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HAZLEHURST CITY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2015

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

HAZLEHURST CITY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



INDEPENDENT AUDITOR’S REPORT

Superintendent 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, 2015, 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, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s

discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 4-12, 42-44, 45 and 46, respectively, 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 July 15, 2016, 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.

Watkins, Ward and Stafford, PLLC
Jackson, Mississippi
July 15, 2016

Watkins Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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, 2015. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2015 decreased \$12,823,881, including a prior period adjustment of (\$15,583,368) due primarily to the recording of the net pension liability, which represents a 163% decrease from fiscal year 2014. Total net position for 2014 increased \$1,702,734, including a prior period adjustment of (\$19,014), which represents a 28% increase from fiscal year 2013.
- General revenues amounted to \$10,590,715 and \$10,709,985, or 79% and 72% of all revenues for fiscal years 2015 and 2014, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,871,983, or 21% of total revenues for 2015, and \$4,228,204, or 28% of total revenues for 2014.
- The District had \$10,703,211 and \$13,216,441 in expenses for fiscal years 2015 and 2014; only \$2,871,983 for 2015 and \$4,228,204 for 2014 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$10,590,715 for 2015 and \$10,709,985 for 2014 were adequate to provide for these programs.
- Among major funds, the General Fund had \$10,235,462 in revenues and \$8,436,582 in expenditures for 2015, and \$10,085,238 in revenues and \$9,044,457 in expenditures in 2014. The General Fund's fund balance increased by \$2,790,009 from 2014 to 2015, including a fund reclassification of \$972,290 and a prior period adjustment of (\$172), and increased by \$1,069,182 from 2013 to 2014, including a prior period adjustment of (\$12,082).
- Capital assets, net of accumulated depreciation, decreased by \$355,251 for 2015 and decreased by \$223,911 for 2014. The decrease for 2015 was due to the increase in accumulated depreciation.
- Total long-term debt decreased by \$250,870 for 2015 and decreased by \$284,156 for 2014. The decrease for 2015 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$4,639 for 2015 and decreased by \$46,684 for 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the difference reported as "net position." Over time,

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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

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

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

Fund Financial Statements

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

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

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 CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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. Additionally, the Schedule of the District's Proportionate Share of the Net Pension Liability and the Schedule of District's Contributions are presented in this section.

Supplementary Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets and deferred outflows of resources were less than liabilities and deferred inflows of resources by (\$4,967,444) as of June 30, 2015.

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

Table 1 presents a summary of the District's net position at June 30, 2015 and June 30, 2014.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

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

Table 1
Condensed Statement of Net Position

	June 30, 2015	June 30, 2014	Percentage Change
Current assets	\$ 7,107,042	\$ 5,114,589	38.96 %
Restricted assets	987,787	797,706	23.83 %
Capital assets, net	6,123,783	6,479,034	(5.48) %
Total assets	14,218,612	12,391,329	14.75 %
Deferred outflows of resources	1,167,436	-	N/A %
Current liabilities	172,578	167,791	2.85 %
Long-term debt outstanding	4,116,231	4,367,101	(5.74) %
Net pension liability	12,642,146	-	N/A %
Total liabilities	16,930,955	4,534,892	273.35 %
Deferred inflows of resources	3,422,537	-	N/A %
Net position:			
Net investment in capital assets	2,087,783	2,224,010	(6.13) %
Restricted	1,694,474	1,443,990	17.35 %
Unrestricted	(8,749,701)	4,188,437	(308.90) %
Total net position (deficit)	\$ (4,967,444)	\$ 7,856,437	(163.23) %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (8,749,701)
Less unrestricted deficit in net position resulting from recognition of the net pension Liability	14,897,247
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 6,147,546</u>

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

- Decrease in net capital assets in the amount of \$355,251.
- Implementation of GASB Statement No. 68 which required the recording of a liability for the proportionate share of the school district as well as the recording of deferred outflows/inflows of resources on the Statement of Net Position.
- The principal retirement of \$246,231 of long-term debt.
- The net pension liability in the amount of \$12,642,146.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2015 and June 30, 2014 were \$13,462,698 and \$14,938,189, respectively. The total cost of all programs and services was \$10,703,211

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

for 2015 and \$13,216,441 for 2014.

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

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

Table 2
Changes in Net Position

	<u>Year Ended</u> <u>June 30, 2015</u>	<u>Year Ended</u> <u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 166,338	\$ 305,606	(45.57) %
Operating grants and contributions	2,705,645	3,922,598	(31.02) %
General revenues:			
Property taxes	3,464,061	3,393,326	2.08 %
Grants and contributions not restricted	6,572,411	6,624,814	(0.79) %
Investment earnings	5,057	4,241	19.24 %
Sixteenth section sources	537,241	473,459	13.47 %
Other	11,945	214,145	(94.42) %
Total revenues	13,462,698	14,938,189	(9.88) %
Expenses:			
Instruction	5,064,564	6,177,853	(18.02) %
Support services	4,321,808	5,839,470	(25.99) %
Non-instructional	866,896	993,436	(12.74) %
Sixteenth section	70,033	68,954	1.56 %
Pension expense	284,273	-	N/A %
Interest on long-term liabilities	95,637	136,728	(30.05) %
Total expenses	10,703,211	13,216,441	(19.02) %
Increase (Decrease) in net position	2,759,487	1,721,748	60.27 %
Net Position, July 1, as previously reported	7,856,437	6,153,703	27.67 %
Prior Period Adjustment	(15,583,368)	(19,014)	81,857.34 %
Net Position, July 1, as restated	(7,726,931)	6,134,689	(225.95) %
Net Position (deficit), June 30	\$ (4,967,444)	\$ 7,856,437	(163.23) %

