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Hancock County School District

Audited Financial Statements
For the Year Ended June 30, 2015

Fortenberry & Ballard, PC
Certified Public Accountants

**Hancock County School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Hancock County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hancock County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to previously 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 Hancock County School District, as of June 30, 2015, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the school district adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. As a result, net position as of July 1, 2014, has been restated. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis, budgetary comparison information and the Schedules of the District’s Proportionate Share of the Net Pension Liability and of the District Contributions on pages 8 to 19 and 55 to 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hancock County School District’s basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All

Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2016, on our consideration of the Hancock County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hancock County School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 3, 2016

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

The following discussion and analysis of Hancock County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2015. 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 2015 decreased \$38,456,651, including a prior period adjustment of (\$40,885,849), which represents a 47% decrease from fiscal year 2014. Total net position for 2014 increased \$2,053,735, which represents a 3% increase from fiscal year 2013.
- General revenues amounted to \$34,170,296 and \$32,931,328, or 82% and 81% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,355,750, or 18% of total revenues for 2015, and \$7,815,889, or 19% of total revenues for 2014.
- The District had \$39,096,848 and \$38,693,482 in expenses for fiscal years 2015 and 2014; only \$7,355,750 for 2015 and \$7,815,889 for 2014 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$34,170,296 for 2015 and \$32,931,328 for 2014 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$31,316,054 in revenues and \$29,157,912 in expenditures for 2015, and \$29,439,371 in revenues and \$28,588,688 in expenditures for 2014. The General Fund's fund balance increased by \$11,472,563, including the fund reclass of Sixteenth Section Interest Fund from Special Revenue Funds to General Fund in the amount of \$1,997,115, from 2014 to 2015, and decreased by \$223,738 from 2013 to 2014.
- Capital assets, net of accumulated depreciation, increased by \$5,538,221, including a prior period adjustment of (\$457,618), for 2015 and increased by \$2,539,153 for 2014. The increase for 2015 was primarily due to additions to construction in progress, mobile equipment and furniture and equipment.
- Long-term debt decreased by \$3,025,000 for 2015 and increased by \$2,484,534 for 2014. This decrease for 2015 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$7,301 for 2015 and increased by \$57,874 for 2014.

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

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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, deferred outflows of resources, liabilities, and deferred inflows of resources with the differences between the two reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

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

Hancock County School District
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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.

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Notes to the financial statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board. Additionally, the Schedule of the District's Proportionate Share of the Net Pension Liability and of the District Contributions are included in this section.

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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$42,810,900 as of June 30, 2015.

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, 2015 and June 30, 2014.

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Current assets	\$ 25,600,108	32,916,993	(22)%
Restricted assets	2,077,022	1,681,611	24%
Capital assets, net	<u>82,477,412</u>	<u>76,939,191</u>	7%
Total assets	<u>110,154,542</u>	<u>111,537,795</u>	(1)%
 Deferred outflows of resources	 <u>3,857,989</u>	 <u></u>	 N/A
Current liabilities	3,442,383	3,290,872	5%
Long-term debt outstanding	23,947,071	26,979,372	(11)%
Net pension liability	<u>38,265,335</u>	<u></u>	N/A
Total liabilities	<u>65,654,789</u>	<u>30,270,244</u>	117%
 Deferred inflows of resources	 <u>5,546,842</u>	 <u></u>	 N/A
 Net position:			
Net investment in capital assets	58,822,412	50,259,191	17%
Restricted	7,106,228	25,589,172	(72)%
Unrestricted	<u>(23,117,740)</u>	<u>5,419,188</u>	(527)%
Total net position	<u>\$ 42,810,900</u>	<u>81,267,551</u>	(47)%

Additional information on unrestricted net position:

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

Total unrestricted net position	\$ (23,117,740)
Less unrestricted deficit in net position resulting from implementation of GASB Statements No. 68 and 71	<u>39,954,188</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 16,836,448</u>

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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

- Increase in net capital assets in the amount of \$5,538,221.
- The principal retirement of \$3,025,000 of long-term debt.
- The recognition of Net Pension Liability in the amount of \$38,265,335 as a result of GASB Statement No. 68 and 71 implementation.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$41,526,046 and \$40,747,217, respectively. The total cost of all programs and services was \$39,096,848 for 2015 and \$38,693,482 for 2014.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2015 and June 30, 2014.

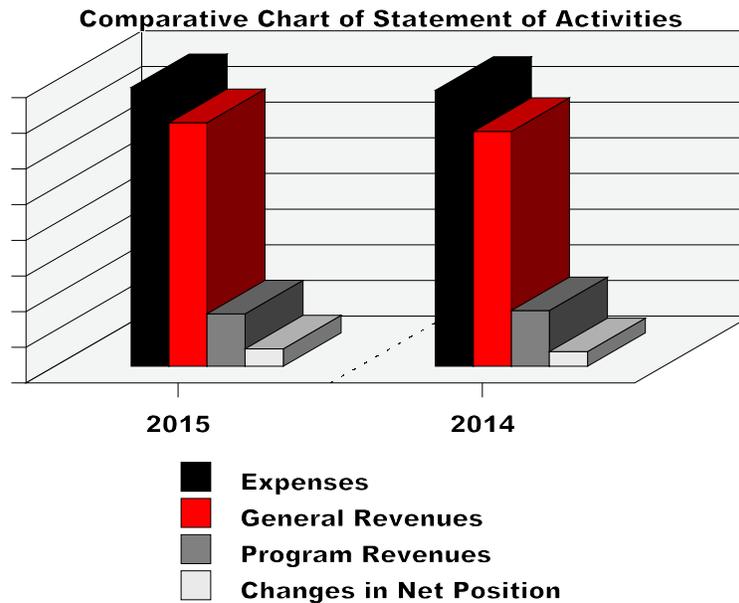
GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Table 2
Changes in Net Position

