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HAZLEHURST CITY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2013

HAZLEHURST CITY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



Parker & Associates

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITOR'S REPORT

Conservator and School Board
Hazlehurst City 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 Hazlehurst City School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Hazlehurst City School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-12 and 39-43 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 Hazlehurst City School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2014, on our consideration of the Hazlehurst City 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 Hazlehurst City School District's internal control over financial reporting and compliance.

Parker and Associates, PLLC
Jackson, Mississippi
March 25, 2014



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

FINANCIAL HIGHLIGHTS

- Total net position for 2013 increased \$645,641, including a prior period adjustment of \$(48,459), which represents a 12% increase from fiscal year 2012. Total net position for 2012 increased \$530,532, including a prior period adjustment of \$(45,713), which represents an 11% increase from fiscal year 2011.
- General revenues amounted to \$9,795,471 and \$9,640,412, or 64% and 61% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,585,746, or 36% of total revenues for 2013, and \$6,220,466, or 39% of total revenues for 2012.
- The District had \$14,687,117 and \$15,284,633 in expenses for fiscal years 2013 and 2012; only \$5,585,746 for 2013 and \$6,220,466 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$9,795,471 for 2013 and \$9,640,412 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$9,039,076 in revenues and \$8,734,495 in expenditures for 2013, and \$8,894,779 in revenues and \$8,809,428 in expenditures in 2012. The General Fund's fund balance increased by \$50,676, including a prior period adjustment of \$(45,523), from 2012 to 2013, and increased by \$235,084, including a prior period adjustment of \$(109,163), from 2011 to 2012.
- Capital assets, net of accumulated depreciation, increased by \$1,426,892 for 2013 and decreased by \$164,679 for 2012. The increase for 2013 was due primarily to the addition to building improvements related to the energy efficiency project completed during the fiscal year.
- Long-term debt increased by \$979,902 for 2013 and decreased by \$167,860 for 2012. The increase for 2013 was due primarily to the issuance of qualified school construction bonds and a shortfall note during the fiscal year. The liability for compensated absences increased by \$63,224 for 2013 and increased by \$829 for 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's non-fiduciary assets and liabilities, with the differences between the two reported as "net position." Over time, increases or decreases in the

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

District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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

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

Fund Financial Statements

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

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

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

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

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

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

two statements:

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

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

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$6,153,703 as of June 30, 2013.

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

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

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

Table 1
Condensed Statement of Net Position

| | <u>June 30, 2013</u> | <u>June 30, 2012</u> | Percentage Change |
|----------------------------------|----------------------------|----------------------------|------------------------------|
| Current assets | \$ 3,659,692 | \$ 3,160,845 | 15.78 % |
| Restricted assets | 608,098 | 917,915 | (33.75) % |
| Capital assets, net | 6,702,945 | 5,276,053 | 27.04 % |
| Total assets | <u>10,970,735</u> | <u>9,354,813</u> | 17.27 % |
| Current liabilities | 165,775 | 175,396 | (5.49) % |
| Long-term debt outstanding | 4,651,257 | 3,671,355 | 26.69 % |
| Total liabilities | <u>4,817,032</u> | <u>3,846,751</u> | 25.22 % |
| Net position: | | | |
| Net investment in capital assets | 2,236,946 | 2,116,495 | 5.69 % |
| Restricted | 1,589,919 | 1,114,050 | 42.72 % |
| Unrestricted | 2,326,838 | 2,277,517 | 2.17 % |
| Total net position | <u>\$ 6,153,703</u> | <u>\$ 5,508,062</u> | 11.72 % |

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 \$1,426,892.
- The principal retirement of \$154,963 of long-term debt.
- Proceeds from the issuance of a shortfall note in the amount of \$81,641 and qualified school construction bonds in the amount of \$990,000.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$15,381,217 and \$15,860,878, respectively. The total cost of all programs and services was \$14,687,117 for 2013 and \$15,284,633 for 2012.

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

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

**Table 2
Changes in Net Position**

| | <u>Year Ended June 30, 2013</u> | <u>Year Ended June 30, 2012</u> | <u>Percentage Change</u> |
|---|-------------------------------------|-------------------------------------|------------------------------|
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 277,869 | \$ 229,883 | 20.87 % |
| Operating grants and contributions | 5,307,877 | 5,990,583 | (11.40) % |
| General revenues: | | | |
| Property taxes | 2,946,685 | 2,832,246 | 4.04 % |
| Grants and contributions not restricted | 6,355,800 | 6,207,831 | 2.38 % |
| Investment earnings | 4,109 | 2,903 | 41.54 % |
| Sixteenth section sources | 419,369 | 440,123 | (4.72) % |
| Other | 69,508 | 157,309 | (55.81) % |
| Total revenues | <u>15,381,217</u> | <u>15,860,878</u> | (3.02) % |
| Expenses: | | | |
| Instruction | 7,096,396 | 6,676,928 | 6.28 % |
| Support services | 6,367,879 | 7,467,669 | (14.73) % |
| Non-instructional | 980,815 | 1,002,140 | (2.13) % |
| Sixteenth section | 147,009 | 69,145 | 112.61 % |
| Interest on long-term liabilities | 95,018 | 68,751 | 38.21 % |
| Total expenses | <u>14,687,117</u> | <u>15,284,633</u> | (3.91) % |
| Increase (Decrease) in net position | <u>694,100</u> | <u>576,245</u> | 20.45 % |
| Net Position, July 1, as previously reported | <u>5,508,062</u> | <u>4,977,530</u> | 10.66 % |
| Prior Period Adjustment | <u>(48,459)</u> | <u>(45,713)</u> | 6.01 % |
| Net Position, July 1, as restated | <u>5,459,603</u> | <u>4,931,817</u> | 10.70 % |
| Net Position, June 30 | <u>\$ 6,153,703</u> | <u>\$ 5,508,062</u> | 11.72 % |

Governmental activities

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

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

Table 3
Net Cost of Governmental Activities

| | <u>Total Expenses</u> | | <u>Percentage Change</u> |
|-----------------------------------|-----------------------------|-----------------------------|------------------------------|
| | <u>2013</u> | <u>2012</u> | |
| Instruction | \$ 7,096,396 | \$ 6,676,928 | 6.28 % |
| Support services | 6,367,879 | 7,467,669 | (14.73) % |
| Non-instructional | 980,815 | 1,002,140 | (2.13) % |
| Sixteenth section | 147,009 | 69,145 | 112.61 % |
| Interest on long-term liabilities | 95,018 | 68,751 | 38.21 % |
| Total expenses | <u>\$ 14,687,117</u> | <u>\$ 15,284,633</u> | (3.91) % |

| | <u>Net (Expense) Revenue</u> | | <u>Percentage Change</u> |
|------------------------------------|------------------------------|------------------------------|------------------------------|
| | <u>2013</u> | <u>2012</u> | |
| Instruction | \$ (5,163,352) | \$ (5,213,242) | (0.96) % |
| Support services | (3,841,807) | (3,803,682) | 1.00 % |
| Non-instructional | 98,644 | 35,254 | 179.81 % |
| Sixteenth section | (99,838) | (13,746) | 626.31 % |
| Interest on long-term liabilities | (95,018) | (68,751) | 38.21 % |
| Total net (expense) revenue | <u>\$ (9,101,371)</u> | <u>\$ (9,064,167)</u> | 0.41 % |

