-hire date. It also provides for a penalty for failure to report within the five days of \$300 per occurrence.

During our testing of the forms 4B for re-employed retirees, we noted several instances where the District failed to timely report to the State within the five day reporting period from the date of rehire. Failure by the employer to timely notify the Retirement System may result in a \$300 penalty per occurrence payable by the employer. Our testing did not disclose any overpaid re-employed retirees.

Recommendation

We recommend in the future that the District make every effort to ensure the school district complies with Section 25-11-103 concerning the timely reporting of its re-employed retired employees. It does appear that the retirement system has chosen not to penalize employers for not filing timely in the past, however, with the retirement system looking for ways to increase its own future funding, the District should not rely on their forgiving nature. The solution may lie in having the personnel department prepare this time sensitive form and report the information, as they have first knowledge of the re-employments from the board and they also determine the salary limitations.

School District's Response

The District will continue to look at every method to improve its efficiency and strive to comply with all the requirements involved in re-employing retirees.

2. Procurement procedures and documentation

Finding

Proper internal control over the purchasing and accounts payable function requires that management follow specific guidelines for non-service related purchases and have adequate support documentation.

During our audit testing, we noted several invoices with no purchase orders created. Quotes were not obtained for two purchases, one for a federal grant, both over the \$5,000 threshold requiring at least two quotes. This may cause the District to be noncompliant with state procurement laws and incur costs above the lowest and best price for products.

Recommendation

We recommend that the District adhere to proper procurement policies, and obtain quotes for goods and services for invoices over \$5,000 and under \$50,000 per state purchasing law.

School District's Response

The District continues to monitor all invoices and will look at every method to improve its efficiency and comply with all of the requirements involved in procurement procedures.

3. Sixteenth Section Leases are not Cancelled After Payments are 60 Days in Default

Finding

Section 29-3-57, Miss. Code Ann. (1972) states, "...It shall be the duty of the superintendent of education to collect promptly all rentals due and all principal and interest due upon loans and investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease..."

During our test of sixteenth section expendable revenue, we noted several lease payments were more than 60 days late. Management has been tracking down lease holders with premium leases rather than having the leases cancelled and trying to find a new lessee at similar premium rates for the sixteenth section property. It also appears that many of the District's leases are not shown on the report listing prepared by the Secretary of State, even though the District has reported them to the Secretary's office.

Recommendation

We recommend management notify the board of education periodically of all outstanding delinquent leases over 60 days to determine if extenuating circumstances were present, and if not, then the board should initiate the proper legal proceedings to terminate such leases. We also recommend the District make a better attempt to reconcile leases collected annually to the report with the Secretary of State's office.

School District Response

The District cancelled several overdue leases during the last fiscal year and made improvements to its software with regards to identifying overdue leases.

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

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

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

Culumber, Harvey & Associates, P.A.

Culumber, Harvey & Associates, P. A.
Certified Public Accountants

Gulfport, Mississippi
November 14, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Harrison County School District
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

Section 1 – Summary of Auditor’s Results

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditor’s report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency identified that is not considered to be a material weakness? | Yes |
| 5. | Type of auditor’s report issued on compliance for major federal programs | Unmodified |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
CFDA # 84.010	Title I – Part A
CFDA # 84.027	Special Education Cluster
CFDA # 84.173	Special Education Cluster
CFDA # 97.039	Hazard Mitigation Grant Program

- | | | |
|-----|--|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$544,957 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315 (b) of OMB Circular A-133? | Yes |

Section 2: Financial Statement Findings

2014-1 *Criteria:* Procurement procedures and documentation Significant Deficiency Prior Year Finding

Proper internal control over the purchasing and accounts payable function requires that management follow specific guidelines for non-service related purchases and have adequate support documentation.

Condition: During our audit testing, we noted invoices for services with no purchase orders created and quotes not obtained on other purchases when required. Athletic and maintenance directors approved invoices on temporary purchase orders prior to the purchase orders being approved by the purchasing agent, while some of these temporary purchase orders were not necessarily urgently required purchases.

Cause: One purchase of receipt books for \$9,126 requiring quotes was not obtained. Several invoices for services did not have purchase orders created, and the District policy does not specifically exempt services from purchase orders. Athletic and maintenance directors may need to be approved and bonded as purchasing agents.

