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HOUSTON SCHOOL DISTRICT

**Audited Financial Statements
For the Year Ended June 30, 2014**

**Kimberly T. May, CPA, PLLC
Madison, MS**

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TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT.....	1
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	5
BASIC FINANCIAL STATEMENTS.....	13
Government-wide Financial Statements	
Exhibit A Statement of Net Position.....	15
Exhibit B Statement of Activities.....	16
Governmental Funds Financial Statements	
Exhibit C Balance Sheet – Governmental Funds.....	17
Exhibit C-1 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	18
Exhibit D Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	19
Exhibit D-1 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	20
Fiduciary Funds Financial Statements	
Exhibit E Statement of Fiduciary Assets and Liabilities	21
Exhibit F Statement of Changes in Fiduciary Net Position.....	22
Notes to the Financial Statements.....	23
REQUIRED SUPPLEMENTARY INFORMATION.....	37
Budgetary Comparison Schedule for the General Fund.....	39
Budgetary Comparison Schedule for the Major Special Revenue Fund – Title I Basic Fund.....	40
Budgetary Comparison Schedule for the Major Special Revenue Fund – Title II Fund.....	41
Budgetary Comparison Schedule for the Major Special Revenue Fund – Special Education Fund.....	42
Notes to the Required Supplementary Information.....	43
SUPPLEMENTARY INFORMATION.....	45
Schedule of Expenditures of Federal Awards.....	47
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	48
OTHER INFORMATION.....	49
Statement of Revenues, Expenditures and Changes in Fund Balances – General Fund, Last Four Years.....	51
Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds, Last Four Years	52
REPORTS ON INTERNAL CONTROLS AND COMPLIANCE.....	53
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 <i>Government Auditing Standards</i> ...	55
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance.....	57
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	63
AUDITEE'S CORRECTIVE ACTION PLAN.....	67

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Houston School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston 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 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary

information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 22, 2015, on my consideration of the Houston School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Houston School District's internal control over financial reporting and compliance.

Kimberly J. May, CPA, PLLC

Madison, MS
May 22, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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HOUSTON SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The following discussion and analysis of Houston 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 decreased \$190,573, including a prior period adjustment of (\$9,400), which represents a 2% decrease from fiscal year 2013. Total net position for 2013 increased \$31,025, which represents a .4% increase from fiscal year 2012.
- General revenues amounted to \$11,550,899 and \$11,755,708, or 79% and 78% 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 \$3,087,518, or 21% of total revenues for 2014, and \$3,213,227, or 22% of total revenues for 2013.
- The District had \$14,819,590 and \$14,937,910 in expenses for fiscal years 2014 and 2013; only \$3,087,518 for 2014 and \$3,213,227 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,550,899 for 2014 were not adequate to provide for these programs and general revenues of \$11,755,708 for 2013 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,906,700 in revenues and \$11,245,600 in expenditures for 2014, and \$11,252,670 in revenues and \$11,253,971 in expenditures in 2013. The General Fund's fund balance decreased by \$258,451 from 2013 to 2014, and increased by \$56,308, including a prior period adjustment of (\$214) from 2012 to 2013.
- Capital assets, net of accumulated depreciation, decreased by \$306,151 for 2014 and decreased by \$297,984 for 2013. The decrease for 2014 was due to the disposal of capital assets coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$376,912 for 2014 and decreased by \$433,750 for 2013. This decrease for 2014 was due primarily to the principal payments on outstanding long-term debt. The liability for compensated absences increased by \$2,870 for 2014 and decreased by \$11,388 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.

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 and interest and other expenses on long-term liabilities.

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$8,653,506 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

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 4,133,192	\$ 4,336,514	(4.69) %
Restricted assets	274,820	283,332	(3.00) %
Capital assets, net	6,956,307	7,262,458	(4.22) %
Total assets	11,364,319	11,882,304	(4.36) %
Current liabilities	115,221	65,721	75.32 %
Long-term debt outstanding	2,595,592	2,972,504	(12.68) %
Total liabilities	2,710,813	3,038,225	(10.78) %
Net position:			
Net investment in capital assets	4,525,098	4,417,948	2.43 %
Restricted	426,469	421,232	1.24 %
Unrestricted	3,701,939	4,004,899	(7.56) %
Total net position	\$ 8,653,506	\$ 8,844,079	(2.15) %