- Net cost of governmental activities (\$9,101,371 for 2013 and \$9,064,167 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$2,946,685 for 2013 and \$2,832,246 for 2012) and state and federal revenues (\$6,355,800 for 2013 and \$6,207,831 for 2012). In addition, there was \$419,369 and \$440,123 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$4,109 for 2013 and \$2,903 for 2012.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,142,028, an increase of \$229,283, which includes a prior period adjustment of \$(48,459) and a decrease in inventory of \$4,161. \$2,309,294, or 56%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,832,734, or 44%, is either non-spendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the

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

General Fund for the fiscal year was \$50,676, which includes a prior period adjustment of \$(45,523). The fund balance of Other Governmental Funds showed a decrease in the amount of \$165,446, which includes a prior period adjustment of \$(1,993) and a decrease in inventory of \$4,161. The increase (decrease) in the fund balances for the other major funds were as follows:

| <u>Major Fund</u> | <u>Increase (Decrease)</u> |
|---------------------------------|----------------------------|
| Title I Fund | no increase or decrease |
| SIG Grant - Middle School Fund | no increase or decrease |
| SIG Grant - High School Fund | no increase or decrease |
| IDEA Part B Fund | no increase or decrease |
| Sixteenth Section Interest Fund | \$ 344,053 |

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions during the year were routine in nature and were insignificant when compared with total revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$11,224,881, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of \$1,795,251 from 2012 due primarily to the addition to building improvements related to the energy efficiency project completed during the fiscal year. Total accumulated depreciation as of June 30, 2013, was \$4,521,936, and total depreciation expense for the year was \$368,359, resulting in total net capital assets of \$6,702,945.

**Table 4
Capital Assets, Net of Accumulated Depreciation**

| | <u>June 30, 2013</u> | <u>June 30, 2012</u> | <u>Percentage Change</u> |
|-------------------------|----------------------------|----------------------------|------------------------------|
| Land | \$ 25,000 | \$ 25,000 | 0.00 % |
| Buildings | 1,929,453 | 1,987,857 | (2.94) % |
| Building improvements | 3,866,920 | 2,297,051 | 68.34 % |
| Mobile equipment | 775,405 | 880,235 | (11.91) % |
| Furniture and equipment | 106,167 | 85,910 | 23.58 % |
| Total | <u>\$ 6,702,945</u> | <u>\$ 5,276,053</u> | 27.04 % |

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

Debt Administration. At June 30, 2013, the District had \$4,651,257 in outstanding long-term debt, of which \$242,653 is due within one year. During the fiscal year, the District received proceeds from the issuance of a shortfall note in the amount of \$81,641 and qualified school construction bonds in the amount of \$990,000. The District made principal payments totaling \$154,963 on outstanding long-term debt. The liability for compensated absences increased \$63,224 from the prior year.

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

Table 5
Outstanding Long-Term Debt

| | <u>June 30, 2013</u> | <u>June 30, 2012</u> | <u>Percentage Change</u> |
|---|----------------------------|----------------------------|------------------------------|
| Three mill notes payable | \$ 56,999 | \$ 83,962 | (32.11) % |
| Transportation equipment loans payable | 554,000 | 682,000 | (18.77) % |
| Shortfall notes payable | 81,641 | - | N/A % |
| Qualified school construction bonds payable | 3,855,000 | 2,865,000 | 34.55 % |
| Compensated absences payable | 103,617 | 40,393 | 156.52 % |
| Total | <u>\$ 4,651,257</u> | <u>\$ 3,671,355</u> | 26.69 % |

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Hazlehurst City School District, 119 Robert McDaniel Drive, Hazlehurst, MS 39083.

FINANCIAL STATEMENTS

HAZELHURST CITY SCHOOL DISTRICT

**Statement of Net Position
June 30, 2013**

Exhibit A

| | Governmental Activities |
|--|----------------------------|
| Assets | |
| Cash and cash equivalents | \$ 2,565,393 |
| Due from other governments | 1,063,613 |
| Other receivables, net | 13,905 |
| Inventories | 16,781 |
| Restricted assets | 608,098 |
| Capital assets, non-depreciable: | |
| Land | 25,000 |
| Capital assets, net of accumulated depreciation: | |
| Buildings | 1,929,453 |
| Building improvements | 3,866,920 |
| Mobile equipment | 775,405 |
| Furniture and equipment | 106,167 |
| Total Assets | 10,970,735 |
| Liabilities | |
| Accounts payable and accrued liabilities | 111,454 |
| Due to other governments | 14,308 |
| Interest payable on long-term liabilities | 40,013 |
| Long-term liabilities, due within one year: | |
| Capital related liabilities | 210,975 |
| Non-capital related liabilities | 31,678 |
| Long-term liabilities, due beyond one year: | |
| Capital related liabilities | 4,255,024 |
| Non-capital related liabilities | 153,580 |
| Total Liabilities | 4,817,032 |
| Net Position | |
| Net investment in capital assets | 2,236,946 |
| Restricted for: | |
| Expendable: | |
| School-based activities | 716,825 |
| Debt service | 531,608 |
| Forestry improvements | 169,362 |
| Unemployment benefits | 40,600 |
| Non-expendable: | |
| Sixteenth section | 131,524 |
| Unrestricted | 2,326,838 |
| Total Net Position | \$ 6,153,703 |

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

HAZLEHURST CITY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2013**

Exhibit B

| Functions/Programs | Expenses | Program Revenues | | | Governmental Activities |
|--------------------------------------|----------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
| Governmental Activities: | | | | | |
| Instruction | \$ 7,096,396 | \$ 102,835 | \$ 1,830,209 | - | \$ (5,163,352) |
| Support services | 6,367,879 | 42,219 | 2,483,853 | - | (3,841,807) |
| Non-instructional | 980,815 | 85,644 | 993,815 | - | 98,644 |
| Sixteenth section | 147,009 | 47,171 | - | - | (99,838) |
| Interest on long-term liabilities | 95,018 | - | - | - | (95,018) |
| Total Governmental Activities | \$ 14,687,117 | \$ 277,869 | \$ 5,307,877 | - | \$ (9,101,371) |

General Revenues:

Taxes:

General purpose levies 2,807,150

Debt purpose levies 139,535

Unrestricted grants and contributions:

State 6,319,541

Federal 36,259

Unrestricted investment earnings 4,109

Sixteenth section sources 419,369

Other 69,508

Total General Revenues 9,795,471

Change in Net Position 694,100

Net Position - Beginning, as previously reported 5,508,062

Prior Period Adjustments (48,459)