Effect: This may cause the District to be noncompliant with state procurement laws and incur costs above the lowest and best price for products. Also purchases made on temporary purchase orders prior to the purchasing agent's approval would be difficult to reverse or correct if needed.

Recommendation: We recommend that the District adhere to proper procurement policies regarding obtaining quotes, and prepare purchase orders for services or specifically exempt it in the District policies. We also recommend the board approve and bond directors as purchasing agents that need to approve invoices prior to the purchasing agent's approval.

School District's Response: The District continues to monitor all invoices and will look at every method to improve its efficiency and comply with all of the requirements involved in procurement procedures.

2014-2 *Criteria:* Activity and club agency fund cash management and reporting Significant Deficiency Prior Year Finding

Accounting for activity and club agency funds, should follow District policy in collecting, depositing and reporting monies from students as fees or fundraising purposes. Collections at the schools should be receipted and deposited daily into a District authorized bank account. At the end of the month, a report should be prepared and given to the appropriate District personnel to review and reconcile back to the bank account.

Condition: During our audit we found several instances where daily deposits were not done and reports were not in agreement with collections. We found one teacher holding money collected personally and some receipts prepared by teachers not turned into the bookkeeper for deposit. We also found \$500 properly receipted, collected and turned into the bookkeeper missing from one deposit. The limited separation of duties in the athletic department allows one person the ability to count monies, create deposits, prepare purchase orders, and input invoices to be paid.

Cause: It appears some school administrators are not placing enough emphasis on proper and complete handling of monies collected from students for fees and fundraising consistent with District policies. There is also the opportunity for mismanagement in depositing and paying invoices with limited separation of duties or other methods of checks and balances.

Effect: If these situations continue to be allowed, more activity and agency monies collected could become missing, along with the possibility of misappropriation of funds.

Recommendation: We recommend that the District require school administrators to enforce policies regarding the accounting, reporting, and safeguarding of all activity and club agency monies to ensure proper recording and depositing occurs. We also recommend that deposits be traced to game schedules to make sure all deposits are accounted for, and payments to gate workers are verified and scrutinized.

School District's Response: The District is planning to implement a process of double checking sports schedules to deposits and continues to monitor and review the activity and club agency bank accounts to ensure proper use and safeguard the funds.

Section 3: Federal Award Findings and Questioned Costs

2014-3 Program: U.S. Department of Education, Passed through the Mississippi Department of Education: Title I – Part A, CFDA #84.010

Significant Deficiency

Compliance Requirement: Procurement

Condition: During our testing of procurement, we noted that one purchase order for \$6,200 for toner cartridges did not obtain price quotes.

Cause: State procurement laws require all purchases over \$5,000 and under \$50,000 to obtain at least two price quotes from different vendors to obtain the lowest and best price.

Effect: The lowest and best price may not have been obtained for this purchase.

Recommendation: We recommend the District adhere to state requirements on procurement with regard to obtaining at least two quotes on items over \$5,000 and under \$50,000.

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

Harrison County School District

Henry Arledge
Superintendent of Education



E. Mitchell King
Assistant Superintendent

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section ___315(c) of OMB Circular A-133, the Harrison County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2014:

Finding Corrective Action Plan Details

2014-3 **Federal award finding**

A. Name of Contact Person Responsible for Corrective Action:

Mitchell King, Assistant Superintendent, 228-539-6500

B. Corrective Action Planned:

The District will continue to follow appropriate management practices for procurement procedures, and will review all invoices for complete information and quotes when required.

C. Anticipated Completion Date: June 30, 2015

Sincerely,

A handwritten signature in cursive script that reads "Henry Arledge".

Henry Arledge
Superintendent
Harrison County School District

Harrison County School District

Henry Arledge
Superintendent of Education



E. Mitchell King
Assistant Superintendent

AUDITEE'S SUMMARY OF PRIOR FEDERAL AUDIT FINDINGS

As required by Section ___315(c) of OMB Circular A-133, the Harrison County School District has prepared and hereby submits the following summary of prior federal audit findings as of June 30, 2014:

<u>Findings</u>	<u>Status</u>
2013-5	Corrected