	<u>Year Ended June 30, 2015</u>	<u>Year Ended June 30, 2014</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,013,992	978,853	4%
Operating grants and contributions	5,960,573	5,623,895	6%
Capital grants and contributions	381,185	1,213,141	(69)%
Total program revenues	<u>7,355,750</u>	<u>7,815,889</u>	(6)%
General revenues:			
Property taxes and gaming	13,665,435	14,226,330	(4)%
Grants and contributions not restricted	20,120,909	18,252,533	10%
Unrestricted investment earnings	100,434	90,771	11%
Sixteenth section sources	116,330	111,744	4%
Other	167,188	249,950	(33)%
Total general revenues	<u>34,170,296</u>	<u>32,931,328</u>	4%
Total revenues	<u>41,526,046</u>	<u>40,747,217</u>	2%
Expenses:			
Instruction	19,958,817	21,229,095	(6)%
Support services	13,559,570	14,410,264	(6)%
Non-instructional	2,327,954	2,425,692	(4)%
Sixteenth section	13,892	5,206	167%
Pension expense	2,643,270		N/A
Interest on long-term liabilities	593,345	623,225	(5)%
Total expenses	<u>39,096,848</u>	<u>38,693,482</u>	1%
Increase (Decrease) in net position	<u>2,429,198</u>	<u>2,053,735</u>	18%
Net Position, July 1, as previously reported	81,267,551	79,213,816	3%
Prior period adjustment	<u>(40,885,849)</u>		N/A
Net Position, July 1, as restated	<u>40,381,702</u>	<u>79,213,816</u>	(49)%
Net Position, June 30	<u>\$ 42,810,900</u>	<u>81,267,551</u>	(47)%

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015



Governmental activities

The following table presents the cost of six major District functional activities: instruction, support services, non-instructional, sixteenth section, pension expense 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.

GASB 68 was implemented in fiscal year 2015. Prior year amounts were not restated to reflect the implementation of GASB 68.

Table 3
Net Cost of Governmental Activities

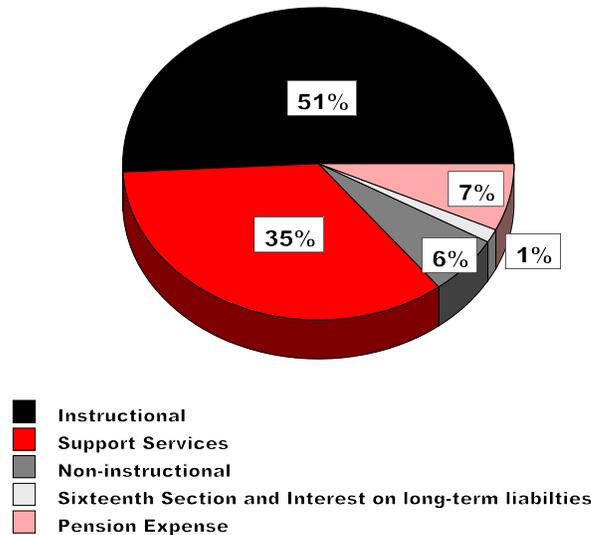
	<u>Total Expenses</u>		Percentage Change
	<u>2015</u>	<u>2014</u>	
Instruction	\$ 19,958,817	21,229,095	(6)%
Support services	13,559,570	14,410,264	(6)%
Non-instructional	2,327,954	2,425,692	(4)%
Sixteenth section	13,892	5,206	167%
Pension expense	2,643,270		
Interest on long-term liabilities	593,345	623,225	(5)%
Total expenses	<u>\$ 39,096,848</u>	<u>38,693,482</u>	<u>1%</u>

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

Net (Expense) Revenue

	2015	2014	Percentage Change
Instruction	\$ (17,225,140)	(17,725,614)	(3)%
Support services	(11,197,193)	(12,314,348)	(9)%
Non-instructional	(68,283)	(209,200)	(67)%
Sixteenth section	(13,867)	(5,206)	166%
Pension expense	(2,643,270)		
Interest on long-term liabilities	(593,345)	(623,225)	(5)%
Total net (expense) revenue	\$ (31,741,098)	(30,877,593)	3%

Chart of Expenses per Statement of Activities



- Net cost of governmental activities (\$31,741,098 for 2015 and \$30,877,593 for 2014) was financed by general revenue, which is primarily made up of property and gaming taxes (\$13,665,435 for 2015 and \$14,226,330 for 2014), and state and federal revenues (\$20,120,909 for 2015 and \$18,252,533 for 2014). In addition, there was \$116,330 and \$111,744 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$100,434 for 2015 and \$90,771 for 2014.

Hancock County School District
 Management's Discussion and Analysis
 For the Year Ended June 30, 2015

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 \$24,416,978, a decrease of \$7,074,095, which includes a decrease in inventory of \$64. \$7,424,172 or 30% 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 or assigned to specific purposes within the general fund. The remaining fund balance of \$16,992,806 or 70% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$11,472,563, which includes a fund reclassification for the Sixteenth Section Interest Fund in the amount of \$1,997,115. The fund balance of Other Governmental Funds showed a decrease in the amount of \$14,437,399, which includes a fund reclassification for the Sixteenth Section Interest Fund in the amount of (\$1,997,115) and a decrease in inventory of \$64. The increase (decrease) in the fund balance for the other major fund was as follows:

Major Fund	Increase (Decrease)
2012 Bond Building Fund	\$ (4,109,259)

BUDGETARY HIGHLIGHTS

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

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

Hancock County School District
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CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2015, the District's total capital assets were \$107,621,111, including land, construction in progress, school buildings, improvements other than buildings, mobile equipment, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$7,360,479 from 2014. Total accumulated depreciation as of June 30, 2015, was \$25,143,699, and total depreciation expense for the year was \$2,357,618, resulting in total net capital assets of \$82,477,412.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Land	\$ 1,138,399	1,138,399	0%
Construction in progress	12,166,546	4,221,372	188%
Buildings	65,013,074	66,675,621	(2)%
Improvements other than buildings	2,106,663	2,691,555	(22)%
Mobile equipment	1,604,666	1,645,128	(2)%
Furniture and equipment	448,064	567,116	(21)%
Total	<u>\$ 82,477,412</u>	<u>76,939,191</u>	<u>7%</u>

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

Debt Administration. At June 30, 2015, the District had \$23,947,071 in outstanding long-term debt, of which \$3,164,604 is due within one year. The liability for compensated absences decreased \$7,301 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 12,050,000	14,125,000	(15)%
Limited obligation bonds payable	1,925,000	2,370,000	(19)%
Three mill notes payable	6,680,000	7,185,000	(7)%
Qualified school construction bonds payable	3,000,000	3,000,000	0%
Compensated absences payable	292,071	299,372	(2)%
Total	<u>\$ 23,947,071</u>	<u>26,979,372</u>	<u>(11)%</u>

Hancock County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2015

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

CURRENT ISSUES

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

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

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

Enrollment for the 2014 - 2015 year decreased by 10% to 4,084 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Hancock County School District, 17304 Hwy. 603, Kiln, MS 39556.