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

- Decrease in net capital assets in the amount of \$306,151.
- The principal retirement of \$426,746 of long-term debt.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$14,638,417 and \$14,968,935, respectively. The total cost of all programs and services was \$14,819,590 for 2014 and \$14,937,910 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</u> <u>June 30, 2014</u>	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 569,867	\$ 653,968	(12.86) %
Operating grants and contributions	2,517,651	2,559,259	(1.63) %
General revenues:			
Property taxes	2,499,473	2,326,702	7.43 %
Grants and contributions not restricted	9,044,705	9,411,058	(3.89) %
Investment earnings	6,721	17,948	(62.55) %
Total revenues	14,638,417	14,968,935	(2.21) %
Expenses:			
Instruction	8,471,821	8,779,115	(3.50) %
Support services	5,210,058	5,000,272	4.20 %
Non-instructional	1,039,848	1,047,312	(0.71) %
Interest on long-term liabilities	97,863	111,211	(12.00) %
Total expenses	14,819,590	14,937,910	(0.79) %
Increase (Decrease) in net position	(181,173)	31,025	(683.96) %
Net Position, July 1, as previously reported	8,844,079	8,813,054	0.35 %
Prior Period Adjustment	(9,400)	0	N/A %
Net Position, July 1, as restated	8,834,679	8,813,054	0.25 %
Net Position, June 30	\$ 8,653,506	\$ 8,844,079	(2.15) %

Governmental activities

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage</u> <u>Change</u>
	<u>2014</u>	<u>2013</u>	
Instruction	\$ 8,471,821	\$ 8,779,115	(3.50) %
Support services	5,210,058	5,000,272	4.20 %
Non-instructional	1,039,848	1,047,312	(0.71) %
Interest on long-term liabilities	97,863	111,211	(12.00) %
Total expenses	\$ 14,819,590	\$ 14,937,910	(0.79) %
	<u>Net (Expense) Revenue</u>		<u>Percentage</u> <u>Change</u>
	<u>2014</u>	<u>2013</u>	
Instruction	\$ (7,151,979)	\$ (7,325,562)	(2.37) %
Support services	(4,621,401)	(4,411,348)	4.76 %
Non-instructional	139,171	123,438	12.75 %
Interest on long-term liabilities	(97,863)	(111,211)	(12.00) %
Total net (expense) revenue	\$ (11,732,072)	\$ (11,724,683)	0.06 %

- Net cost of governmental activities (\$11,732,072 for 2014 and \$11,724,683 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$2,499,473 for 2014 and \$2,326,702 for 2013) and state and federal revenues (\$9,044,705 for 2014 and \$9,411,058 for 2013).
- Investment earnings amounted to \$6,721 for 2014 and \$17,948 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.

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 \$4,327,555, a decrease of \$265,844, which includes an increase in inventory of \$8,491. \$3,591,934 or 83% 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 \$735,621 or 17% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$258,451. The fund balance of Other Governmental Funds showed a decrease in the amount of \$7,393, which includes an increase in reserve for inventory of \$8,491. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Basic Fund	\$ no increase or decrease
Title II Fund	no increase or decrease
Special Education 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.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$13,587,943, including land, school buildings, improvements other than buildings, buses, other school vehicles and furniture and equipment. This amount represents a decrease of \$110,279 from 2013. Total accumulated depreciation as of June 30, 2014, was \$6,631,636, and total depreciation expense for the year was \$303,802, resulting in total net capital assets of \$6,956,307.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Land	\$ 198,441	\$ 198,441	0 %
Buildings	6,357,961	6,571,311	(3.25) %
Improvements other than buildings	82,944	90,484	(8.33) %
Mobile equipment	240,013	270,898	(11.40) %
Furniture and equipment	76,948	131,324	(41.41) %
Total	\$ 6,956,307	\$ 7,262,458	(4.22) %

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 \$2,595,592 in outstanding long-term debt, of which \$455,431 is due within one year. The liability for compensated absences increased \$2,870 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Limited obligation refunding bonds payable	1,175,000	1,435,000	(18.12) %
Certificates of participation payable	236,209	309,510	(23.68) %
Three mill notes payable	1,020,000	1,100,000	(7.27) %
Shortfall notes payable	46,964	13,445	249.30 %
Compensated absences payable	117,419	114,549	2.51 %
Total	<u>\$ 2,595,592</u>	<u>\$ 2,972,504</u>	(12.68) %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Houston School District, P.O. Drawer 351, Houston, MS 38851.