Governmental activities

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

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

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		Percentage Change
	<u>2015</u>	<u>2014</u>	
Instruction	\$ 5,064,564	\$ 6,177,853	(18.02) %
Support services	4,321,808	5,839,470	(25.99) %
Non-instructional	866,896	993,436	(12.74) %
Sixteenth section	70,033	68,954	1.56 %
Pension Expense	284,273	-	N/A %
Interest on long-term liabilities	95,637	136,728	(30.05) %
Total expenses	\$ 10,703,211	\$ 13,216,441	(19.02) %
	<u>Net (Expense) Revenue</u>		Percentage Change
	<u>2015</u>	<u>2014</u>	
Instruction	\$ (4,346,861)	\$ (4,897,924)	(11.25) %
Support services	(3,300,616)	(4,045,877)	(18.42) %
Non-instructional	228,392	108,396	110.70 %
Sixteenth section	(32,233)	(16,104)	100.16 %
Pension Expense	(284,273)	-	N/A %
Interest on long-term liabilities	(95,637)	(136,728)	(30.05) %
Total net (expense) revenue	\$ (7,831,228)	\$ (8,988,237)	(12.87) %

- Net cost of governmental activities (\$7,831,228 for 2015 and \$8,988,237 for 2014) was financed by general revenue, which is primarily made up of property taxes (\$3,464,061 for 2015 and \$3,393,326 for 2014) and state and federal revenues (\$6,572,411 for 2015 and \$6,624,814 for 2014). In addition, there was \$537,241 and \$473,459 in Sixteenth Section sources for 2015 and 2014, respectively.
- Investment earnings amounted to \$5,057 for 2015 and \$4,241 for 2014.

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 \$7,982,834, an increase of \$2,172,989, which includes a prior period adjustment of (\$172) and an increase in inventory of \$2,656. \$5,971,629, or 75% 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 \$2,011,205, or 25% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

General Fund for the fiscal year was \$2,790,009, which includes a fund reclassification of \$972,290 and a prior period adjustment of (\$172). The fund balance of Other Governmental Funds showed a decrease in the amount of \$617,020, which includes a fund reclassification of (\$972,290) and an increase in inventory of \$2,656. 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
IDEA Part B Fund	no increase or decrease

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. 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, 2015, the District's total capital assets were \$11,371,530, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. Total accumulated depreciation as of June 30, 2015, was \$5,247,747, and total depreciation expense for the year was \$355,251, resulting in total net capital assets of \$6,123,783.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 25,000	\$ 25,000	0.00 %
Buildings	1,824,178	1,873,689	(2.64) %
Building improvements	3,616,972	3,792,371	(4.63) %
Mobile equipment	571,406	677,216	(15.62) %
Furniture and equipment	86,227	110,758	(22.15) %
Total	\$ 6,123,783	\$ 6,479,034	(5.48) %

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

Debt Administration. At June 30, 2015, the District had \$4,116,231 in outstanding long-term debt, of which \$227,552 is due within one year. During the fiscal year, the District made principal payments totaling \$246,231 on outstanding long-term debt. The liability for compensated absences decreased \$4,639 from the prior year.

HAZLEHURST CITY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2015</u>	<u>June 30, 2014</u>	<u>Percentage Change</u>
Three mill notes payable	\$ -	\$ 29,024	(100.00) %
Transportation equipment loans payable	287,000	423,000	(32.15) %
Shortfall notes payable	27,937	55,144	(49.34) %
Qualified school construction bonds payable	3,749,000	3,803,000	(1.42) %
Compensated absences payable	52,294	56,933	(8.15) %
Total	<u>\$ 4,116,231</u>	<u>\$ 4,367,101</u>	(5.74) %

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, 2015**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 6,418,848
Due from other governments	416,495
Other receivables, net	252,000
Inventories	19,699
Restricted assets	987,787
Capital assets, non-depreciable:	
Land	25,000
Capital assets, net of accumulated depreciation:	
Buildings	1,824,178
Building improvements	3,616,972
Mobile equipment	571,406
Furniture and equipment	86,227
Total Assets	14,218,612
 Deferred Outflows of Resources	
Deferred outflow related to pensions	1,167,436
Total Deferred Outflows of Resources	1,167,436
 Liabilities	
Accounts payable and accrued liabilities	111,785
Due to other governments	210
Interest payable on long-term liabilities	60,583
Long-term liabilities, due within one year:	
Capital related liabilities	197,000
Non-capital related liabilities	30,552
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,839,000
Non-capital related liabilities	49,679
Net pension liability	12,642,146
Total Liabilities	16,930,955
 Deferred Inflows of Resources	
Deferred inflow related to pensions	3,422,537
Total Deferred Inflows of Resources	3,422,537
 Net Position	
Net investment in capital assets	2,087,783
Restricted for:	
Expendable:	
School-based activities	428,383
Debt service	902,486
Forestry improvements	187,811
Unemployment benefits	44,138
Non-expendable:	
Sixteenth section	131,656
Unrestricted	(8,749,701)
Total Net Position (deficit)	\$ (4,967,444)