Net Position - Beginning, as restated 5,459,603

Net Position - Ending \$ 6,153,703

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

**HAZLEHURST CITY SCHOOL DISTRICT
Governmental Funds**

**Balance Sheet
June 30, 2013**

Exhibit C

| | Major Funds | | | | | | | Total Governmental Funds |
|--|---------------------|-------------------|--------------------------------------|------------------------------------|---------------------|---------------------------------------|--------------------------------|--------------------------------|
| | General Fund | Title I Fund | SIG Grant - Middle School Fund | SIG Grant - High School Fund | IDEA Part B Fund | Sixteenth Section Interest Fund | Other Governmental Funds | |
| Assets | | | | | | | | |
| Cash and cash equivalents | \$ 1,285,350 | \$ - | \$ - | \$ - | \$ - | \$ 582,218 | \$ 829,744 | \$ 2,697,312 |
| Cash with fiscal agents | 51,166 | - | - | - | - | - | 425,013 | 476,179 |
| Due from other governments | 162,380 | 176,366 | 191,101 | 279,819 | 137,572 | - | 100,361 | 1,047,599 |
| Other receivables, net | - | - | - | - | - | - | 13,905 | 13,905 |
| Due from other funds | 944,091 | - | 15 | - | 4,701 | - | 70,331 | 1,019,138 |
| Inventories | - | - | - | - | - | - | 16,781 | 16,781 |
| Total assets | \$ 2,442,987 | \$ 176,366 | \$ 191,116 | \$ 279,819 | \$ 142,273 | \$ 582,218 | \$ 1,456,135 | \$ 5,270,914 |
| Liabilities and Fund Balances | | | | | | | | |
| Liabilities: | | | | | | | | |
| Accounts payable and accrued liabilities | \$ 58,509 | \$ 4,977 | \$ - | \$ 2,939 | \$ 3,140 | \$ 34,275 | \$ 7,614 | \$ 111,454 |
| Due to other funds | 15,892 | 171,389 | 191,116 | 276,880 | 139,133 | 418 | 222,604 | 1,017,432 |
| Total Liabilities | 74,401 | 176,366 | 191,116 | 279,819 | 142,273 | 34,693 | 230,218 | 1,128,886 |
| Fund Balances: | | | | | | | | |
| Nonspendable: | | | | | | | | |
| Inventory | - | - | - | - | - | - | 16,781 | 16,781 |
| Permanent fund principal | - | - | - | - | - | - | 131,524 | 131,524 |
| Restricted: | | | | | | | | |
| Debt service | - | - | - | - | - | - | 571,621 | 571,621 |
| Forestry improvement purposes | - | - | - | - | - | - | 169,362 | 169,362 |
| Unemployment benefits | - | - | - | - | - | - | 40,600 | 40,600 |
| Sixteenth section | - | - | - | - | - | 547,525 | - | 547,525 |
| Food service | - | - | - | - | - | - | 117,348 | 117,348 |
| Other purposes | - | - | - | - | - | - | 35,171 | 35,171 |
| Assigned: | | | | | | | | |
| Capital improvements | - | - | - | - | - | - | 128,040 | 128,040 |
| Activity funds | 27,294 | - | - | - | - | - | - | 27,294 |
| Other purposes | 31,998 | - | - | - | - | - | 15,470 | 47,468 |
| Unassigned | 2,309,294 | - | - | - | - | - | - | 2,309,294 |
| Total Fund Balances | 2,368,586 | - | - | - | - | 547,525 | 1,225,917 | 4,142,028 |
| Total Liabilities and Fund Balances | \$ 2,442,987 | \$ 176,366 | \$ 191,116 | \$ 279,819 | \$ 142,273 | \$ 582,218 | \$ 1,456,135 | \$ 5,270,914 |

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

HAZLEHURST CITY SCHOOL DISTRICT
Governmental Funds

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

Exhibit C-1

Total fund balances for governmental funds \$ 4,142,028

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

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

| | | | |
|--------------------------|----|--------------------|-----------|
| Land | \$ | 25,000 | |
| Buildings | | 4,621,662 | |
| Building improvements | | 4,279,923 | |
| Mobile equipment | | 1,762,390 | |
| Furniture and equipment | | 535,906 | |
| Accumulated depreciation | | <u>(4,521,936)</u> | 6,702,945 |

2. Long-term liabilities and related accrued interest are not due and payable in the current period and

| | | | |
|--------------------------|--|-----------------|-------------|
| Bonds payable | | (3,855,000) | |
| Notes payable | | (138,640) | |
| Loans payable | | (554,000) | |
| Compensated absences | | (103,617) | |
| Accrued interest payable | | <u>(40,013)</u> | (4,691,270) |

Net Position of governmental activities \$ 6,153,703

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

**Hazlehurst City School District
Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013**

Exhibit D

| | Major Funds | | | | | | | Total Governmental Funds |
|--|---------------------|------------------|--------------------------------------|------------------------------------|---------------------|---------------------------------------|--------------------------------|--------------------------------|
| | General Fund | Title I Fund | SIG Grant - Middle School Fund | SIG Grant - High School Fund | IDEA Part B Fund | Sixteenth Section Interest Fund | Other Governmental Funds | |
| Revenues: | | | | | | | | |
| Local sources | \$ 3,020,893 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 229,343 | \$ 3,250,236 |
| State sources | 5,981,924 | - | - | - | - | - | 616,359 | 6,598,283 |
| Federal sources | 36,259 | 661,117 | 1,427,827 | 1,135,394 | 422,150 | - | 1,382,651 | 5,065,398 |
| Sixteenth section sources | - | - | - | - | - | 419,803 | 47,497 | 467,300 |
| Total Revenues | 9,039,076 | 661,117 | 1,427,827 | 1,135,394 | 422,150 | 419,803 | 2,275,850 | 15,381,217 |
| Expenditures: | | | | | | | | |
| Instruction | 4,952,482 | 260,766 | 530,005 | 399,446 | 123,389 | - | 751,424 | 7,017,512 |
| Support services | 3,626,869 | 213,817 | 797,566 | 654,586 | 270,945 | - | 515,156 | 6,078,939 |
| Noninstructional services | - | 49,586 | - | 1,272 | - | - | 916,222 | 967,080 |
| Sixteenth section | - | - | - | - | - | 75,750 | 71,259 | 147,009 |
| Facilities acquisition and construction | - | - | - | - | - | - | 1,741,066 | 1,741,066 |
| Debt service: | | | | | | | | |
| Principal | 128,000 | - | - | - | - | - | 26,963 | 154,963 |
| Interest | 27,144 | - | - | - | - | - | 37,242 | 64,386 |
| Total Expenditures | 8,734,495 | 524,169 | 1,327,571 | 1,055,304 | 394,334 | 75,750 | 4,059,332 | 16,170,955 |
| Excess (Deficiency) of Revenues over (under) Expenditures | 304,581 | 136,948 | 100,256 | 80,090 | 27,816 | 344,053 | (1,783,482) | (789,738) |
| Other Financing Sources (Uses): | | | | | | | | |
| Bonds and notes issued | 81,641 | - | - | - | - | - | 990,000 | 1,071,641 |
| Payments held by escrow agent | - | - | - | - | - | - | 161,990 | 161,990 |
| Payment to QSCB debt escrow agent | - | - | - | - | - | - | (161,990) | (161,990) |
| Operating transfers in | 262,505 | - | - | - | - | - | 686,538 | 949,043 |
| Operating transfers out | (552,528) | (136,188) | (100,073) | (80,090) | (27,816) | - | (52,348) | (949,043) |
| Total Other Financing Sources (Uses) | (208,382) | (136,188) | (100,073) | (80,090) | (27,816) | - | 1,624,190 | 1,071,641 |
| Net Change in Fund Balances | 96,199 | 760 | 183 | - | - | 344,053 | (159,292) | 281,903 |
| Fund Balances: | | | | | | | | |
| July 1, 2012, as previously reported | 2,317,910 | - | - | - | - | 203,472 | 1,391,363 | 3,912,745 |
| Prior period adjustments | (45,523) | (760) | (183) | - | - | - | (1,993) | (48,459) |
| July 1, 2012, as restated | 2,272,387 | (760) | (183) | - | - | 203,472 | 1,389,370 | 3,864,286 |
| Decrease in inventory | - | - | - | - | - | - | (4,161) | (4,161) |
| June 30, 2013 | \$ 2,368,586 | \$ - | \$ - | \$ - | \$ - | \$ 547,525 | \$ 1,225,917 | \$ 4,142,028 |