BASIC FINANCIAL STATEMENTS

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Houston School District
Statement of Net Position
June 30, 2014

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 3,596,299
Due from other governments	500,942
Other receivables, net	427
Inventories	35,524
Restricted assets (Note 4)	274,820
Non-depreciable capital assets (Note 5)	198,441
Depreciable capital assets, net (Note 5)	6,757,866
Total Assets	<u>11,364,319</u>
Liabilities	
Accounts payable and accrued liabilities	73,186
Interest payable on long-term liabilities	34,764
Other payables	7,271
Long-term liabilities (Due within one year) (Note 6)	
Capital related liabilities	430,954
Non-capital related liabilities	24,477
Long-term liabilities (Due beyond one year) (Note 6)	
Capital related liabilities	2,000,255
Non-capital related liabilities	139,906
Total Liabilities	<u>2,710,813</u>
Net Position	
Net investment in capital assets	4,525,098
Restricted net position	
Expendable	
School-based activities	144,420
Debt service	242,064
Unemployment benefits	39,985
Unrestricted	<u>3,701,939</u>
Total Net Position	<u>\$ 8,653,506</u>

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

Houston School District
Balance Sheet - Governmental Funds
June 30, 2014

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I Basic Fund	Title II Fund	Special Education Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents (Note 2)	\$ 3,596,299				269,103	3,865,402
Investments (Note 2)					5,717	5,717
Due from other governments	198,593	79,798	20,015	38,221	164,315	500,942
Other receivables, net	427					427
Due from other funds (Note 3)	145,219				1,940	147,159
Inventories					35,524	35,524
Total Assets	3,940,538	79,798	20,015	38,221	476,599	4,555,171
Liabilities and Fund Balances						
Liabilities						
Accounts payable & accrued liabilities	72,276			910		73,186
Due to other funds (Note 3)	1,940	79,798	20,015	37,311	8,095	147,159
Unearned revenue					7,271	7,271
Total Liabilities	74,216	79,798	20,015	38,221	15,366	227,616
Fund Balances						
Nonspendable					35,524	35,524
Inventory						
Restricted						
Debt service						
Unemployment benefits					276,828	276,828
Grant activities					39,985	39,985
Assigned					108,896	108,896
School activities	274,388					274,388
Unassigned	3,591,934					3,591,934
Total Fund Balances	3,866,322	0	0	0	461,233	4,327,555
Total Liabilities and Fund Balances	\$ 3,940,538	79,798	20,015	38,221	476,599	4,555,171

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

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

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,327,555
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:</p>	
Land	198,441
Buildings	11,251,321
Improvement other than buildings	188,506
Mobile equipment	1,366,166
Furniture and equipment	583,509
Accumulated depreciation	<u>(6,631,636)</u>
	6,956,307
<p>Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:</p>	
Limited obligation refunding bonds payable	(1,175,000)
Certificates of participation payable	(236,209)
Three mill notes payable	(1,020,000)
Shortfall notes payable	(46,964)
Compensated absences	(117,419)
Accrued interest payable	<u>(34,764)</u>
	<u>(2,630,356)</u>
Total Net Position - Governmental Activities	<u>\$ 8,653,506</u>

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

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

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Title I Basic Fund	Title II Fund	Special Education Fund	Other Governmental Funds	
Revenues						
Local sources	\$ 2,747,470				328,374	3,075,844
State sources	8,073,584				1,273,792	9,347,376
Federal sources	85,646	580,616	98,767	356,094	1,094,074	2,215,197
Total Revenues	10,906,700	580,616	98,767	356,094	2,696,240	14,638,417
Expenditures						
Instruction	6,854,736	422,221	97,892	91,230	780,665	8,246,744
Support services	4,374,768	145,200	875	259,961	353,606	5,134,410
Noninstructional services		8,581		633	1,039,125	1,048,339
Debt service						
Principal (Note 6)	4,892				421,854	426,746
Interest	11,204				89,474	100,678
Other					1,695	1,695
Total Expenditures	11,245,600	576,002	98,767	351,824	2,686,419	14,958,612
Excess (Deficiency) of Revenues Over Expenditures	(338,900)	4,614	0	4,270	9,821	(320,195)
Other Financing Sources (Uses)						
Proceeds of loans (Note 6)	46,964					46,964
Operating transfers in (Note 3)	52,788				20,535	73,323
Operating transfers out (Note 3)	(19,003)	(4,614)		(4,270)	(45,436)	(73,323)
Other financing uses	(300)				(804)	(1,104)
Total Other Financing Sources (Uses)	80,449	(4,614)	0	(4,270)	(25,705)	45,860
Net Change in Fund Balances	(258,451)	0	0	0	(15,884)	(274,335)
Fund Balances						
July 1, 2013	4,124,773	0	0	0	468,626	4,593,399
Increase in reserve for inventory	0	0	0	0	8,491	8,491
June 30, 2014	\$ 3,866,322	0	0	0	461,233	4,327,555

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

Houston 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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balance - Governmental Funds	\$ (274,335)

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

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

Capital outlay	7,196	
Depreciation expense	<u>(303,802)</u>	(296,606)

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 asset sold. (145)

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

Notes issued	(46,964)	
Payments of debt principal	426,746	
Accrued interest payable	<u>4,510</u>	384,292

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

Change in compensated absences	(2,870)	
Change in inventory reserve	<u>8,491</u>	<u>5,621</u>

Changes in Net Position of Governmental Activities	<u>\$ (181,173)</u>
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The notes to the financial statements are an integral part of this statement.