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, 2015

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 5,064,564	\$ 70,279	\$ 647,424	\$ -	\$ (4,346,861)	
Support services	4,321,808	1,579	1,019,613	-	(3,300,616)	
Non-instructional	866,896	56,680	1,038,608	-	228,392	
Sixteenth section	70,033	37,800	-	-	(32,233)	
Pension expense	284,273	-	-	-	(284,273)	
Interest on long-term liabilities	95,637	-	-	-	(95,637)	
Total Governmental Activities	\$ 10,703,211	\$ 166,338	\$ 2,705,645	\$ -	\$ (7,831,228)	

General Revenues:

Taxes:

General purpose levies	3,267,897
Debt purpose levies	196,164

Unrestricted grants and contributions:

State	6,504,084
Federal	68,327
Unrestricted investment earnings	5,057
Sixteenth section sources	537,241
Other	11,945
Total General Revenues	10,590,715

Change in Net Position 2,759,487

Net Position - Beginning, as previously reported 7,856,437
Prior Period Adjustments (15,583,368)

Net Position - Beginning, as restated (7,726,931)

Net Position (deficit) - Ending \$ (4,967,444)

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

**HAZLEHURST CITY SCHOOL DISTRICT
Governmental Funds**

**Balance Sheet
June 30, 2015**

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title I Fund	IDEA Part B Fund	Other Governmental Funds		
Assets						
Cash and cash equivalents	\$ 5,607,409	\$ 5,263	\$ 8,683	\$ 929,149	\$	6,550,504
Cash with fiscal agents	51,121	-	-	805,010	-	856,131
Due from other governments	120,488	185,015	85,736	23,612	-	414,851
Other receivables, net	214,200	-	-	37,800	-	252,000
Due from other funds	331,141	-	-	-	-	331,141
Inventories	-	-	-	19,699	-	19,699
Total assets	\$ 6,324,359	\$ 190,278	\$ 94,419	\$ 1,815,270	\$	8,424,326
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 96,372	\$ 5,263	\$ 8,683	\$ 1,467	\$	111,785
Due to other funds	210	185,015	85,736	58,746	-	329,707
Total Liabilities	96,582	190,278	94,419	60,213	-	441,492
Fund Balances:						
Nonspendable:						
Inventory	-	-	-	19,699	-	19,699
Permanent fund principal	-	-	-	131,656	-	131,656
Restricted:						
Debt service	-	-	-	963,069	-	963,069
Forestry improvement purposes	-	-	-	187,811	-	187,811
Grant activities	-	-	-	57,650	-	57,650
Unemployment benefits	-	-	-	44,138	-	44,138
Food service	-	-	-	351,034	-	351,034
Assigned:						
Activity funds	32,493	-	-	-	-	32,493
District improvements	223,655	-	-	-	-	223,655
Unassigned	5,971,629	-	-	-	-	5,971,629
Total Fund Balances	6,227,777	-	-	1,755,057	-	7,982,834
Total Liabilities and Fund Balances	\$ 6,324,359	\$ 190,278	\$ 94,419	\$ 1,815,270	\$	8,424,326

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, 2015

Exhibit C-1

Total fund balances for governmental funds \$ 7,982,834

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		4,384,975	
Mobile equipment		1,770,012	
Furniture and equipment		569,881	
Accumulated depreciation		<u>(5,247,747)</u>	6,123,783

2. Some liabilities, including net pension obligations, are not due and payable in the current period

Net pension liability (12,642,146)

therefore, are not reported in the funds:

Deferred outflows of resources related to pensions		1,167,436	
Deferred inflows of resources related to pensions		<u>(3,422,537)</u>	(2,255,101)

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

Other bonds payable		(3,749,000)	
Notes payable		(27,937)	
Transportation equipment loans payable		(287,000)	
Compensated absences		(52,294)	
Accrued interest payable		<u>(60,583)</u>	(4,176,814)

Net Position of governmental activities \$ (4,967,444)

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, 2015**

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Title I Fund	IDEA Part B Fund		
Revenues:					
Local sources	\$ 3,355,066	\$ -	\$ -	\$ 253,431	\$ 3,608,497
State sources	6,224,270	-	-	636,838	6,861,108
Federal sources	118,098	555,408	466,524	1,276,917	2,416,947
Sixteenth section sources	538,028	-	-	38,118	576,146
Total Revenues	10,235,462	555,408	466,524	2,205,304	13,462,698
Expenditures:					
Instruction	4,736,522	244,802	92,267	508,773	5,582,364
Support services	3,429,957	275,908	340,007	290,809	4,336,681
Noninstructional services	-	14,572	-	932,328	946,900
Sixteenth section	16,368	-	-	53,665	70,033
Debt service:					
Principal	190,000	-	-	56,231	246,231
Interest	63,735	-	-	36,660	100,395
Total Expenditures	8,436,582	535,282	432,274	1,878,466	11,282,604
Excess (Deficiency) of Revenues over (under) Expenditures	1,798,880	20,126	34,250	326,838	2,180,094
Other Financing Sources (Uses):					
Payments held by escrow agent	-	-	-	189,989	189,989
Payment to QSCB debt escrow agent	-	-	-	(189,989)	(189,989)
Operating transfers in	49,128	-	-	59,851	108,979
Operating transfers out	(30,117)	(20,126)	(24,661)	(34,075)	(108,979)
Other financing uses	-	-	(9,589)	-	(9,589)
Total Other Financing Sources (Uses)	19,011	(20,126)	(34,250)	25,776	(9,589)
Net Change in Fund Balances	1,817,891	-	-	352,614	2,170,505
Fund Balances:					
July 1, 2014, as previously reported	3,437,768	-	-	2,372,077	5,809,845
Fund reclassification	972,290	-	-	(972,290)	-
Prior period adjustments	(172)	-	-	-	(172)
July 1, 2014, as restated	4,409,886	-	-	1,399,787	5,809,673
Increase (Decrease) in inventory	-	-	-	2,656	2,656
June 30, 2015	\$ 6,227,777	\$ -	\$ -	\$ 1,755,057	\$ 7,982,834