FINANCIAL STATEMENTS

HANCOCK COUNTY SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 JUNE 30, 2015

	Governmental Activities
Assets	
<i>Cash and cash equivalents</i>	\$ 23,967,079
<i>Cash with fiscal agents</i>	179,988
<i>Investments</i>	71,229
<i>Due from other governments</i>	1,319,272
<i>Inventories and prepaid items</i>	62,540
<i>Restricted assets</i>	2,077,022
<i>Capital assets, non-depreciable:</i>	
<i>Land</i>	1,138,399
<i>Construction in progress</i>	12,166,546
<i>Capital assets, net of accumulated depreciation:</i>	
<i>Buildings</i>	65,013,074
<i>Improvements other than buildings</i>	2,106,663
<i>Mobile equipment</i>	1,604,666
<i>Furniture and equipment</i>	448,064
Total Assets	<u>110,154,542</u>
Deferred Outflows of Resources	
Pension related	3,857,989
Total Deferred Outflows of Resources	<u>3,857,989</u>
Liabilities	
<i>Accounts payable and accrued liabilities</i>	3,260,152
<i>Interest payable on long-term liabilities</i>	182,231
Long-term liabilities (due within one year):	
<i>Capital related liabilities</i>	3,150,000
<i>Non-capital related liabilities</i>	14,604
Long-term liabilities (due beyond one year):	
<i>Capital related liabilities</i>	20,505,000
<i>Non-capital related liabilities</i>	277,467
<i>Net pension liability</i>	38,265,335
Total Liabilities	<u>65,654,789</u>
Deferred Inflows of Resources	
Pension related	5,546,842
Total Deferred Inflows of Resources	<u>5,546,842</u>
Net Position:	
Net Investment in Capital Assets	58,822,412
Restricted For:	
Expendable:	
School based activities	1,006,936
Debt service	3,163,332
Capital projects	2,206,285
Forestry improvements	49,744
Unemployment benefits	126,024
Nonexpendable:	
Sixteenth section	553,907
Unrestricted	(23,117,740)
Total Net Position	<u>\$ 42,810,900</u>

The accompanying notes are an integral part of this statement.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
<i>Instruction</i>	19,958,817	548,437	1,804,055	381,185	(17,225,140)
<i>Support services</i>	13,559,570	--	2,362,377	--	(11,197,193)
<i>Noninstructional services</i>	2,327,954	465,530	1,794,141	--	(68,283)
<i>Sixteenth section</i>	13,892	25	--	--	(13,867)
<i>Pension expense</i>	2,643,270	--	--	--	(2,643,270)
<i>Interest on long-term liabilities</i>	593,345	--	--	--	(593,345)
Total Governmental Activities	<u>\$ 39,096,848</u>	<u>\$ 1,013,992</u>	<u>\$ 5,960,573</u>	<u>\$ 381,185</u>	<u>(31,741,098)</u>
General Revenues:					
Taxes:					
					10,734,779
					2,707,907
					222,749
<i>Unrestricted grants and contributions:</i>					
					19,951,772
					169,137
					100,434
					116,330
					167,188
Total General Revenues					<u>34,170,296</u>
Change in Net Position					<u>2,429,198</u>
Net Position - Beginning, as previously reported					81,267,551
Prior Period Adjustment					<u>(40,885,849)</u>
Net Position - Beginning, as restated					40,381,702
Net Position - Ending					<u>\$ 42,810,900</u>

The accompanying notes are an integral part of this statement.

HANCOCK COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	General Fund	2012 Bond Building Fund	Other Governmental Funds	Total Governmental Funds
Assets				
<i>Cash and cash equivalents</i>	\$ 18,447,780	\$ 596,571	\$ 5,696,421	\$ 24,740,772
<i>Cash with fiscal agents</i>	179,988	--	233,310	413,298
<i>Investments</i>	6,280	--	1,134,968	1,141,248
<i>Due from other governments</i>	434,479	--	884,793	1,319,272
<i>Due from other funds</i>	189,849	--	10,231	200,080
<i>Inventories</i>	--	--	62,540	62,540
Total Assets	<u>\$ 19,258,376</u>	<u>\$ 596,571</u>	<u>\$ 8,022,263</u>	<u>\$ 27,877,210</u>
Liabilities and Fund Balances:				
Liabilities:				
<i>Accounts payable and accrued liabilities</i>	\$ 2,129,857	\$ 482,120	\$ 648,175	\$ 3,260,152
<i>Due to other funds</i>	--	--	200,080	200,080
Total Liabilities	<u>2,129,857</u>	<u>482,120</u>	<u>848,255</u>	<u>3,460,232</u>
Fund Balances:				
Nonspendable:				
Permanent fund principal	--	--	553,907	553,907
Inventory	--	--	62,540	62,540
Restricted:				
Unemployment benefits	--	--	126,024	126,024
Forestry improvements	--	--	49,744	49,744
<i>Capital improvements</i>	--	114,451	2,091,834	2,206,285
<i>Debt service</i>	--	--	3,345,563	3,345,563
<i>Grant activities</i>	--	--	144,983	144,983
<i>Food service</i>	--	--	799,413	799,413
Assigned:				
<i>Activity funds</i>	117,681	--	--	117,681
<i>Alternative school</i>	1,493	--	--	1,493
<i>Donations funds</i>	402,961	--	--	402,961
<i>Local capital expenditure</i>	9,182,212	--	--	9,182,212
Unassigned	<u>7,424,172</u>	<u>--</u>	<u>--</u>	<u>7,424,172</u>
Total Fund Balances	<u>17,128,519</u>	<u>114,451</u>	<u>7,174,008</u>	<u>24,416,978</u>
Total Liabilities and Fund Balances	<u>\$ 19,258,376</u>	<u>\$ 596,571</u>	<u>\$ 8,022,263</u>	<u>\$ 27,877,210</u>

The accompanying notes are an integral part of this statement.