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

**HAZLEHURST CITY SCHOOL DISTRICT
Governmental Funds**

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ 281,903

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

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

| | | |
|----------------------|------------------|-----------|
| Capital outlay | \$ 1,795,251 | |
| Depreciation expense | <u>(368,359)</u> | 1,426,892 |

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

| | | |
|----------------------------|-----------------|-----------|
| Bonds and notes issued | (1,071,641) | |
| Payments of debt principal | 154,963 | |
| Accrued interest payable | <u>(30,632)</u> | (947,310) |

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

| | | |
|--------------------------------|----------------|----------|
| Change in compensated absences | (63,224) | |
| Change in inventory | <u>(4,161)</u> | (67,385) |

Change in Net Position of governmental activities \$ 694,100

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

**HAZLEHURST CITY SCHOOL DISTRICT
Fiduciary Funds**

**Statement of Fiduciary Net Position
June 30, 2013**

Exhibit E

| | Private-Purpose Trust Funds | Agency Funds |
|--|--------------------------------|-----------------|
| Assets | | |
| Cash and cash equivalents | \$ 29,110 | \$ 476,286 |
| Due from other funds | - | 14,308 |
| Other receivables | - | 2,027 |
| Total Assets | 29,110 | \$ 492,621 |
| Liabilities | | |
| Accounts payable and accrued liabilities | - | \$ 476,607 |
| Due to other funds | - | 16,014 |
| Total Liabilities | - | \$ 492,621 |
| Net Position | | |
| Reserved for endowments | 29,110 | |
| Total Net Position | \$ 29,110 | |

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

**HAZLEHURST CITY SCHOOL DISTRICT
Fiduciary Funds**

**Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2013**

Exhibit F

| | Private-Purpose Trust Funds |
|--|--------------------------------|
| Additions | |
| Interest on investments | \$ - |
| Contributions and donations from private sources | - |
| Total Additions | - |
| Deductions | |
| Scholarships awarded | - |
| Total Deductions | - |
| Change in Net Position | - |
| Net Position | |
| July 1, 2012 | 29,110 |
| June 30, 2013 | \$ 29,110 |

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

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

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a

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

given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

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

Title I Fund - This is a special revenue fund that accounts for federal sources received and expenditures incurred related to the District's Title I Program.

SIG Grant - Middle School Fund - This is a special revenue fund that accounts for federal sources awarded on a competitive basis for schools in need of improvement. The funds are awarded for a three year period, contingent upon the District meeting certain performance indicators.

SIG Grant - High School Fund - This is a special revenue fund that accounts for federal sources awarded on a competitive basis for schools in need of improvement. The funds are awarded for a three year period, contingent upon the District meeting certain performance indicators.

IDEA Part B Fund - This is a special revenue fund that accounts for federal sources received and expenditures incurred to assist the District in providing a free appropriate public education to all children with disabilities.

Sixteenth Section Interest Fund - This special revenue fund accounts for expendable revenues derived from the use of sixteenth section lands held in trust by the school district and from investment of sixteenth section funds.

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

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

The District's fiduciary funds include the following:

Scholarship Fund - This is a fund used to report a trust arrangement, other than those properly reported elsewhere, in which the principal and income benefit students through the awarding of scholarships.

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

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

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

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

proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

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

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

FIDUCIARY FUNDS

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

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

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

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an

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

ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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

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

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

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

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

D. Encumbrances

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

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

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

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

6. Capital Assets

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

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

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

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

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. Compensated Absences

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

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

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

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

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

9. Fund Balances

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

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

Non-spendable 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,

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

committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

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

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

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

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

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

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 10% of general 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 and Cash with Fiscal Agents

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

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

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,697,312 and \$505,396, respectively. The carrying amount of deposits in the government-wide financial statements was reported as cash and cash equivalents of \$2,565,393 and a portion of restricted assets in the amount of \$131,919 (see Note 4). The bank balance was \$3,806,840.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2013, none of the district's bank balance of \$3,806,840 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 \$476,179.

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

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

| Receivable Fund | Payable Fund | Amount |
|--------------------------|---------------------------------|---------------------|
| General Fund | Title I Fund | \$ 171,389 |
| | SIG Grant - Middle School Fund | 189,555 |
| | SIG Grant - High School Fund | 276,880 |
| | IDEA Part B Fund | 139,133 |
| | Other governmental funds | 155,407 |
| | Fiduciary funds | 11,727 |
| | SIG Grant - Middle School Fund | 15 |
| IDEA Part B Fund | General Fund | 4,701 |
| | General Fund | 1,041 |
| Other governmental funds | Sixteenth Section Interest Fund | 418 |
| | Other governmental funds | 64,585 |
| | Fiduciary funds | 4,287 |
| | General Fund | 10,135 |
| | SIG Grant - Middle School Fund | 1,561 |
| Fiduciary funds | Other governmental funds | 2,612 |
| | | <u>\$ 1,033,446</u> |
| Total | | <u>\$ 1,033,446</u> |

The primary purpose of the inter-fund receivables and payables was to close out federal program funds as part of routine year-end closing procedures. All inter-fund receivables and payables are expected to be repaid within one year.

B. Inter-fund Transfers

| Transfers Out | Transfers In | Amount |
|--------------------------------|--------------------------|-------------------|
| General Fund | Other governmental funds | \$ 552,528 |
| | General Fund | 15,778 |
| Title I Fund | Other governmental funds | 120,410 |
| | General Fund | 100,073 |
| SIG Grant - Middle School Fund | General Fund | 80,090 |
| SIG Grant - High School Fund | General Fund | 27,816 |
| IDEA Part B Fund | General Fund | 38,748 |
| Other governmental funds | Other governmental funds | 13,600 |
| | | <u>\$ 949,043</u> |
| Total | | <u>\$ 949,043</u> |

Operating transfers were primarily for the following: indirect cost transfers, unemployment compensation transfers, the transfer of General Funds to a capital projects fund, and other routine operating transfers.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$131,919 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 agent balance totaling

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

\$425,013 of the QSCB Debt Service Fund and the cash with fiscal agent balance totaling \$51,166 in the General Fund resulting from payments to a sinking fund for the repayment of the transportation equipment loan. Total restricted assets reported on the Statement of Net Position is \$608,098.