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, 2015**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 2,170,505

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	\$ -	
Depreciation expense	(355,251)	(355,251)

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 premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	246,231	
Accrued interest payable	4,758	250,989

3. Some items reported in the statement of activities relating to the implementation

Recording of pension expense for the current period	(284,273)	
Recording of contributions made subsequent to the measurement date	970,222	685,949

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

Change in compensated absences	4,639	
Change in inventory	2,656	7,295

Change in Net Position of governmental activities **\$ 2,759,487**

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

HAZLEHURST CITY SCHOOL DISTRICT
Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2015

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 29,110	\$ 391,700
Other receivables, net	-	2,027
Due from other funds	-	210
Total Assets	29,110	\$ 393,937
Liabilities		
Accounts payable and accrued liabilities	-	\$ 392,293
Due to other funds	-	1,644
Total Liabilities	-	\$ 393,937
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, 2015**

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, 2013		29,110
June 30, 2014	\$	29,110

The notes 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, 2015

Note 1 – Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered 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, deferred outflows, liabilities, and deferred inflows, 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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

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

The school district reports the following major governmental funds:

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

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

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.

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 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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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 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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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, deferred outflows/inflows, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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.

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	*	*

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The school district has incurred a deferred outflow which is presented as a deferred outflow related to pensions. See Note 14 for further details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The school district has incurred a deferred inflow which is presented as a deferred inflow related to pensions. See Note 14 for further details.

8. Compensated Absences

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

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

9. Long-term Liabilities and Bond Discounts/Premiums

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

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

10. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, the benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

11. Fund Balances

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

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

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

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

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. 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 Superintendent 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.

F. New Pronouncements

In June 2012, the GASB issued GASB Statement No. 68 *Accounting and Financial Reporting for Pensions*. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures.

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

For defined benefit pensions, note disclosure and required supplementary information requirements about pensions also are addressed. This Statement is effective for fiscal years beginning after June 15, 2014.

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 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 \$6,550,504 and \$420,810, respectively. The carrying amount of deposits in the government-wide financial statements was reported as cash and cash equivalents of \$6,418,848 and a portion of restricted assets in the amount of \$131,656 (see Note 4). The bank balance was \$7,365,426.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2015, none of the district's bank balance of \$7,365,426 was exposed to custodial credit risk.

Cash with Fiscal Agents

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$856,131.

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	\$ 185,015
	IDEA Part B Fund	85,736
	Other governmental funds	58,746
	Fiduciary funds	1,644
Fiduciary funds	General Fund	210
Total		<u>\$ 331,351</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	\$ 30,117
Title I Fund	General Fund	20,126
IDEA Part B Fund	General Fund	24,661
Other governmental funds	General Fund	4,341
	Other governmental funds	29,734
Total		<u>\$ 108,979</u>

Operating transfers were primarily for the following: indirect cost transfers, the transfer of General Funds to debt service funds, and other routine operating transfers.

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$131,656 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 \$805,010 of the QSCB Debt Service Fund and the cash with fiscal agent balance totaling \$51,121 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 are \$987,787.

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

Note 5 – Capital Assets

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

	Balance 7/1/2014	Increases	Decreases	Balance 6/30/2015
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	4,384,975			4,384,975
Mobile equipment	1,770,012			1,770,012
Furniture and equipment	569,881			569,881
Total depreciable capital assets	11,346,530	-	-	11,346,530
<u>Less accumulated depreciation for:</u>				
Buildings	2,747,973	49,511		2,797,484
Building improvements	592,604	175,399		768,003
Mobile equipment	1,092,796	105,810		1,198,606
Furniture and equipment	459,123	24,531		483,654
Total accumulated depreciation	4,892,496	355,251	-	5,247,747
Total depreciable capital assets, net	6,454,034	(355,251)	-	6,098,783
Governmental activities capital assets, net	\$ 6,479,034	\$ (355,251)	-	\$ 6,123,783

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 61,110
Support services	287,056
Non-instructional	7,085
Total depreciation expense - Governmental activities	\$ 355,251

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

Note 6 – Long-term Liabilities

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

	Balance 7/1/2014	Additions	Reductions	Balance 6/30/2015	Amounts due within one year
A. Three mill notes payable	\$ 29,024	\$	\$ 29,024	\$ -	-
B. Transportation equipment loans payable	423,000		136,000	287,000	141,000
C. Shortfall notes payable	55,144		27,207	27,937	27,937
D. Qualified school construction bonds payable	3,803,000		54,000	3,749,000	56,000
E. Compensated absences payable	56,933		4,639	52,294	2,615
Total	\$ 4,367,101	-	\$ 250,870	\$ 4,116,231	\$ 227,552

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	\$ -
Total				\$ 135,000	\$ -

This debt was retired in full during the fiscal year from the Educational Enhancement Building and Buses Fund (Special Revenue Fund).