HANCOCK COUNTY SCHOOL DISTRICT*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION*

JUNE 30, 2015

Total fund balances for governmental funds	\$ 24,416,978
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	82,477,412
Liabilities due in one year are recognized in the SNP but not in the funds.	(3,164,604)
Payables for bond principal which are not due in the current period are not reported in the funds.	(14,320,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(182,231)
Payables for notes which are not due in the current period are not reported in the funds.	(6,185,000)
Payables for compensated absences not due in the current period are not reported in the funds.	(277,467)
Recognition of the School District's proportionate share of the net pension liability is not reported in the funds.	(38,265,335)
Deferred Inflows of Resources related to the pension plan are not reported in the funds.	(5,546,842)
Deferred Outflow of Resources related to the pension plan are not reported in the funds.	<u>3,857,989</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 42,810,900</u>

The accompanying notes are an integral part of this statement.

HANCOCK COUNTY SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	2012 Bond Building Fund	Other Governmental Funds	Total Governmental Funds
Revenue:				
Local sources	\$ 11,592,715	\$ 4,201	\$ 3,353,546	\$ 14,950,462
State sources	19,369,131	--	1,840,904	21,210,035
Federal sources	230,824	--	5,009,248	5,240,072
Sixteenth section sources	123,384	--	2,094	125,478
Total Revenues	<u>31,316,054</u>	<u>4,201</u>	<u>10,205,792</u>	<u>41,526,047</u>
Expenditures:				
Instruction	17,318,079	--	3,234,015	20,552,094
Support services	11,746,713	19,234	1,484,384	13,250,331
Noninstructional services	61,176	--	2,124,964	2,186,140
Sixteenth section	5,444	--	8,448	13,892
Facilities acquisition and construction	26,500	6,734,502	2,220,568	8,981,570
Debt service:				
Principal	--	--	3,025,000	3,025,000
Interest	--	--	591,055	591,055
Other	--	--	3,400	3,400
Total Expenditures	<u>29,157,912</u>	<u>6,753,736</u>	<u>12,691,834</u>	<u>48,603,482</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,158,142</u>	<u>(6,749,535)</u>	<u>(2,486,042)</u>	<u>(7,077,435)</u>
Other Financing Sources (Uses):				
Insurance recovery	3,404	--	--	3,404
Payment to QSCB escrow agent	--	--	213,918	213,918
Payment to QSCB debt escrow agent	--	--	(213,918)	(213,918)
Operating transfers in	8,558,318	2,640,276	2,838,226	14,036,820
Operating transfers out	(1,244,416)	--	(12,792,404)	(14,036,820)
Total Other Financing Sources (Uses)	<u>7,317,306</u>	<u>2,640,276</u>	<u>(9,954,178)</u>	<u>3,404</u>
Net Change in Fund Balances	<u>9,475,448</u>	<u>(4,109,259)</u>	<u>(12,440,220)</u>	<u>(7,074,031)</u>
Fund Balances:				
July 1, 2014, as previously reported	5,655,956	4,223,710	21,611,407	31,491,073
Fund reclassification	1,997,115	--	(1,997,115)	--
July 1, 2014, as restated	<u>7,653,071</u>	<u>4,223,710</u>	<u>19,614,292</u>	<u>31,491,073</u>
Increase (decrease) in inventory	--	--	(64)	(64)
June 30, 2015	<u>\$ 17,128,519</u>	<u>\$ 114,451</u>	<u>\$ 7,174,008</u>	<u>\$ 24,416,978</u>

The accompanying notes are an integral part of this statement.

HANCOCK COUNTY SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015*

Net change in fund balances - total governmental funds	\$ (7,074,031)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	9,402,220
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,357,618)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(1,048,763)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(2,643,270)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,520,000
Repayment of notes principal is an expenditure in the funds but is not an expense in the SOA.	505,000
(Increase) decrease in accrued interest from beginning of period to end of period.	1,110
Change in inventory affects fund balance in the funds but expense in the SOA.	(64)
Compensated absences are reported as amount earned in SOA but as amount paid in the funds.	7,301
Pension contributions made after the measurement date.	<u>3,117,313</u>
Change in net position of governmental activities	<u>\$ 2,429,198</u>

The accompanying notes are an integral part of this statement.

HANCOCK COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FIDUCIARY FUNDS
JUNE 30, 2015

	Agency Funds
Assets	
<i>Cash and cash equivalents</i>	\$ 131,032
Total Assets	<u>\$ 131,032</u>
Liabilities	
<i>Accounts payable & accrued liabilities</i>	\$ 3,801
<i>Due to student clubs</i>	124,830
<i>Other payables</i>	2,401
Total Liabilities	<u>\$ 131,032</u>

The accompanying notes are an integral part of this statement.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

The Statement of Net Position presents the District's non-fiduciary assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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

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

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

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.

2012 Bond Building Fund - This fund is used to account for the bond proceeds received in 2012 for construction, upgrade and repair of school facilities.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund - This fund serves as a clearing fund for payroll type transactions.

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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

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

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

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

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

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

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

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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 not maintained to account for commitments or assignments resulting from approved purchase orders, work orders and contracts.

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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 School Construction Bonds sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the governmental column in the government-wide

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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
Building Improvements		25,000	20 years
Improvements other than buildings		25,000	20 years
Mobile equipment		5,000	5-10 years
Furniture and equipment		5,000	3-7 years
Leased property under capital leases		*	*

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has a deferred outflow which is presented as a deferred outflow for pension.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until then. The school district has a deferred inflow which is presented as a deferred inflow for pension.