Note 5 – Capital Assets

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

| | Balance 7/1/2012 | Increases | Decreases | Balance 6/30/2013 |
|---|---------------------|--------------|-----------|----------------------|
| Governmental Activities: | | | | |
| <u>Non-depreciable capital assets:</u> | | | | |
| Land | \$ 25,000 | \$ | \$ | \$ 25,000 |
| Total non-depreciable capital assets | 25,000 | - | - | 25,000 |
| <u>Depreciable capital assets:</u> | | | | |
| Buildings | 4,621,662 | | | 4,621,662 |
| Building improvements | 2,538,857 | 1,741,066 | | 4,279,923 |
| Mobile equipment | 1,762,390 | | | 1,762,390 |
| Furniture and equipment | 481,721 | 54,185 | | 535,906 |
| Total depreciable capital assets | 9,404,630 | 1,795,251 | - | 11,199,881 |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings | 2,633,805 | 58,404 | | 2,692,209 |
| Building improvements | 241,806 | 171,197 | | 413,003 |
| Mobile equipment | 882,155 | 104,830 | | 986,985 |
| Furniture and equipment | 395,811 | 33,928 | | 429,739 |
| Total accumulated depreciation | 4,153,577 | 368,359 | - | 4,521,936 |
| Total depreciable capital assets, net | 5,251,053 | 1,426,892 | - | 6,677,945 |
| Governmental activities capital assets, net | \$ 5,276,053 | \$ 1,426,892 | \$ - | \$ 6,702,945 |

Depreciation expense was charged to the following governmental functions:

| | Amount |
|--|------------|
| Governmental activities: | |
| Instruction | \$ 71,944 |
| Support services | 289,330 |
| Non-instructional | 7,085 |
| Total depreciation expense - Governmental activities | \$ 368,359 |

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

Note 6 – Long-term Liabilities

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

| | Balance 7/1/2012 | Additions | Reductions | Balance 6/30/2013 | Amounts due within one year |
|--|---------------------|---------------------|-------------------|----------------------|-----------------------------------|
| A. Three mill notes payable | \$ 83,962 | | \$ 26,963 | \$ 56,999 | \$ 27,975 |
| B. Transportation equipment loans payable | 682,000 | | 128,000 | 554,000 | 131,000 |
| C. Shortfall notes payable | | 81,641 | | 81,641 | 26,497 |
| D. Qualified school construction bonds payable | 2,865,000 | 990,000 | | 3,855,000 | 52,000 |
| E. Compensated absences payable | 40,393 | 63,224 | | 103,617 | 5,181 |
| Total | <u>\$ 3,671,355</u> | <u>\$ 1,134,865</u> | <u>\$ 154,963</u> | <u>\$ 4,651,257</u> | <u>\$ 242,653</u> |

A. Three mill notes payable

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|------------------|------------------|------------|------------------|-------------------|-----------------------|
| Limited Tax Note | 3.75% | 8/31/2009 | 8/31/2014 | \$ 135,000 | \$ 56,999 |
| Total | | | | <u>\$ 135,000</u> | <u>\$ 56,999</u> |

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|------------------|-----------------|------------------|
| 2014 | \$ 27,975 | \$ 2,137 | \$ 30,112 |
| 2015 | 29,024 | 1,088 | 30,112 |
| Total | <u>\$ 56,999</u> | <u>\$ 3,225</u> | <u>\$ 60,224</u> |

This debt will be retired from the Educational Enhancement Building and Buses Fund (Special Revenue Fund).

The school District has pledged a portion of future Educational Enhancement Fund revenues to repay the three mill notes payable. Proceeds of the notes were used to improve various school facilities. Annual principal and interest payments on the notes are expected to require approximately 50% of future Educational Enhancement Building and Buses Fund revenues until the final payment on the three mill notes payable on August 31, 2014.

B. Transportation equipment loans payable

Debt currently outstanding is as follows:

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

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------------------------------|---------------|------------|---------------|-------------------|--------------------|
| Transportation Note, Series 2011 | 3.98% | 6/28/2011 | 3/31/2017 | \$ 804,400 | \$ 554,000 |
| Total | | | | <u>\$ 804,400</u> | <u>\$ 554,000</u> |

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-------------------|------------------|-------------------|
| 2014 | \$ 131,000 | \$ 22,049 | \$ 153,049 |
| 2015 | 136,000 | 16,835 | 152,835 |
| 2016 | 141,000 | 11,423 | 152,423 |
| 2017 | 146,000 | 5,811 | 151,811 |
| Total | <u>\$ 554,000</u> | <u>\$ 56,118</u> | <u>\$ 610,118</u> |

This debt will be retired from the District Maintenance Fund (General Fund).

C. Shortfall notes payable

Debt currently outstanding is as follows:

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|--------------------------------|---------------|------------|---------------|------------------|--------------------|
| Shortfall Note, Series 2012 | 2.68% | 8/2/2012 | 8/2/2015 | \$ 81,641 | \$ 81,641 |
| Total | | | | <u>\$ 81,641</u> | <u>\$ 81,641</u> |

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

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|------------------|-----------------|------------------|
| 2014 | \$ 26,497 | \$ 2,188 | \$ 28,685 |
| 2015 | 27,207 | 1,478 | 28,685 |
| 2016 | 27,937 | 748 | 28,685 |
| Total | <u>\$ 81,641</u> | <u>\$ 4,414</u> | <u>\$ 86,055</u> |

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

D. Qualified school construction bonds payable

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

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

| Description | Interest Rate | Issue Date | Maturity Date | Amount Issued | Amount Outstanding |
|-------------------|---------------|------------|---------------|---------------------|---------------------|
| QSCB, Series 2009 | 1.19% | 11/24/2009 | 9/15/2024 | \$ 2,865,000 | \$ 2,865,000 |
| QSCB, Series 2012 | 5.00% | 10/24/2012 | 10/24/2027 | 990,000 | 990,000 |
| Total | | | | <u>\$ 3,855,000</u> | <u>\$ 3,855,000</u> |

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

1. QSCB, Series 2009 issued on November 24, 2009:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2014 | \$ - | \$ 34,094 | \$ 34,094 |
| 2015 | - | 34,094 | 34,094 |
| 2016 | - | 34,094 | 34,094 |
| 2017 | - | 34,094 | 34,094 |
| 2018 | - | 34,094 | 34,094 |
| 2019 – 2023 | - | 170,467 | 170,467 |
| 2024 – 2025 | 2,865,000 | 68,187 | 2,933,187 |
| Total | <u>\$ 2,865,000</u> | <u>\$ 409,124</u> | <u>\$ 3,274,124</u> |

This debt will be retired from the Three Mill Note Fund (Debt Service Fund) and Educational Enhancement Building and Buses Fund (Special Revenue Fund).

The School District has pledged a portion of future Educational Enhancement Fund revenues to pay the annual sinking fund payments for the qualified school construction bonds payable. Proceeds of the bonds were used to improve various school facilities. The annual sinking fund payments on the bonds are expected to require approximately 50% of future Educational Enhancement Building and Buses Fund revenues through 2015 and then is expected to require 100% of such revenues until the final sinking fund payment is made on September 15, 2024.