B. Transportation equipment loans payable

Debt currently outstanding is as follows:

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	\$ 287,000
Total				\$ 804,400	\$ 287,000

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 141,000	\$ 11,423	\$ 152,423
2017	146,000	5,811	151,811
Total	\$ 287,000	\$ 17,234	\$ 304,234

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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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	\$ 27,937
Total				<u>\$ 81,641</u>	<u>\$ 27,937</u>

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 27,937	\$ 748	\$ 28,685
Total	<u>\$ 27,937</u>	<u>\$ 748</u>	<u>\$ 28,685</u>

This debt will be retired from the Shortfall Note 2012 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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. QSCB, Series 2009	1.19%	11/24/2009	9/15/2024	\$ 2,865,000	\$ 2,865,000
2. QSCB, Series 2012	5.00%	10/24/2012	10/24/2027	990,000	884,000
Total				<u>\$ 3,855,000</u>	<u>\$ 3,749,000</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
2016	\$ -	\$ 34,094	\$ 34,094
2017	-	34,094	34,094
2018	-	34,094	34,094
2019	-	34,094	34,094
2020	-	34,094	34,094
2021 – 2025	2,865,000	170,467	3,035,467
Total	<u>\$ 2,865,000</u>	<u>\$ 340,937</u>	<u>\$ 3,205,937</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).

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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 100% of future Educational Enhancement Building and Buses Fund 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
2016	\$ 56,000	\$ 44,200	\$ 100,200
2017	56,000	41,400	97,400
2018	59,000	38,600	97,600
2019	59,000	35,650	94,650
2020	62,000	32,700	94,700
2021 – 2025	348,000	114,550	462,550
2026 – 2028	244,000	24,750	268,750
Total	\$ 884,000	\$ 331,850	\$ 1,215,850

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

Total QSCB payments for all issues:

Year Ending June 30	Principal	Interest	Total
2016	\$ 56,000	\$ 78,294	\$ 134,294
2017	56,000	75,494	131,494
2018	59,000	72,694	131,694
2019	59,000	69,744	128,744
2020	62,000	66,794	128,794
2021 – 2025	3,213,000	285,017	3,498,017
2026 – 2028	244,000	24,750	268,750
Total	\$ 3,749,000	\$ 672,787	\$ 4,421,787

E. Compensated absences payable

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

Note 7 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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

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

Contributions. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2015, 2014 and 2013 were \$970,222, \$1,002,361 and \$1,043,257, respectively, which equaled the required contributions for each year.

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

At June 30, 2015, the school district reported a liability of \$12,642,146 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on a projection of the school district's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2014, The school district's proportion was 0.104152 percent.

For the year ended June 30, 2015, the District recognized pension expense of \$284,273. At June 30, 2015 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 197,214	\$
Net difference between projected and actual earnings on pension plan investments		1,832,572
Difference between net impact of entries and calculated balance of net pension liability		1,589,965
District contributions subsequent to the measurement date	970,222	
Total	<u>\$ 1,167,436</u>	<u>\$ 3,422,537</u>

\$970,222 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (959,133)
2017	(959,133)
2018	(848,915)
2019	(458,142)

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

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

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

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

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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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

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

Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate. The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 8 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7 percent) or 1-percentage-point higher (9 percent) than the current rate:

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
District's proportionate share of the net pension liability	\$ 17,235,015	\$ 12,642,146	\$ 8,811,010

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

Note 8 – Sixteenth Section Lands

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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

Year Ending June 30	Amount
2016	\$ 155,375
2017	140,775
2018	109,048
2019	74,940
2020	60,954
2021 – 2025	243,229
2026 – 2030	216,318
2031 – 2035	195,281
2036 – 2040	92,453
Thereafter	19,349
Total	<u>\$ 1,307,722</u>

Note 9 – Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. Implementation of GASB 68 and 71:	
Net pension liability (measurement date)	\$ (16,585,557)
Deferred outflows - contributions made during fiscal year 2014	<u>1,002,361</u>
Total prior period adjustment related to GASB 68 and 71	\$ (15,583,196)
2. To correct prior year expenditures at the governmental fund level	<u>(172)</u>
Total	<u>\$ (15,583,368)</u>

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

Fund	Explanation	Amount
General Fund	To correct prior year expenditures	\$ (172)
Total		<u>\$ (172)</u>

Note 10 – Fund Reclassification

A fund reclassification in the amount of \$972,290 was needed to report Sixteenth Section Interest Funds, previously reported as Special Revenue Funds in prior years, as General Funds for fiscal year ended June 30, 2015.

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

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 77 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.

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 supplementary interest, and such supplementary interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplementary 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 supplementary 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 pay off the bonds at termination. The current maturity limit

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Financial Statements
For the Year Ended June 30, 2015

of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2015 was \$805,010. 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
2016	\$ 206,000
2017	206,000
2018	206,000
2019	206,000
2020	206,000
2021 – 2025	1,030,000
Total	<u>\$ 2,060,000</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 reimburse a portion of the interest paid on the QSCB.

Note 14 – Effect of Deferred Amounts on Net Position

The unrestricted net position amount of (\$8,749,701) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pensions in the amount of \$970,222 resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The \$197,214 balance of the deferred outflow of resources related to pensions at June 30, 2015 will be recognized in pension expense over the next 3 years. The \$3,422,537 balance of the deferred inflow of resources related to pensions at June 30, 2015 will be recognized in pension expense over the next 4 years.