Houston School District
 Statement of Net Position - Fiduciary Funds
 June 30, 2014

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 66,695	\$ 417,331
Total Assets	<u>66,695</u>	<u>417,331</u>
Liabilities		
Accounts payable and accrued liabilities		380,472
Due to student clubs		36,859
Total Liabilities	<u>0</u>	<u>\$ 417,331</u>
Net Position		
Reserved for endowments	66,695	
Total Net Position	<u>\$ 66,695</u>	

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

Houston School District
Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on investments	\$ 64
Total Additions	<u>64</u>
Deductions	
Scholarships awarded	1,000
Total Deductions	<u>1,000</u>
Changes in Net Assets	<u>(936)</u>
Net Position	
July 1, 2013	<u>67,631</u>
June 30, 2014	<u>\$ 66,695</u>

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

Houston School District
Notes to the Financial Statements
For 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 Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Houston since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

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

Blended component unit

The Houston Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

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.

Houston School District
Notes to the Financial Statements
For 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.

Title I Basic Fund - This special revenue fund is federally funded and is used to provide supplemental funds to the education program of the school district.

Title II Fund - This special revenue fund is federally funded and is used to provide additional classroom teachers and professional development for teachers.

Special Education Fund - This special revenue fund is federally funded and is used to account for expenditures associated with children with disabilities.

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 school district also reports fiduciary funds which focus on net position and changes in net position.

The District's fiduciary funds include the following:

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

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

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

L. L. Robinson Trust Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

E. E. Davis Trust Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Ethel Simpson Trust Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Joe Brigance Scholarship Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Robert P Chase Scholarship Fund - These funds are used to account for restricted contributions that are used to provide scholarships to students.

Additionally, the school district reports the following fund types:

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

GOVERNMENTAL FUNDS

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

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

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

D. Encumbrances

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

E. Assets, liabilities, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district, as well as for its component units, are reported at fair market value.

2. Receivables and payables

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

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

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

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

7. Compensated Absences

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

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

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

8. Long-term Liabilities

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

9. Fund Balances

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

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

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

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

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

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

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

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

It is the policy of the School District to maintain a minimum fund balance in the General Fund that is not less than \$1,800,000.

Note 2 – Cash and Cash Equivalents and Investments

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool

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

administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,865,402 and \$484,026, respectively.

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

Investments

As of June 30, 2014, the district had the following investments.

Investment Type	Rating	Maturities (in years)	Fair Value
Federated US Treasury Securities			\$ 5,717

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

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

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

Note 3 – Inter-fund Receivables, Payables and Transfers

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

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

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Major Fund - Title I Basic Fund	\$ 79,798
	Major Fund - Title II Fund	20,015
	Major Fund - Special Education Fund	37,311
	Other governmental funds	8,095
Other governmental funds	General Fund	<u>1,940</u>
Total		<u>\$ 147,159</u>

The purpose of the more significant inter-fund loans was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments

B. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 19,003
Major Fund - Title I Basic Fund	General Fund	4,614
Major Fund - Special Education Fund	General Fund	4,270
Other governmental funds	General Fund	43,904
	Other governmental funds	<u>1,532</u>
Total		<u>\$ 73,323</u>

The transfer out of the General Fund was for the purpose of funding unemployment compensation and the vocational program in the Other Governmental Funds. The transfer to the General Fund from Other Governmental Funds was for indirect costs and to fund the Solar Car activities. The transfers from the Major Funds to the General Fund were indirect costs.

Note 4 – Restricted Assets

The restricted assets represent the cash and investment balances, totaling \$269,103 and \$5,717, respectively, which are legally restricted (i.e., Debt Service Funds and similar type funds) and may not be used for purposes that support the district's programs.