2. QSCB, Series 2012 issued on October 24, 2012:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|-------------------|-------------------|---------------------|
| 2014 | \$ 52,000 | \$ 49,500 | \$ 101,500 |
| 2015 | 54,000 | 46,900 | 100,900 |
| 2016 | 56,000 | 44,200 | 100,200 |
| 2017 | 56,000 | 41,400 | 97,400 |
| 2018 | 59,000 | 38,600 | 97,600 |
| 2019 – 2023 | 322,000 | 147,400 | 469,400 |
| 2024 – 2028 | 391,000 | 60,250 | 451,250 |
| Total | <u>\$ 990,000</u> | <u>\$ 428,250</u> | <u>\$ 1,418,250</u> |

This debt will be retired from the QSCB Investment Fund 2 (Debt Service Fund).

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

3. QSCB Summary Schedule:

| Year Ending June 30 | Principal | Interest | Total |
|------------------------|---------------------|-------------------|---------------------|
| 2014 | \$ 52,000 | \$ 83,594 | \$ 135,594 |
| 2015 | 54,000 | 80,994 | 134,994 |
| 2016 | 56,000 | 78,294 | 134,294 |
| 2017 | 56,000 | 75,494 | 131,494 |
| 2018 | 59,000 | 72,694 | 131,694 |
| 2019 – 2023 | 322,000 | 317,867 | 639,867 |
| 2024 – 2028 | 3,256,000 | 128,437 | 3,384,437 |
| Total | <u>\$ 3,855,000</u> | <u>\$ 837,374</u> | <u>\$ 4,692,374</u> |

E. Compensated absences payable

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

Note 7 – Other Commitments

Operating leases:

The school district has an operating lease for fifteen copiers.

Lease expenditures for the year ended June 30, 2013, amounted to \$67,878.

Future lease payments for these leases are as follows:

| Year Ending June 30 | Amount |
|------------------------|------------------|
| 2014 | \$ 67,878 |
| 2015 | 5,657 |
| Total | <u>\$ 73,535</u> |

Note 8 – Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school

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

district's contributions to PERS for the fiscal years ending June 30, 2013, 2012 and 2011 were \$1,043,901, \$902,021 and \$785,904, respectively, which equaled the required contributions for each year.

Note 9 – Sixteenth Section Lands

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

| Year Ending June 30 | Amount |
|------------------------|---------------------|
| 2014 | \$ 138,933 |
| 2015 | 113,831 |
| 2016 | 97,535 |
| 2017 | 97,094 |
| 2018 | 96,254 |
| 2019 – 2023 | 229,744 |
| 2024 – 2028 | 199,600 |
| 2029 – 2033 | 198,850 |
| Thereafter | 237,647 |
| Total | <u>\$ 1,409,488</u> |

Note 10 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

| Explanation | Amount |
|---|--------------------|
| To correct error in recording a prior year asset or liability and to properly record prior period expenditures at the governmental fund level | \$ (48,459) |
| Total | <u>\$ (48,459)</u> |

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

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

| Fund | Explanation | Amount |
|--------------------------------|--|--------------------|
| General Fund | To correct error in recording a prior year asset or liability and to properly record prior period expenditures | \$ (45,523) |
| Title I Fund | To record prior year unemployment compensation expenditures | (760) |
| SIG Grant - Middle School Fund | To record prior year unemployment compensation expenditures | (183) |
| Other governmental funds | To correct recording of prior year expenditures | (1,993) |
| Total | | <u>\$ (48,459)</u> |

Note 11 – Contingencies

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

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

Note 12 – Risk Management

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

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the members' employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

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

Note 13 – Qualified School Construction Bonds

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

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

For the QSCB, Series 2009 issued on November 24, 2009, the school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2013 was \$425,013. 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.

| Year Ending June 30 | Amount |
|------------------------|---------------------|
| 2014 | \$ 190,000 |
| 2015 | 190,000 |
| 2016 | 206,000 |
| 2017 | 206,000 |
| 2018 | 206,000 |
| 2019 – 2023 | 1,030,000 |
| 2024 – 2025 | 412,000 |
| Total | <u>\$ 2,440,000</u> |

For the QSCB, Series 2012 issued on October 24, 2012, annual principal and interest payments are due on the anniversary of the date of issuance. The interest component consists of the annual interest that accrues at the per annum interest rate approved in the agreement. The district is, however, eligible for a direct cash subsidy to reduce the interest paid on the QSCB.

Note 14 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Hazlehurst City School District evaluated the activity of the district through March 25, 2014, (the date the financial statements were available to be issued), and determined that there were no subsequent events that have occurred requiring disclosure in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances Positive (Negative) | |
|--|---------------------|---------------------|------------------------|----------------------------------|--------------------|
| | | | | Original to Final | Final to Actual |
| | Original | Final | | | |
| Revenues: | | | | | |
| Local sources | \$ 2,974,823 | \$ 3,020,893 | \$ 3,020,893 | \$ 46,070 | \$ - |
| State sources | 6,136,106 | 5,981,924 | 5,981,924 | (154,182) | - |
| Federal sources | 90,000 | 36,259 | 36,259 | (53,741) | - |
| Total Revenues | 9,200,929 | 9,039,076 | 9,039,076 | (161,853) | - |
| Expenditures: | | | | | |
| Instruction | 5,061,237 | 4,995,640 | 4,952,482 | 65,597 | 43,158 |
| Support services | 4,210,555 | 3,626,869 | 3,626,869 | 583,686 | - |
| Debt service: | | | | | |
| Principal | 208,000 | 128,000 | 128,000 | 80,000 | - |
| Interest | 34,144 | 27,144 | 27,144 | 7,000 | - |
| Total Expenditures | 9,513,936 | 8,777,653 | 8,734,495 | 736,283 | 43,158 |
| Excess (Deficiency) of Revenues over (under) Expenditures | (313,007) | 261,423 | 304,581 | 574,430 | 43,158 |
| Other Financing Sources (Uses): | | | | | |
| Bonds and notes issued | - | 81,641 | 81,641 | 81,641 | - |
| Operating transfers in | 1,508,038 | 271,149 | 262,505 | (1,236,889) | (8,644) |
| Operating transfers out | (1,661,247) | (561,172) | (552,528) | 1,100,075 | 8,644 |
| Total Other Financing Sources (Uses) | (153,209) | (208,382) | (208,382) | (55,173) | - |
| Net Change in Fund Balances | (466,216) | 53,041 | 96,199 | 519,257 | 43,158 |
| Fund Balances: | | | | | |
| July 1, 2012, as previously reported | 2,573,053 | 2,317,910 | 2,317,910 | (255,143) | - |
| Prior period adjustments | - | (45,523) | (45,523) | (45,523) | - |
| July 1, 2012, as restated | 2,573,053 | 2,272,387 | 2,272,387 | (300,666) | - |
| June 30, 2013 | \$ 2,106,837 | \$ 2,325,428 | \$ 2,368,586 | \$ 218,591 | \$ 43,158 |