Note 15 - 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 July 15, 2016, (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, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,381,376	\$ 3,380,116	\$ 3,355,066	\$ (1,260)	\$ (25,050)
State sources	6,136,927	6,136,927	6,224,270	-	87,343
Federal sources	363,896	363,896	118,098	-	(245,798)
Sixteenth section sources	401,482	401,482	538,028	-	136,546
Total Revenues	10,283,681	10,282,421	10,235,462	(1,260)	(46,959)
Expenditures:					
Instruction	5,707,385	4,472,491	4,736,522	1,234,894	(264,031)
Support services	4,540,101	3,377,210	3,429,957	1,162,891	(52,747)
Sixteenth section	31,100	16,463	16,368	14,637	95
Debt service:					
Principal	190,000	190,000	190,000	-	-
Interest	63,735	63,735	63,735	-	-
Total Expenditures	10,532,321	8,119,899	8,436,582	2,412,422	(316,683)
Excess (Deficiency) of Revenues over (under) Expenditures	(248,640)	2,162,522	1,798,880	2,411,162	(363,642)
Other Financing Sources (Uses):					
Operating transfers in	431,574	432,234	49,128	660	(383,106)
Operating transfers out	(406,720)	(398,765)	(30,117)	7,955	368,648
Total Other Financing Sources (Uses)	24,854	33,469	19,011	8,615	(14,458)
Net Change in Fund Balances	(223,786)	2,195,991	1,817,891	2,419,777	(378,100)
Fund Balances:					
July 1, 2014, as previously reported	4,410,058	4,410,058	3,437,768	-	(972,290)
Fund reclassification	-	-	972,290	-	972,290
Prior period adjustments	-	(1,543)	(172)	(1,543)	1,371
July 1, 2014, as restated	4,410,058	4,408,515	4,409,886	(1,543)	1,371
June 30, 2015	\$ 4,186,272	\$ 6,604,506	\$ 6,227,777	\$ 2,418,234	\$ (376,729)

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, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 853,686	\$ 1,368,997	\$ 555,408	\$ 515,311	\$ (813,589)
Total Revenues	853,686	1,368,997	555,408	515,311	(813,589)
Expenditures:					
Instruction	194,122	371,420	244,802	(177,298)	126,618
Support services	485,314	857,120	275,908	(371,806)	581,212
Noninstructional services	60,771	76,822	14,572	(16,051)	62,250
Total Expenditures	740,207	1,305,362	535,282	(565,155)	770,080
Excess (Deficiency) of Revenues over (under) Expenditures	113,479	63,635	20,126	(49,844)	(43,509)
Other Financing Sources (Uses):					
Operating transfers out	(113,479)	(76,751)	(20,126)	36,728	56,625
Total Other Financing Sources (Uses)	(113,479)	(76,751)	(20,126)	36,728	56,625
Net Change in Fund Balances	-	(13,116)	-	(13,116)	13,116
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ -	\$ (13,116)	\$ -	\$ (13,116)	\$ 13,116

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

HAZLEHURST CITY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
IDEA Part B Fund
For the Year Ended June 30, 2015

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 615,591	\$ 642,750	\$ 466,524	\$ 27,159	\$ (176,226)
Total Revenues	615,591	642,750	466,524	27,159	(176,226)
Expenditures:					
Instruction	144,753	118,033	92,267	26,720	25,766
Support services	453,338	493,472	340,007	(40,134)	153,465
Noninstructional services	500	-	-	500	-
Total Expenditures	598,591	611,505	432,274	(12,914)	179,231
Excess (Deficiency) of Revenues over (under) Expenditures	17,000	31,245	34,250	14,245	3,005
Other Financing Sources (Uses):					
Operating transfers out	(17,000)	(24,661)	(24,661)	(7,661)	-
Other financing uses	-	(9,589)	(9,589)	(9,589)	-
Total Other Financing Sources (Uses)	(17,000)	(34,250)	(34,250)	(17,250)	-
Net Change in Fund Balances	-	(3,005)	-	(3,005)	3,005
Fund Balances:					
July 1, 2014	-	-	-	-	-
June 30, 2015	\$ -	\$ (3,005)	\$ -	\$ (3,005)	\$ 3,005

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

**Hazlehurst City School District
Required Supplementary Information**

Schedule of the District's Proportionate Share of the Net Pension Liability
PERS
Last 10 Fiscal Years*

		2015
District's proportion of the net pension liability (asset)	\$	12,642,146
District's proportionate share of the net pension liability (asset)		0.104152%
District's covered - employee payroll		6,364,197
District's proportionate share of the net pension liability (asset) as a percentage of its covered - employee payroll		198.644796%
Plan fiduciary net position as a percentage of the total pension liability		67.207687%

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

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

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

**Hazlehurst City School District
Notes to Required Supplementary Information**

Schedule of District Contributions
PERS
Last 10 Fiscal Years*

		2015
Contractually required contribution	\$	970,222
Contributions in relation to the contractually required contribution		970,222
Contribution deficiency (excess)	\$	-
District's covered - employee payroll		6,160,140
Contributions as a percentage of covered - employee payroll		15.75%

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

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

HAZLEHURST CITY SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2015

Budgetary Comparison Schedule

(1) Basis of Presentation

The Budgetary Comparison 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

Pension Schedules

(1) Changes of benefit terms

There were no changes of benefit terms for the FYE 6/30/2015.