Note 5 – Capital Assets

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

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

	Balance 7/1/2013	Increases	Decreases	Adjustments	Balance 6/30/2014
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 198,441				198,441
Total non-depreciable capital assets	<u>198,441</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>198,441</u>
<u>Depreciable capital assets:</u>					
Buildings	11,251,321				11,251,321
Improvements other than buildings	188,506				188,506
Mobile equipment	1,366,166				1,366,166
Furniture and equipment	693,788	7,196	(14,496)	(102,979)	583,509
Total depreciable capital assets	<u>13,499,781</u>	<u>7,196</u>	<u>(14,496)</u>	<u>(102,979)</u>	<u>13,389,502</u>
<u>Less accumulated depreciation for:</u>					
Buildings	4,680,010	213,350			4,893,360
Improvements other than buildings	98,022	7,540			105,562
Mobile equipment	1,095,268	30,885			1,126,153
Furniture and equipment	562,464	52,027	(14,351)	(93,579)	506,561
Total accumulated depreciation	<u>6,435,764</u>	<u>303,802</u>	<u>(14,351)</u>	<u>(93,579)</u>	<u>6,631,636</u>
Total depreciable capital assets, net	<u>7,064,017</u>	<u>(296,606)</u>	<u>(145)</u>	<u>(9,400)</u>	<u>6,757,866</u>
Governmental activities capital assets, net	<u>\$ 7,262,458</u>	<u>(296,606)</u>	<u>(145)</u>	<u>(9,400)</u>	<u>6,956,307</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 225,077
Support services	78,725
Total depreciation expense - Governmental activities	<u>\$ 303,802</u>

Note 6 – Long-term Liabilities

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

	Balance 7/1/2013	Additions	Reductions	Balance 6/30/2014	Amounts due within one year
A. Limited obligation refunding bonds payable	1,435,000		260,000	1,175,000	270,000
B. Certificates of participation payable	309,510		73,301	236,209	75,954
C. Three mill notes payable	1,100,000		80,000	1,020,000	85,000
D. Shortfall notes payable	13,445	46,964	13,445	46,964	15,083
E. Compensated absences payable	114,549	2,870		117,419	9,394
Total	<u>\$ 2,972,504</u>	<u>49,834</u>	<u>426,746</u>	<u>2,595,592</u>	<u>455,431</u>

A. Limited obligation refunding bonds payable

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

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited obligation refunding bonds, 2009	2.8	8/1/2009	2/1/2018	\$ 2,268,000	1,175,000

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 270,000	33,604	303,604
2016	275,000	25,884	300,884
2017	285,000	18,018	303,018
2018	345,000	9,867	354,867
Total	\$ 1,175,000	87,373	1,262,373

This debt will be retired from the MAEP Retirement Fund (Debt Service Fund).

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

B. Certificates of participation payable

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation, 2005	3.62	8/15/2005	6/1/2017	\$ 800,000	236,209

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 75,954	8,551	84,505
2016	78,703	5,801	84,504
2017	81,552	2,952	84,504
Total	\$ 236,209	17,304	253,513

This debt will be retired from the General Fund and the EEF Building and Bus Fund (Special Revenue Fund). The Certificates of Participation are secured, in part, by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant 37-61-33, Miss. Code Ann. (1972).

C. Three mill notes payable

Debt currently outstanding is as follows:

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes, 2003B	4.0-4.8	9/1/2003	8/1/2023	\$ 1,300,000	1,020,000

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 85,000	44,460	129,460
2016	85,000	40,911	125,911
2017	90,000	37,192	127,192
2018	95,000	19,190	114,190
2019	100,000	28,900	128,900
2020 – 2024	565,000	70,020	635,020
Total	\$ 1,020,000	240,673	1,260,673

This debt will be retired from the Three Mill Note Fund (Debt Service Fund).

D. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes, 2013	3.75	8/22/2013	8/22/2016	\$ 46,964	46,964

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 15,083	1,716	16,799
2016	15,649	1,196	16,845
2017	16,232	610	16,842
Total	\$ 46,964	3,522	50,486

This debt will be retired from the Shortfall 2013 Fund (Debt Service Fund).

E. Compensated absences payable

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

Note 7 – 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

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

financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 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 \$1,229,003, \$1,156,109 and \$1,029,200, respectively, which equaled the required contributions for each year.

Note 8 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
Adjustments to capital assets	\$ (9,400)

Note 9 – Contingencies

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

Note 10 – Risk Management

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

Note 11 – Trust Certificates

A trust agreement dated August 15, 2005, was executed by and between the school district and First Security Bank, as trustees.

The trust agreement authorized the issuance of trust certificates in the principal amount of \$800,000. Approximately \$800,000 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project").

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, *et seq.*, Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to

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

constitute an inseparable part of the school district. Therefore, the assets, liabilities, fund balances, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

Note 12 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the School District evaluated the activity of the district through May 22, 2015 and determined that no subsequent event(s) have occurred requiring disclosure in the notes to the financial statements.