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

HAZLEHURST CITY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
Title I Fund
For the Year Ended June 30, 2013

| | Budgeted Amounts | | Actual (GAAP Basis) | Variances | |
|--|------------------|--------------|------------------------|----------------------|--------------------|
| | | | | Positive (Negative) | |
| | Original | Final | | Original to Final | Final to Actual |
| Revenues: | | | | | |
| Federal sources | \$ 876,869 | \$ 1,056,678 | \$ 661,117 | \$ 179,809 | \$ (395,561) |
| Total Revenues | 876,869 | 1,056,678 | 661,117 | 179,809 | (395,561) |
| Expenditures: | | | | | |
| Instruction | 421,136 | 402,610 | 260,766 | 18,526 | 141,844 |
| Support services | 263,976 | 429,966 | 213,817 | (165,990) | 216,149 |
| Noninstructional services | 52,760 | 63,446 | 49,586 | (10,686) | 13,860 |
| Total Expenditures | 737,872 | 896,022 | 524,169 | (158,150) | 371,853 |
| Excess (Deficiency) of Revenues over (under) Expenditures | 138,997 | 160,656 | 136,948 | 21,659 | (23,708) |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers out | (138,997) | (160,656) | (136,188) | (21,659) | 24,468 |
| Total Other Financing Sources (Uses) | (138,997) | (160,656) | (136,188) | (21,659) | 24,468 |
| Net Change in Fund Balances | - | - | 760 | - | 760 |
| Fund Balances: | | | | | |
| July 1, 2012, as previously reported | - | - | - | - | - |
| Prior period adjustments | - | - | (760) | - | (760) |
| July 1, 2012, as restated | - | - | (760) | - | (760) |
| June 30, 2013 | \$ - | \$ - | \$ - | \$ - | \$ - |

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

HAZLEHURST CITY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
SIG Grant - Middle School Fund
For the Year Ended June 30, 2013

| | Budgeted Amounts | | Actual | Variances | |
|--|------------------|-------|--------------|---------------------|-----------------|
| | | | | Positive (Negative) | |
| | Original | Final | (GAAP Basis) | Original to Final | Final to Actual |
| Revenues: | | | | | |
| Federal sources | \$ 1,854,973 | \$ - | \$ 1,427,827 | \$ (1,854,973) | \$ 1,427,827 |
| Total Revenues | 1,854,973 | - | 1,427,827 | (1,854,973) | 1,427,827 |
| Expenditures: | | | | | |
| Instruction | 947,002 | - | 530,005 | 947,002 | (530,005) |
| Support services | 791,108 | - | 797,566 | 791,108 | (797,566) |
| Noninstructional services | 1,440 | - | - | 1,440 | - |
| Total Expenditures | 1,739,550 | - | 1,327,571 | 1,739,550 | (1,327,571) |
| Excess (Deficiency) of Revenues over (under) Expenditures | 115,423 | - | 100,256 | (115,423) | 100,256 |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers out | (115,423) | - | (100,073) | 115,423 | (100,073) |
| Total Other Financing Sources (Uses) | (115,423) | - | (100,073) | 115,423 | (100,073) |
| Net Change in Fund Balances | - | - | 183 | - | 183 |
| Fund Balances: | | | | | |
| July 1, 2012, as previously reported | - | - | - | - | - |
| Prior period adjustments | - | - | (183) | - | (183) |
| July 1, 2012, as restated | - | - | (183) | - | (183) |
| June 30, 2013 | \$ - | \$ - | \$ - | \$ - | \$ - |

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

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

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT
Supplemental Information

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

| Federal Grantor/Pass-through Grantor/Program Title | Catalog of Federal Domestic Assistance No. | Federal Expenditures |
|--|--|-------------------------|
| <u>U.S. Department of Agriculture</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Child nutrition cluster: | | |
| School breakfast program | 10.553 | \$ 264,394 |
| National school lunch program | 10.555 | 698,064 |
| Summer food service program for children | 10.559 | 17,222 |
| Total child nutrition cluster | | <u>979,680</u> |
| Total passed-through Mississippi Department of Education | | <u>979,680</u> |
| Total U.S. Department of Agriculture | | <u>979,680</u> |
| <u>U.S. Department of Defense</u> | | |
| Direct Programs: | | |
| Reserve Officers' Training Corps | 12.xxx | 72,391 |
| Total U.S. Department of Defense | | <u>72,391</u> |
| <u>Federal Communications Commission</u> | | |
| Administered through the Universal Service Administrative Company: | | |
| The schools and libraries program of the universal service fund | 32.xxx | 31,059 |
| Total Federal Communications Commission | | <u>31,059</u> |
| <u>U.S. Department of Education</u> | | |
| Passed-through Mississippi Department of Education: | | |
| Title I grants to local educational agencies | 84.010 | 735,499 |
| Career and technical education - basic grants to states | 84.048 | 27,086 |
| Rehabilitation services_vocational rehabilitation grants to states | 84.126 | 434 |
| Improving teacher quality state grants | 84.367 | 150,455 |
| ARRA- School Improvement Grants, Recovery Act | 84.388 | 2,563,222 |
| Subtotal | | <u>3,476,696</u> |
| Special education cluster: | | |
| Special education - grants to states | 84.027 | 422,150 |
| Special education - preschool grants | 84.173 | 10,662 |
| Total special education cluster | | <u>432,812</u> |
| Total passed-through Mississippi Department of Education | | <u>3,909,508</u> |
| Total U.S. Department of Education | | <u>3,909,508</u> |
| <u>U.S. Department of Health and Human Services</u> | | |
| Passed-through the Mississippi Department of Education: | | |
| Medical assistance program | 93.778 | 4,766 |
| Total passed-through Mississippi Department of Education | | <u>4,766</u> |
| Total U.S. Department of Health and Human Services | | <u>4,766</u> |
| Total for All Federal Awards | | <u>\$ 4,997,404</u> |

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.

**HAZLEHURST CITY SCHOOL DISTRICT
Supplemental Information**

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

| Expenditures | Total | Instruction and Other Student Instructional Expenditures | General Administration | School Administration | Other |
|------------------------------|----------------------|---|---------------------------|--------------------------|------------------|
| Salaries and fringe benefits | \$ 10,225,514 | 7,704,229 | 589,604 | 548,565 | 1,383,116 |
| Other | 5,945,441 | 1,625,288 | 560,763 | 3,197 | 3,756,193 |
| Total | <u>\$ 16,170,955</u> | <u>9,329,517</u> | <u>1,150,367</u> | <u>551,762</u> | <u>5,139,309</u> |
| Total number of students * | <u>1,523</u> | | | | |
| Cost per student | <u>\$ 10,618</u> | <u>6,127</u> | <u>755</u> | <u>362</u> | <u>3,374</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 function: 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