See Note 14 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

11. 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. 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 Business Manager pursuant to authorization established by the policy adopted by the school district.

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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

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

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

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

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

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$24,740,772 and \$131,032, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2015, none of the district's bank balance of \$25,767,188 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$413,298.

Investments

As of June 30, 2015, the district had a portion of the investments in a sinking fund restricted for the payment of its Qualified School Construction Bonds described in Note 11.

Investment Type	Rating	Maturities (in years)	Fair Value
Federated Treasury Obligation	AAA	More than one year	\$ 1,134,968
Hancock Holding Company	B	More than one year	6,280
Total			\$ 1,141,248

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

investment policy that would further limit its investment choices or one that addresses credit risk.

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

Concentration of Credit Risk. Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2015, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Federated Treasury Obligation	\$ 1,134,968	82%
Hancock Holding Company	6,280	18%
Total	\$ 1,141,248	100%

Note 3 - Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 189,849
Other Governmental Funds	Other Governmental Funds	10,231
Total		\$ 200,080

The purpose of the inter-fund loans was to cover federal and state funds not received prior to year-end and amounts due from and amounts due to agency funds. Payments are made of amounts due between funds within three months.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

B. Inter-fund Transfers

<u>Transfers In</u>	<u>Transfers Out</u>		<u>Amount</u>
General Fund	Other Governmental Funds	\$	8,558,318
2012 Bond Building Fund	Other Governmental Funds		2,640,276
Other Governmental Funds	General Fund		1,244,416
	Other Governmental Funds		1,593,810
Total		\$	<u>14,036,820</u>

The primary purpose of the inter-fund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded.

Note 4 - Restricted Assets

The restricted assets represent the cash balance totaling \$553,907, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agents balance totaling \$233,310, MAEP Limited Obligation Bond/Note Fund.

In addition, the restricted assets represent the cash and investment balances, totaling \$219,786 and \$1,070,019, respectively, of the QSCB Debt Retirement Fund.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

Note 5- Capital Assets

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

	Balance 7-1-2014	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2015
<u>Non-depreciable capital assets:</u>						
Land	\$ 1,138,399					1,138,399
Construction in progress	4,221,372	8,981,570		(511,623)	(524,773)	12,166,546
Total non-depreciable capital assets	5,359,771	8,981,570	0	(511,623)	(524,773)	13,304,945
<u>Depreciable capital assets:</u>						
Buildings	83,848,423		74,247		74,247	83,848,423
Improvements other than buildings	3,976,598		1,393,794	511,623		3,094,427
Mobile equipment	5,022,615	327,940	90,806			5,259,749
Furniture and equipment	2,053,225	92,710	71,518		39,150	2,113,567
Total depreciable capital assets	94,900,861	420,650	1,630,365	511,623	113,397	94,316,166
<u>Less accumulated depreciation for:</u>						
Buildings	17,172,802	1,664,032	11,880		10,395	18,835,349
Improvements other than buildings	1,285,043	116,498	417,194		3,417	987,764
Mobile equipment	3,377,487	359,321	81,725			3,655,083
Furniture and equipment	1,486,109	217,767	70,803		32,430	1,665,503
Total accumulated depreciation	23,321,441	2,357,618	581,602	0	46,242	25,143,699
Total depreciable capital assets, net	71,579,420	(1,936,968)	1,048,763	511,623	67,155	69,172,467
Governmental activities capital assets, net	\$ 76,939,191	7,044,602	1,048,763	0	(457,618)	82,477,412

Adjustments were made to properly present capital assets at year end.

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 1,650,333
Support services	471,524
Non-instructional	235,761
Total depreciation expense	\$ 2,357,618

Hancock County School District

Notes to the Financial Statements For the Year Ended June 30, 2015

Construction in progress is composed of:

	Spent to June 30, 2015	Remaining Commitment
Hancock High Athletics	\$ 538,931	
Hancock High Fine Art	7,133,019	2,115,267
South Hancock Elementary Reno	1,073,465	381,593
Career Technical Center	1,566,456	793,765
East Hancock Elementary Reno	1,623,559	143,823
Hancock High Roof	231,116	
Total	<u>\$ 12,166,546</u>	<u>3,434,448</u>

Construction projects included in governmental activities are funded from the Local Capital Expenditures Fund and the Local Building Fund.

Note 6 - Long-term liabilities

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

	Balance 7-1-2014	Reductions	Balance 6-30-2015	Amounts due within one year
A. General obligation bonds payable	\$ 14,125,000	2,075,000	12,050,000	2,200,000
B. Limited obligation bonds payable	2,370,000	445,000	1,925,000	455,000
C. Three mill notes payable	7,185,000	505,000	6,680,000	495,000
D. Qualified school construction bonds payable	3,000,000		3,000,000	
E. Compensated absences payable	299,372	7,301	292,071	14,604
Total	<u>\$ 26,979,372</u>	<u>3,032,301</u>	<u>23,947,071</u>	<u>3,164,604</u>

A. General Obligation Bonds Payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General Obligation Bonds, Series 2012	1.63%	12-05-12	06-01-21	\$ 9,900,000	6,775,000
General Obligation Bonds, Series 2014	1.5%	06-10-14	06-10-20	6,100,000	5,275,000
Total				<u>\$ 16,000,000</u>	<u>12,050,000</u>

Hancock County School District

Notes to the Financial Statements For the Year Ended June 30, 2015

1. Series 2012:

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,100,000	110,094	1,210,094
2017	1,075,000	92,218	1,167,218
2018	1,100,000	74,750	1,174,750
2019	1,100,000	56,876	1,156,876
2020	1,200,000	39,000	1,239,000
2021	1,200,000	19,500	1,219,500
Total	\$ <u>6,775,000</u>	<u>392,438</u>	<u>7,167,438</u>

This debt will be retired from the Bond I & S 2012 Fund.

2. Series 2014:

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,100,000	79,125	1,179,125
2017	1,200,000	62,625	1,262,625
2018	1,225,000	44,625	1,269,625
2019	1,350,000	26,250	1,376,250
2020	400,000	6,000	406,000
Total	\$ <u>5,275,000</u>	<u>218,625</u>	<u>5,493,625</u>

This debt will be retired from the Bond I & S 2014 Fund.