Note 13 - Economic Dependency

The school district is significantly economically dependent on an ad valorem tax payer. In the event of a loss of these ad valorem taxes, which makes up approximately 28% of the district's ad valorem taxes, the district would encounter an economic hardship.

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REQUIRED SUPPLEMENTARY INFORMATION

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Houston School District
 Budgetary Comparison Schedule for the 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	\$ 2,805,250	2,747,470	2,747,470	(57,780)	0
State sources	8,001,859	8,073,584	8,073,584	71,725	0
Federal sources	90,800	85,646	85,646	(5,154)	0
Total Revenues	10,897,909	10,906,700	10,906,700	8,791	0
Expenditures					
Instruction	7,066,860	6,854,736	6,854,736	212,124	0
Support services	5,016,330	4,374,768	4,374,768	641,562	0
Debt service					
Principal	4,892	4,892	4,892	0	0
Interest	11,204	11,204	11,204	0	0
Total Expenditures	12,099,286	11,245,600	11,245,600	853,686	0
Excess (Deficiency) of Revenues Over Expenditures	(1,201,377)	(338,900)	(338,900)	862,477	0
Other Financing Sources (Uses)					
Proceeds of loans	46,964	46,964	46,964	0	0
Insurance loss recoveries	200	0	0	(200)	0
Sale of transportation equipment	200	0	0	(200)	0
Operating transfers in	73,385	66,629	52,788	(6,756)	(13,841)
Operating transfers out	(17,000)	(32,844)	(19,003)	(15,844)	13,841
Other financing uses	(300)	(300)	(300)	0	0
Total Other Financing Sources (Uses)	103,449	80,449	80,449	(23,000)	0
Net Change in Fund Balances			(258,451)		
Fund Balances					
July 1, 2013			<u>4,124,773</u>		
June 30, 2014			<u>\$ 3,866,322</u>		

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

Houston School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title I Basic 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					
Federal sources	\$ 632,617	580,616	580,616	(52,001)	0
Total Revenues	<u>632,617</u>	<u>580,616</u>	<u>580,616</u>	<u>(52,001)</u>	<u>0</u>
Expenditures					
Instruction	465,979	422,221	422,221	43,758	0
Support services	149,456	145,200	145,200	4,256	0
Noninstructional services	12,062	8,581	8,581	3,481	0
Total Expenditures	<u>627,497</u>	<u>576,002</u>	<u>576,002</u>	<u>51,495</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>5,120</u>	<u>4,614</u>	<u>4,614</u>	<u>(506)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	(5,120)	(4,614)	(4,614)	506	0
Total Other Financing Sources (Uses)	<u>(5,120)</u>	<u>(4,614)</u>	<u>(4,614)</u>	<u>506</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2013			<u>0</u>		
June 30, 2014			<u>\$ 0</u>		

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

Houston School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Title II 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				
Federal sources	\$ 107,870	98,767	98,767	(9,103)	0
Total Revenues	<u>107,870</u>	<u>98,767</u>	<u>98,767</u>	<u>(9,103)</u>	<u>0</u>
Expenditures					
Instruction	105,738	97,892	97,892	7,846	0
Support services	2,132	875	875	1,257	0
Total Expenditures	<u>107,870</u>	<u>98,767</u>	<u>98,767</u>	<u>9,103</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2013			<u>0</u>		
June 30, 2014			<u>\$ 0</u>		

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

Houston School District
 Budgetary Comparison Schedule for the Major Special Revenue Fund - Special Education 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					
Federal sources	\$ 382,946	356,094	356,094	(26,852)	0
Total Revenues	<u>382,946</u>	<u>356,094</u>	<u>356,094</u>	<u>(26,852)</u>	<u>0</u>
Expenditures					
Instruction	102,039	91,230	91,230	10,809	0
Support services	275,561	259,961	259,961	15,600	0
Noninstructional services	700	633	633	67	0
Total Expenditures	<u>378,300</u>	<u>351,824</u>	<u>351,824</u>	<u>26,476</u>	<u>0</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,646</u>	<u>4,270</u>	<u>4,270</u>	<u>(376)</u>	<u>0</u>
Other Financing Sources (Uses)					
Operating transfers out	(4,645)	(4,270)	(4,270)	375	0
Total Other Financing Sources (Uses)	<u>(4,645)</u>	<u>(4,270)</u>	<u>(4,270)</u>	<u>375</u>	<u>0</u>
Net Change in Fund Balances			<u>0</u>		
Fund Balances					
July 1, 2013			<u>0</u>		
June 30, 2014			<u>\$ 0</u>		

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

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

(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 following the end of the fiscal year. A budgetary comparison is presented for the general fund and each major special revenue fund on the same basis of accounting as the budget which is consistent with accounting principles generally accepted in the United States of America.