HAZLEHURST CITY SCHOOL DISTRICT
Other Information

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

| | 2013 | 2012* | 2011* | 2010* |
|--|------------------|------------------|------------------|------------------|
| Revenues: | | | | |
| Local sources | \$ 3,020,893 | \$ 2,892,376 | \$ 2,526,761 | \$ 2,291,510 |
| State sources | 5,981,924 | 5,932,000 | 5,621,487 | 5,933,746 |
| Federal sources | 36,259 | 70,403 | 610,472 | 23,621 |
| Total Revenues | 9,039,076 | 8,894,779 | 8,758,720 | 8,248,877 |
| Expenditures: | | | | |
| Instruction | 4,952,482 | 4,834,573 | 3,862,401 | 4,452,613 |
| Support services | 3,626,869 | 3,807,091 | 4,644,252 | 3,227,004 |
| Debt service: | | | | |
| Principal | 128,000 | 142,700 | 27,146 | 0 |
| Interest | 27,144 | 25,064 | 13,626 | 42,830 |
| Total Expenditures | 8,734,495 | 8,809,428 | 8,547,425 | 7,722,447 |
| Excess (Deficiency) of Revenues over (under) Expenditures | 304,581 | 85,351 | 211,295 | 526,430 |
| Other Financing Sources (Uses): | | | | |
| Bonds and notes issued | 81,641 | | 804,400 | |
| Insurance recovery | | 1,000 | 22,348 | |
| Sale of transportation equipment | | | 7,827 | |
| Operating transfers in | 262,505 | 576,660 | 631,170 | 623,812 |
| Operating transfers out | (552,528) | (318,764) | (377,415) | (600,632) |
| Total Other Financing Sources (Uses) | (208,382) | 258,896 | 1,088,330 | 23,180 |
| Net Change in Fund Balances | 96,199 | 344,247 | 1,299,625 | 549,610 |
| Fund Balances: | | | | |
| Beginning of period, as originally reported | 2,317,910 | 2,082,826 | 699,597 | 143,729 |
| Prior period adjustments | (45,523) | (109,163) | 83,604 | 6,258 |
| Beginning of period, as restated | 2,272,387 | 1,973,663 | 783,201 | 149,987 |
| End of Period | \$ 2,368,586 | \$ 2,317,910 | \$ 2,082,826 | \$ 699,597 |

*SOURCE - PRIOR YEAR AUDIT REPORTS

HAZLEHURST CITY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

| | 2013 | 2012* | 2011* | 2010* |
|--|---------------------|---------------------|---------------------|---------------------|
| Revenues: | | | | |
| Local sources | \$ 3,250,236 | \$ 3,165,350 | \$ 2,781,841 | \$ 2,537,605 |
| State sources | 6,598,283 | 6,435,556 | 6,143,484 | 6,194,651 |
| Federal sources | 5,065,398 | 5,762,857 | 6,148,548 | 3,906,336 |
| Sixteenth section sources | 467,300 | 496,115 | 689,087 | 833,700 |
| Total Revenues | 15,381,217 | 15,859,878 | 15,762,960 | 13,472,292 |
| Expenditures: | | | | |
| Instruction | 7,017,512 | 6,614,488 | 6,536,245 | 6,512,542 |
| Support services | 6,078,939 | 7,293,825 | 7,232,294 | 4,868,006 |
| Noninstructional services | 967,080 | 993,050 | 965,606 | 895,933 |
| Sixteenth section | 147,009 | 69,145 | 232,812 | 269,671 |
| Facilities acquisition and construction | 1,741,066 | | 1,052,409 | 1,359,165 |
| Debt service: | | | | |
| Principal | 154,963 | 168,689 | 79,049 | 52,000 |
| Interest | 64,386 | 63,281 | 46,247 | 47,718 |
| Other | | | 5,130 | |
| Total Expenditures | 16,170,955 | 15,202,478 | 16,149,792 | 14,005,035 |
| Excess (Deficiency) of Revenues over (under) Expenditures | <u>(789,738)</u> | <u>657,400</u> | <u>(386,832)</u> | <u>(532,743)</u> |
| Other Financing Sources (Uses): | | | | |
| Bonds and notes issued | 1,071,641 | | 804,400 | |
| Proceeds of loans | | | | 3,000,000 |
| Insurance recovery | | 1,000 | 22,348 | |
| Payment held by escrow agent | 161,990 | 128,993 | 134,000 | |
| Payment to escrow agent | (161,990) | (128,993) | (134,000) | |
| Sale of transportation equipment | | | 7,827 | |
| Sale of other property | | | | |
| Operating transfers in | 949,043 | 897,759 | 1,008,585 | 1,246,330 |
| Operating transfers out | (949,043) | (897,759) | (1,008,585) | (1,246,330) |
| Total Other Financing Sources (Uses) | 1,071,641 | 1,000 | 834,575 | 3,000,000 |
| Net Change in Fund Balances | 281,903 | 658,400 | 447,743 | 2,467,257 |
| Fund Balances: | | | | |
| Beginning of period, as originally reported | 3,912,745 | 3,379,924 | 2,934,281 | 491,842 |
| Prior period adjustments | (48,459) | (123,615) | (6,688) | 3,746 |
| Beginning of period, as restated | <u>3,864,286</u> | <u>3,256,309</u> | <u>2,927,593</u> | <u>495,588</u> |
| Increase (Decrease) in reserve for inventory | <u>(4,161)</u> | <u>(1,964)</u> | <u>4,588</u> | <u>(28,564)</u> |
| End of Period | \$ 4,142,028 | \$ 3,912,745 | \$ 3,379,924 | \$ 2,934,281 |

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



Parker & Associates

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIMITED LIABILITY COMPANY

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*

Conservator and School Board
Hazlehurst City 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hazlehurst City School District, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Hazlehurst City School District's basic financial statements, and have issued our report thereon dated March 25, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hazlehurst City 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 Hazlehurst City School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hazlehurst City 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 Hazlehurst City 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*.

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.

Parker and Associates, PLLC
Jackson, Mississippi
March 25, 2014

A handwritten signature in black ink that reads "Parker & Associates". The signature is written in a cursive, flowing style. The ampersand is clearly visible between the two words.



Parker & Associates

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIMITED LIABILITY COMPANY

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

Conservator and School Board
Hazlehurst City School District

Report on Compliance for Each Major Federal Program

We have audited Hazlehurst City School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hazlehurst City School District's major federal programs for the year ended June 30, 2013. Hazlehurst City School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hazlehurst City 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 Hazlehurst City 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 of Hazlehurst City School District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of Hazlehurst City School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hazlehurst City 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 Hazlehurst City 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 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.

Parker and Associates, PLLC
Jackson, Mississippi
March 25, 2014

A handwritten signature in dark ink that reads "Parker & Associates". The signature is written in a cursive, flowing style.

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



Parker & Associates

CERTIFIED PUBLIC ACCOUNTANTS
A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITOR'S REPORT

ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Conservator and School Board
Hazlehurst City School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hazlehurst City School District as of and for the year ended June 30, 2013, which collectively comprise Hazlehurst City School District's basic financial statements and have issued our report thereon dated March 25, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$11,208 of classroom supply funds carried over from previous years.

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

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

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

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

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

Parker and Associates, PLLC
Jackson, Mississippi
March 25, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HAZLEHURST CITY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2013

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified? | None reported |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiency 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? | None reported |

7. Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------|---|
| 84.388 | School Improvement Grant |
| 10.553; 10.555; 10.559 | Child Nutrition Cluster |

- | | | |
|-----|---|-----------|
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as low-risk auditee? | No |
| 10. | Prior fiscal year audit finding(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section___.315(b) of OMB Circular A-133. | No |

HAZLEHURST CITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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