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2016	\$ 2,200,000	189,219	2,389,219
2017	2,275,000	154,843	2,429,843
2018	2,325,000	119,375	2,444,375
2019	2,450,000	83,126	2,533,126
2020	1,600,000	45,000	1,645,000
2021	1,200,000	19,500	1,219,500
Total	\$ <u>12,050,000</u>	<u>611,063</u>	<u>12,661,063</u>

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2015, the amount of outstanding bonded indebtedness was equal to 3% of property assessments as of October 1, 2014.

B. Limited Obligation Bonds Payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State Aid Capital Improvements Bonds	3.0-3.6%	03-06-08	02-01-18	\$ <u>4,055,000</u>	<u>1,925,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 455,000	57,949	512,949
2017	470,000	43,027	513,027
2018	<u>1,000,000</u>	<u>26,907</u>	<u>1,026,907</u>
Total	\$ <u>1,925,000</u>	<u>127,883</u>	<u>2,052,883</u>

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

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

C. Three mill notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited tax refunding notes, Series 2013	2.0-3.75	10-01-13	10-01-27	\$ <u>7,185,000</u>	<u>6,680,000</u>

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 495,000	184,656	679,656
2017	480,000	174,756	654,756
2018	470,000	165,156	635,156
2019	485,000	155,756	640,756
2020	495,000	146,056	641,056
2021 - 2025	2,670,000	603,481	3,273,481
2026 - 2028	1,585,000	184,357	1,769,357
Total	<u>\$ 6,680,000</u>	<u>1,614,218</u>	<u>8,294,218</u>

This debt will be retired from the Three Mill Note Fund.

D. Qualified school construction bonds payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified school construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds	0.84%	01-15-10	09-15-23	\$ <u>3,000,000</u>	<u>3,000,000</u>

E. Compensated absences payable

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

Note 7 - Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 - Defined Benefit Pension Plan

General Information about the 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann.

Hancock County School District

Notes to the Financial Statements For the Year Ended June 30, 2015

Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. 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, 2015 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, 2015, 2014, and 2013 were \$3,117,313, \$3,033,964, and \$2,733,842, respectively, which equaled the required contributions for each year.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the school district reported a liability of \$38,265,335 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, The school district's proportion was 0.315248 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$2,643,270. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 596,928	\$
Net difference between projected and actual earnings on pension plan investments		5,546,842
Changes in proportion and differences between District contributions and proportionate share of contributions	143,748	
District contributions subsequent to the measurement date	3,117,313	
Total	\$ 3,857,989	\$ 5,546,842

\$3,117,313 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2016	\$	(1,120,280)
2017		(1,120,280)
2018		(1,178,895)
2019		(1,386,711)
Total	\$	(4,806,166)

Actuarial assumptions. The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Hancock County School District

Notes to the Financial Statements For the Year Ended June 30, 2015

Inflation	3.5 percent
Salary increases	4.25 – 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table Projected with Scale AA to 2025, set forward two years for males.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2012. The experience report is dated June 12, 2013.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34%	5.20%
International Equity	19	5.00
Emerging Markets Equity	8	5.45
Fixed Income	20	0.25
Real Assets	10	4.00
Private Equity	8	6.15
Cash	1	(0.50)
Total	<u>100%</u>	

Discount rate. The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
District's proportionate share of the net pension liability	\$ 52,167,063	\$ 38,265,335	\$ 26,669,227

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Note 9 - Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MMWCG has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 10 - Sixteenth Section Lands

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

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

Year Ending June 30	Amount
2016	\$ 114,614
2017	110,105
2018	91,138
2019	79,650
2020	346,888
2021 - 2025	286,068
2026 - 2030	201,461
2031 - 2035	117,616
2041 - 2042	<u>27,877</u>
Total	<u>\$ 1,375,417</u>

Note 11 - Qualified School Construction Bonds

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

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

The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2015 was \$1,289,805. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

Year Ending June 30		Amount
2016	\$	214,000
2017		214,000
2018		214,000
2019		214,000
2020		214,000
2021 - 2024		860,000
Total	\$	<u>1,930,000</u>

Note 12 - Contingencies

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

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

Note 13 - Insurance Recovery

The Hancock County School District received \$3,404 in insurance loss recoveries related to a bus accident during the 2014-2015 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as general revenues.

Note 14 - Effect of Deferred Amounts of Net Position

The unrestricted net position amount of (\$23,117,740) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. The \$3,857,989 balance of deferred outflow of resources, at June 30, 2015 will be recognized as an expense and will decrease the unrestricted net position over the next 3 years.

Hancock County School District

Notes to the Financial Statements
For the Year Ended June 30, 2015

The unrestricted net position amount of (\$23,117,740) includes the effect of deferring the recognition of revenue resulting from a deferred inflow from pensions. The \$5,546,842 balance of deferred inflow of resources, at June 30, 2015 will be recognized as a revenue and will increase the unrestricted net position over the next 4 years.

Note 15 - Prior Period Adjustments

A summary of significant Net Position adjustments is as follows:

Exhibit B - Statement of Activities

Explanation		Amount
1. Implementation of GASB 68 and 71:		\$
Net pension liability (06-30-14)	(43,462,195)	
Deferred outflows - contributions made during fiscal year 2014	<u>3,033,964</u>	
Total prior period adjustment related to GASB 68 and 71		(40,428,231)
2. Adjustments were made to properly present capital assets at year end.		<u>(457,618)</u>
Total		\$ <u><u>(40,885,849)</u></u>

Note 16 - Fund Reclassification

The Sixteenth Section Interest Fund beginning fund balance of \$1,997,115 was reclassified from the Special Revenue Fund to the General Fund, effective July 1, 2014. This change was necessary to meet the requirements of GASB 54 and to stay in compliance with the reporting requirements based on Sections 29-3-115 and 29-3-117, Miss. Code of 1972.

Note 17 - Subsequent Events

Events that occur after the Statement 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 Hancock County School District evaluated the activity of the district through the date the financial statements were available to be issued, and determined a subsequent event has occurred requiring disclosure in the notes to the financial statement:

On August 31, 2015, the district received \$500,000 from the BP settlement.