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SUPPLEMENTARY INFORMATION

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Houston 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 No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 310,790
National school lunch program	10.555	867,076
Total child nutrition cluster		<u>1,177,866</u>
Total U.S. Department of Agriculture		<u>1,177,866</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.xxx	<u>25,592</u>
Total Federal Communications Commission		<u>25,592</u>
U.S. Department of Education		
Direct programs:		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	591,164
Career and technical education - basic grants to states	84.048	24,760
Rural education	84.358	33,259
English language acquisition grants	84.365	14,451
Improving teacher quality - state grants	84.367	98,767
Total		<u>762,401</u>
Special education cluster:		
Special education - grants to states	84.027	356,094
Special education - preschool grants	84.173	14,369
Total special education cluster		<u>370,463</u>
Total passed-through Mississippi Department of Education		<u>1,132,864</u>
Total U.S. Department of Education		<u>1,132,864</u>
Other Federal Assistance		
Direct Program:		
Appalachian Regional Commission ARC Grant	23.001	<u>34,268</u>
Total Corporation for National and Community Service		<u>34,268</u>
Total for All Federal Awards		<u>\$ 2,370,590</u>

NOTES TO SCHEDULE

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

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 10,994,485	8,272,323	673,767	796,582	1,251,813
Other	3,964,127	1,371,457	251,263	15,412	2,325,995
Total	<u>14,958,612</u>	<u>9,643,780</u>	<u>925,030</u>	<u>811,994</u>	<u>3,577,808</u>
Total number of students	<u>1,693</u>				
Cost per student	<u>\$ 8,836</u>	<u>5,696</u>	<u>546</u>	<u>480</u>	<u>2,113</u>

Notes to the schedule.

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

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

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

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

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

OTHER INFORMATION

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

UNAUDITED

	2014	2013*	2012*	2011*
Revenues				
Local sources	\$ 2,747,470	2,668,646	2,476,201	2,210,070
State sources	8,073,584	8,490,713	8,502,816	8,509,095
Federal sources	85,646	93,311	111,089	76,562
Total Revenues	<u>10,906,700</u>	<u>11,252,670</u>	<u>11,090,106</u>	<u>10,795,727</u>
Expenditures				
Instruction	6,854,736	7,153,387	7,084,105	6,129,445
Support services	4,374,768	4,084,491	3,958,330	3,493,536
Debt service				
Principal	4,892	2,329	16,096	16,096
Interest	11,204	13,764	0	0
Total Expenditures	<u>11,245,600</u>	<u>11,253,971</u>	<u>11,058,531</u>	<u>9,639,077</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(338,900)</u>	<u>(1,301)</u>	<u>31,575</u>	<u>1,156,650</u>
Other Financing Sources (Uses)				
Proceeds of loans	46,964	0	0	38,591
Operating transfers in	52,788	56,062	29,586	70,428
Other financing sources	0	7,019	0	0
Operating transfers out	(19,003)	(4,958)	(8,174)	(547,582)
Other financing uses	(300)	(300)	(2,153)	0
Total Other Financing Sources (Uses)	<u>80,449</u>	<u>57,823</u>	<u>19,259</u>	<u>(438,563)</u>
Net Change in Fund Balances	<u>(258,451)</u>	<u>56,522</u>	<u>50,834</u>	<u>718,087</u>
Fund Balances				
July 1, as previously reported	4,124,773	4,068,465	4,017,631	3,299,544
Prior period adjustments	0	(214)	0	0
July 1, as restated	<u>4,124,773</u>	<u>4,068,251</u>	<u>4,017,631</u>	<u>3,299,544</u>
June 30	<u>\$ 3,866,322</u>	<u>4,124,773</u>	<u>4,068,465</u>	<u>4,017,631</u>

* Source - Prior year audit reports.