(2) Changes of assumptions

There were no changes of assumptions for the FYE 6/30/2015.

SUPPLEMENTARY INFORMATION

HAZLEHURST CITY SCHOOL DISTRICT
Supplemental Information

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2015

Federal Grantor/Pass-through Grantor/Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 263,613
National school lunch program	10.555	748,609
Summer food service program for children	10.559	29,734
Total child nutrition cluster		1,041,956
Total passed-through Mississippi Department of Education		1,041,956
Total U.S. Department of Agriculture		1,041,956
<u>U.S. Department of Defense</u>		
Direct Programs:		
Reserve Officers' Training Corps	12.xxx	49,771
Total U.S. Department of Defense		49,771
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	1,683
Total Federal Communications Commission		1,683
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	574,293
Career and technical education - basic grants to states	84.048	28,753
Rehabilitation services_vocational rehabilitation grants to states	84.126	658
Improving teacher quality state grants	84.367	98,915
Subtotal		702,619
Special education cluster:		
Special education - grants to states	84.027	466,524
Special education - preschool grants	84.173	11,779
Total special education cluster		478,303
Total passed-through Mississippi Department of Education		1,180,922
Total U.S. Department of Education		1,180,922
<u>U.S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	27,467
Total passed-through Mississippi Department of Education		27,467
Total U.S. Department of Health and Human Services		27,467
Total for All Federal Awards		\$ 2,301,799

NOTES TO SCHEDULE

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

**HAZLEHURST CITY SCHOOL DISTRICT
Supplemental Information**

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

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 8,595,832	5,909,796	750,498	583,242	1,352,296
Other	<u>2,686,772</u>	<u>637,168</u>	<u>275,869</u>	<u>12,880</u>	<u>1,760,855</u>
Total	<u>\$ 11,282,604</u>	<u>6,546,964</u>	<u>1,026,367</u>	<u>596,122</u>	<u>3,113,151</u>
Total number of students *	<u>1,548</u>				
Cost per student	<u>\$ 7,289</u>	<u>4,229</u>	<u>663</u>	<u>385</u>	<u>2,011</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

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 3,355,066	\$ 3,618,206	\$ 3,020,893	\$ 2,892,376
State sources	6,224,270	6,275,704	5,981,924	5,932,000
Federal sources	118,098	191,328	36,259	70,403
Sixteenth section sources	538,028			
Total Revenues	<u>10,235,462</u>	<u>10,085,238</u>	<u>9,039,076</u>	<u>8,894,779</u>
Expenditures:				
Instruction	4,736,522	4,906,969	4,952,482	4,834,573
Support services	3,429,957	3,882,939	3,626,869	3,807,091
Sixteenth section	16,368			
Debt service:				
Principal	190,000	183,000	128,000	142,700
Interest	63,735	71,549	27,144	25,064
Total Expenditures	<u>8,436,582</u>	<u>9,044,457</u>	<u>8,734,495</u>	<u>8,809,428</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,798,880</u>	<u>1,040,781</u>	<u>304,581</u>	<u>85,351</u>
Other Financing Sources (Uses):				
Bonds and notes issued			81,641	
Insurance recovery				1,000
Sale of transportation equipment				
Operating transfers in	49,128	143,982	262,505	576,660
Operating transfers out	(30,117)	(103,499)	(552,528)	(318,764)
Total Other Financing Sources (Uses)	<u>19,011</u>	<u>40,483</u>	<u>(208,382)</u>	<u>258,896</u>
Net Change in Fund Balances	<u>1,817,891</u>	<u>1,081,264</u>	<u>96,199</u>	<u>344,247</u>
Fund Balances:				
Beginning of period, as originally reported	3,437,768	2,368,586	2,317,910	2,082,826
Fund reclassification	972,290			
Prior period adjustments	(172)	(12,082)	(45,523)	(109,163)
Beginning of period, as restated	<u>4,409,886</u>	<u>2,356,504</u>	<u>2,272,387</u>	<u>1,973,663</u>
End of Period	<u>\$ 6,227,777</u>	<u>\$ 3,437,768</u>	<u>\$ 2,368,586</u>	<u>\$ 2,317,910</u>