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2015

Exhibit 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 11,681,736	11,681,736	11,592,715	0	(89,021)
State sources	19,804,880	19,804,880	19,369,131	0	(435,749)
Federal sources	184,484	184,484	230,824	0	46,340
Sixteenth section sources	0	0	123,384	0	123,384
Total Revenues	<u>31,671,100</u>	<u>31,671,100</u>	<u>31,316,054</u>	<u>0</u>	<u>(355,046)</u>
Expenditures:					
Instruction	18,701,067	18,701,067	17,318,079	0	1,382,988
Support services	12,428,706	12,428,706	11,746,713	0	681,993
Noninstructional services	23,075	23,075	61,176	0	(38,101)
Sixteenth section	0	0	5,444	0	(5,444)
Facilities acquisition and construction	1,895,000	1,895,000	26,500	0	1,868,500
Total Expenditures	<u>33,047,848</u>	<u>33,047,848</u>	<u>29,157,912</u>	<u>0</u>	<u>3,889,936</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,376,748)</u>	<u>(1,376,748)</u>	<u>2,158,142</u>	<u>0</u>	<u>3,534,890</u>
Other Financing Sources (Uses):					
Insurance recovery	100	100	3,404	0	3,304
Operating transfers in	4,050,702	4,050,702	8,558,318	0	4,507,616
Operating transfers out	<u>(4,562,473)</u>	<u>(4,562,473)</u>	<u>(1,244,416)</u>	<u>0</u>	<u>3,318,057</u>
Total Other Financing Sources (Uses)	<u>(511,671)</u>	<u>(511,671)</u>	<u>7,317,306</u>	<u>0</u>	<u>7,828,977</u>
Net Change in Fund Balances	<u>(1,888,419)</u>	<u>(1,888,419)</u>	<u>9,475,448</u>	<u>0</u>	<u>11,363,867</u>
Fund Balances:					
July 1, 2014, as previously reported	14,252,869	14,252,869	5,655,956	0	(8,596,913)
Fund reclassification	<u>0</u>	<u>0</u>	<u>1,997,115</u>	<u>0</u>	<u>1,997,115</u>
July 1, 2014, as restated	<u>14,252,869</u>	<u>14,252,869</u>	<u>7,653,071</u>	<u>0</u>	<u>(6,599,798)</u>
June 30, 2015	<u>\$ 12,364,450</u>	<u>12,364,450</u>	<u>17,128,519</u>	<u>0</u>	<u>4,764,069</u>

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

Hancock County School District

Schedule of the District's Proportionate Share of the Net Pension Liability

PERS

Last 10 Fiscal Years*

	<u>2015</u>
District's proportion of the net pension liability (asset)	\$ 38,265,335
District's proportionate share of the net pension liability (asset)	0.315248%
District's covered - employee payroll	19,263,263
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll	198.644093%
Plan fiduciary net position as a percentage of the total pension liability	67.207687%

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

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the year prior to the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

Hancock County School District
 Schedule of District Contributions
 PERS
 Last 10 Fiscal Years

	2015
Contractually required contribution	\$ <u>3,117,313</u>
Contributions in relation to the contractually required contribution	3,117,313
Contribution deficiency (excess)	\$ <u><u>-</u></u>
District's covered - employee payroll	19,792,463
Contributions as a percentage of covered - employee payroll	15.75%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Hancock County School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2015

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of benefit terms

None.

(2) Changes of assumptions

None.

SUPPLEMENTARY INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT**Schedule 1**

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2015

Federal Grantor/ Pass-through Grantor/ Program Title/	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 405,202
National School Lunch Program	10.555	1,400,574
Summer Food Service Program for Children	10.559	12,662
Total Child Nutrition Cluster		<u>1,818,438</u>
Total passed-through the Mississippi Department of Education		<u>1,818,438</u>
Total U.S. Department of Agriculture		<u>1,818,438</u>
<u>Federal Communications Commission</u>		
Administered through Universal Service Administrative Company:		
The School and Libraries Program of The Universal Service Fund	32.xxx	123,709
Total Federal Communications Commission		<u>123,709</u>
<u>U. S. Department of Education</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,132,237
Career and Technical Education - Basic Grants to States	84.048	80,621
Education for Homeless Children and Youth	84.196	27,879
Rural Education	84.358	57,629
Improving Teacher Quality - State Grants	84.367	415,506
Subtotal		<u>1,713,872</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	1,207,688
Special Education - Preschool Grants	84.173	29,425
Total Special Education Cluster		<u>1,237,113</u>
Total passed-through the Mississippi Department of Education		<u>2,950,985</u>
Total U.S. Department of Education		<u>2,950,985</u>
<u>U.S. Department of Homeland Security</u>		
Passes through the Mississippi Emergency Management Agency:		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	381,185
Total passed-through the Mississippi Emergency Management Agency		<u>381,185</u>
Total Department of Homeland Security		<u>381,185</u>
Total for All Federal Awards		\$ <u>5,274,317</u>

NOTES TO SCHEDULE

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

HANCOCK COUNTY SCHOOL DISTRICT

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2015

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 26,645,989	22,239,987	232,574		4,173,428
Other	21,957,493	6,911,983	240,561	133,017	14,671,932
Total	\$ 48,603,482	29,151,970	473,135	133,017	18,845,360
Total number of students *	<u>4,084</u>				
Cost per student	\$ <u>11,901</u>	<u>7,138</u>	<u>116</u>	<u>33</u>	<u>4,614</u>