Houston 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	\$ 3,075,844	3,000,227	2,918,612	3,003,776
State sources	9,347,376	9,705,952	9,721,497	9,214,539
Federal sources	2,215,197	2,264,595	2,825,494	3,181,499
Total Revenues	<u>14,638,417</u>	<u>14,970,774</u>	<u>15,465,603</u>	<u>15,399,814</u>
Expenditures				
Instruction	8,246,744	8,535,951	8,831,730	8,530,232
Support services	5,134,410	4,956,840	4,910,089	4,354,370
Noninstructional services	1,048,339	1,045,768	1,051,777	1,038,527
Facilities acquisition and construction	0	0	40,456	661,279
Debt service				
Principal	426,746	422,362	422,994	702,050
Interest	100,678	114,728	128,850	150,727
Other	1,695	1,250	1,000	5,735
Total Expenditures	<u>14,958,612</u>	<u>15,076,899</u>	<u>15,386,896</u>	<u>15,442,920</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(320,195)</u>	<u>(106,125)</u>	<u>78,707</u>	<u>(43,106)</u>
Other Financing Sources (Uses)				
Proceeds of loans	46,964	0	0	38,591
Operating transfers in	73,323	97,945	37,760	618,010
Other financing sources	0	7,019	0	0
Operating transfers out	(73,323)	(97,945)	(37,760)	(618,010)
Other financing uses	(1,104)	(8,858)	(3,706)	(1,863)
Total Other Financing Sources (Uses)	<u>45,860</u>	<u>(1,839)</u>	<u>(3,706)</u>	<u>36,728</u>
Net Change in Fund Balances	<u>(274,335)</u>	<u>(107,964)</u>	<u>75,001</u>	<u>(6,378)</u>
Fund Balances				
July 1	4,593,399	4,702,907	4,631,477	4,630,492
Increase (Decrease) in reserve for inventory	<u>8,491</u>	<u>(1,544)</u>	<u>(3,571)</u>	<u>7,363</u>
June 30	<u>\$ 4,327,555</u>	<u>4,593,399</u>	<u>4,702,907</u>	<u>4,631,477</u>

* Source - Prior year audit reports.

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

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

Independent Auditor's Report

Superintendent and School Board
Houston School District

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Houston School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Houston School District's basic financial statements, and have issued my report thereon dated May 22, 2015.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified. I did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs that I consider to be a significant deficiency. [2014-01]

Compliance and Other Matters

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

Houston School District's Response to Findings

Houston School District's response to the finding identified in my audit is described in the accompanying Auditee's Corrective Action Plan. Houston School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

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

Kimberly J May, CPA, PLLC

Madison, MS
May 22, 2015

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

Independent Auditor's Report

Superintendent and School Board
Houston School District

Report on Compliance for Each Major Federal Program

I have audited Houston School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Houston School District's major federal programs for the year ended June 30, 2014. Houston School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such

that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Kimberly J May, CPA, PLLC

Madison, MS
May 22, 2015

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

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

Superintendent and School Board
Houston School District

I have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Houston School District as of and for the year ended June 30, 2014, which collectively comprise Houston School District's basic financial statements and have issued my report thereon dated May 22, 2015. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

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

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

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

Kimberly T. May, CPA, PLLC

Madison, MS
May 22, 2015

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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Houston School District
 Schedule of Findings and Questioned Costs
 June 30, 2014

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|---------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that are not considered to be material weaknesses? | None Reported |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | a. Child nutrition cluster | |
| | CFDA #: 10.553 | |
| | CFDA #: 10.555 | |
| | b. Special education cluster | |
| | CFDA #: 84.027 | |
| | CFDA#: 84.173 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

Section II: Financial Statement Findings

Significant deficiency identified that was not considered to be material weakness.

Finding 2014-01

CONDITION: The business manager initiates, prepares, approves and enters all journal entries to correct, post, or otherwise cause the proper statement of the account balances and/or classes of transactions. The business manager also reconciles the district banks accounts.

CRITERIA: An appropriately and properly designed system of accounting controls would have these duties segregated to the greatest extent possible.

CAUSE OF CONDITION: The cause of this condition is an inadequately designed system of accounting controls.

EFFECT OF CONDITION: This condition could lead to errors being made and those errors not being prevented or detected.

RECOMMENDATION: It is recommended that the duties of the business manager relating to journal entries and bank account reconciliations be segregated to the greatest extent possible.

Houston School District
Schedule of Findings and Questioned Costs
June 30, 2014

Section III: Federal Award Findings and Questioned Costs

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

AUDITEE'S CORRECTIVE ACTION PLAN

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HOUSTON SCHOOL DISTRICT

WILLIAM STEPHEN COKER, SUPERINTENDENT

Home of
SUNDANGER
International Solar Car
Racing Champion

May 18, 2015

As required by Section 315(c) of OMB Circular A-133, the Houston 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 2014-01

Corrective Action Plan

- a. Contact person responsible for corrective action: Sarah Juckes
- b. Description of correction action to be taken: Due to the limited staff in the central office, it will not be possible to segregate these duties to satisfy this finding.
- c. Anticipated completion date of corrective action: N/A

Sincerely,


Superintendent of Education

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