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

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

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

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

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

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

OTHER INFORMATION

HANCOCK COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	<u>2015</u>	<u>2014*</u>	<u>2013*</u>	<u>2012*</u>
Revenues:				
Local sources	\$ 11,592,715	11,186,844	9,566,296	10,864,450
State sources	19,369,131	18,023,463	18,126,388	17,794,619
Federal sources	230,824	229,064	80,677	346,535
Sixteenth section sources	123,384			
Total Revenues	<u>31,316,054</u>	<u>29,439,371</u>	<u>27,773,361</u>	<u>29,005,604</u>
Expenditures:				
Instruction	17,318,079	16,969,137	16,564,815	15,274,455
Support services	11,746,713	11,440,803	11,378,584	10,510,868
Noninstructional services	61,176	61,379	65,117	51,678
Sixteenth section	5,444			
Facilities acquisition and construction	26,500	117,369	4,711,092	4,110,915
Total Expenditures	<u>29,157,912</u>	<u>28,588,688</u>	<u>32,719,608</u>	<u>29,947,916</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>2,158,142</u>	<u>850,683</u>	<u>(4,946,247)</u>	<u>(942,312)</u>
Other Financing Sources (Uses):				
Insurance recovery	3,404	9,539	16,710	14,799
Sale of other property		78,382		
Operating transfers in	8,558,318			1,143,132
Other financing sources				19,750
Operating transfers out	<u>(1,244,416)</u>	<u>(1,162,342)</u>	<u>(1,508,892)</u>	<u>(5,668,475)</u>
Total Other Financing Sources (Uses)	<u>7,317,306</u>	<u>(1,074,421)</u>	<u>(1,492,182)</u>	<u>(4,490,794)</u>
Net Change in Fund Balances	<u>9,475,448</u>	<u>(223,738)</u>	<u>(6,438,429)</u>	<u>(5,433,106)</u>
Fund Balances:				
July 1, as previously reported	5,655,956	5,879,694	12,318,123	17,751,229
Fund reclassification	1,997,115			
July 1, as restated	<u>7,653,071</u>	<u>5,879,694</u>	<u>12,318,123</u>	<u>17,751,229</u>
June 30,	<u>\$ 17,128,519</u>	<u>5,655,956</u>	<u>5,879,694</u>	<u>12,318,123</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

HANCOCK COUNTY SCHOOL DISTRICT

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

"UNAUDITED"

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 14,950,462	15,453,167	13,447,187	15,279,235
State sources	21,210,035	19,396,593	19,533,945	19,053,179
Federal sources	5,240,072	5,896,762	7,709,303	6,184,156
Sixteenth section sources	125,478	116,560	247,951	140,724
Total Revenues	<u>41,526,047</u>	<u>40,863,082</u>	<u>40,938,386</u>	<u>40,657,294</u>
Expenditures:				
Instruction	20,552,094	19,955,220	19,573,158	19,453,416
Support services	13,250,331	13,437,230	13,485,203	12,390,466
Noninstructional services	2,186,140	2,169,909	1,804,902	1,924,796
Sixteenth section	13,892	5,206	25,825	4,370
Facilities acquisition and construction	8,981,570	4,964,650	7,040,043	6,794,782
Debt service:				
Principal	3,025,000	3,615,466	2,615,000	2,995,000
Interest	591,055	674,642	554,892	671,788
Other	3,400		56,815	3,500
Total Expenditures	<u>48,603,482</u>	<u>44,822,323</u>	<u>45,155,838</u>	<u>44,238,118</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(7,077,435)</u>	<u>(3,959,241)</u>	<u>(4,217,452)</u>	<u>(3,580,824)</u>
Other Financing Sources (Uses):				
Bonds issued		6,100,000	9,900,000	
Insurance recovery	3,404	9,539	16,710	14,799
Payment QSCB escrow agent	213,918	213,939	214,000	214,000
Payment to QSCB debt escrow agent	(213,918)	(213,939)	(214,000)	(214,000)
Sale of other property		78,382		
Operating transfers in	14,036,820	2,398,323	3,676,267	6,910,229
Other financing sources				29,617
Operating transfers out	(14,036,820)	(2,398,323)	(3,676,267)	(6,910,229)
Other financing uses		(27,700)		
Total Other Financing Sources (Uses)	<u>3,404</u>	<u>6,160,221</u>	<u>9,916,710</u>	<u>44,416</u>
Net Change in Fund Balances	<u>(7,074,031)</u>	<u>2,200,980</u>	<u>5,699,258</u>	<u>(3,536,408)</u>
Fund Balances:				
July 1, as previously reported	31,491,073	29,281,714	23,587,825	26,545,623
Prior period adjustments				567,430
July 1, as restated	<u>31,491,073</u>	<u>29,281,714</u>	<u>23,587,825</u>	<u>27,113,053</u>
Increase (Decrease) in inventory	(64)	8,379	(5,369)	11,180
June 30,	<u>\$ 24,416,978</u>	<u>31,491,073</u>	<u>29,281,714</u>	<u>23,587,825</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Hancock County School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hancock County School District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Hancock County School District's basic financial statements, and have issued our report thereon dated February 3, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 3, 2016

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Hancock County School District

Report on Compliance for Each Major Federal Program

We have audited Hancock County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of school district's major federal programs for the year ended June 30, 2015. The Hancock County School District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Hancock County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

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

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

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

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

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
February 3, 2016

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Hancock County School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hancock County School District as of and for the year ended June 30, 2015, which collectively comprise Hancock County School District's basic financial statements and have issued our report thereon dated February 3, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. 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 ensure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our immaterial finding and recommendation and your response is as follows:

1929 SPILLWAY ROAD
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Finding 1:

Criteria:

Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), requires the Mississippi School Districts allocate Education Enhancement Funds (EEF) for classroom supplies equally among all classroom teachers in the school district but to preclude allocation to federally funded teachers.

Condition:

During the course of the audit, we noted that Education Enhancement Funds were allocated to ten federally funded teachers in the district.

Cause:

The cause of the above condition is primarily due to lack of training with state requirements.

Recommendation:

The District should comply with Miss. Code Section 37-61-33(3)(a)(iii).

Response:

The District will comply with Miss. Code Section 37-61-33(3)(a)(iii).

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken. The Hancock County School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 3, 2016

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Hancock County School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I: Summary of Auditor’s Results

Financial Statements:

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

Federal Awards:

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

<u>CFDA Numbers:</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555 & 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

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

Section II: Financial Statements Findings

The results of our tests did not disclose any following findings related to the financial statements that are required to be reported by *Government Auditing Standards*:

Section III: Federal Awards Findings and Questioned Costs

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