HAZLEHURST CITY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2015	2014*	2013*	2012*
Revenues:				
Local sources	\$ 3,608,497	\$ 3,863,324	\$ 3,250,236	\$ 3,165,350
State sources	6,861,108	6,830,723	6,598,283	6,435,556
Federal sources	2,416,947	3,716,689	5,065,398	5,762,857
Sixteenth section sources	576,146	527,453	467,300	496,115
Total Revenues	13,462,698	14,938,189	15,381,217	15,859,878
Expenditures:				
Instruction	5,582,364	6,152,202	7,017,512	6,614,488
Support services	4,336,681	5,580,012	6,078,939	7,293,825
Noninstructional services	946,900	988,948	967,080	993,050
Sixteenth section	70,033	68,954	147,009	69,145
Facilities acquisition and construction		105,052	1,741,066	
Debt service:				
Principal	246,231	237,472	154,963	168,689
Interest	100,395	109,968	64,386	63,281
Other		1,432		
Total Expenditures	11,282,604	13,244,040	16,170,955	15,202,478
Excess (Deficiency) of Revenues over (under) Expenditures	2,180,094	1,694,149	(789,738)	657,400
Other Financing Sources (Uses):				
Bonds and notes issued			1,071,641	
Proceeds of loans				1,000
Insurance recovery				1,000
Payment held by escrow agent	189,989	189,986	161,990	128,993
Payment to escrow agent	(189,989)	(189,986)	(161,990)	(128,993)
Sale of transportation equipment				
Sale of other property				
Operating transfers in	108,979	377,573	949,043	897,759
Operating transfers out	(108,979)	(377,573)	(949,043)	(897,759)
Other financing uses	(9,589)	(11,782)		
Total Other Financing Sources (Uses)	(9,589)	(11,782)	1,071,641	1,000
Net Change in Fund Balances	2,170,505	1,682,367	281,903	658,400
Fund Balances:				
Beginning of period, as originally reported	5,809,845	4,142,028	3,912,745	3,379,924
Fund reclassification				
Prior period adjustments	(172)	(14,812)	(48,459)	(123,615)
Beginning of period, as restated	5,809,673	4,127,216	3,864,286	3,256,309
Increase (Decrease) in reserve for inventory	2,656	262	(4,161)	(1,964)
End of Period	\$ 7,982,834	\$ 5,809,845	\$ 4,142,028	\$ 3,912,745

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



WATKINS, WARD AND STAFFORD

Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
S. Keith Winfield, CPA
William B. Stagers, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
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Marsha L. McDonald, CPA
Wanda S. Holley, CPA
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Kimberly S. Caskey, CPA
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Ricky D. Allen, CPA
Jason D. Brooks, CPA
Robert E. Cordle, CPA
Perry C. Rackley, Jr., CPA

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

Superintendent and School Board
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, each major fund, and the aggregate remaining fund information of Hazlehurst City School District, as of and for the year ended June 30, 2015, 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 July 15, 2016.

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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weakness or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. **2015-01; 2015-02**

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.

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*.

Hazlehurst City School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Hazlehurst City School District's responses and, accordingly, we express no opinion on them.

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.

Watkins, Ward and Stafford, PLLC
Jackson, Mississippi
July 15, 2016

Watkins Ward and Stafford, PLLC



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

Superintendent and School Board
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, 2015. 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, 2015.

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.

Watkins, Ward and Stafford, PLLC
Jackson, Mississippi
June 15, 2016

Watkins Ward and Stafford, PLLC

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



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

Superintendent and School Board
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, 2015, which collectively comprise Hazlehurst City School District’s basic financial statements and have issued our report thereon dated June 15, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, “the auditor shall test to 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 a zero balance 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 disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. The district should have the year-end financial statements and any other budgetary information required prepared and filed with State Department of Education on or before October 15th of the fiscal year.

Finding

Section 37-61-21(2), Miss. Code Ann. (1972), requires that Mississippi Public School Districts should have the year-end financial statements prepared and filed on or before October 15 of each year.

During our test work at Hazlehurst City School District, we noted that the district did not meet the all above state requirement. The financial statements were submitted on October 14, 2015 appropriately. However the GASB 34 statements were not completed at the beginning of test work on August 15, 2015. The district provided the auditors with copies of the old fund financial A's and B's, but did not provide the GASB 34 financial statements until June 10, 2016.

This noncompliance occurred because the district lacked proper controls, skill set and training to ensure timely the preparation of GASB 34 conversion.

Noncompliance with Section 37-61-21(2), Miss. Code Ann. (1972) could result in the district violating state laws regarding having year-end financial statements available for audit on or before October 15 of each year.

Recommendation

We recommend that the district comply with Section 37-61-21(2), Miss. Code Ann. (1972), which requires the district to have the year-end financial statements available for audit on or before October 15 of each year.

District's Response

The District has hired experience staff and established a plan that will allow them to be in compliance with this requirement for the year ended June 30, 2016, and thereafter, by having year-end financial statements available for audit and filed with State Board of Education on or before October 15th of each year.

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

The Hazlehurst City School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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

Watkins, Ward and Stafford, PLLC
Jackson, Mississippi
June 15, 2016

Watkins Ward and Stafford, PLLC

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HAZLEHURST CITY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2015

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued: | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | 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>
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? | Yes |

HAZLEHURST CITY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported under *Government Auditing Standards*.

Material Weakness:

Finding 2015-1:

Condition:

The school district failed to timely reconcile district maintenance, accounts payable, payroll and a few smaller activity accounts.

Criteria:

Management is responsible for establishing an internal control system that ensures timely and accurate bank reconciliations of the above accounts and other liabilities.

Cause:

Controls were not in place to ensure the timely reconciliation of these bank accounts throughout the year.

Effect:

The risk of misstatements was increased and controls were not in place to prevent, detect or correct them.

Recommendation:

We recommend management strengthen their internal controls policies or procedures which will ensure that all accounts are reconciled in a timely manner to the books.

Finding 2015-02:

Condition:

The school district failed to properly hire an administrator by did not properly assess the necessary qualifications and experience required for the position.

Criteria:

Management is responsible for establishing a proper internal control system to ensure and safeguarding against hiring of unqualified personnel.

Cause:

Controls were not in place to ensure the proper assessment of qualifications needed and the hiring of administration personnel throughout the year.

Effect:

The risk of improperly hiring an administration staff was increased and controls were not in place to prevent, detect or correct it.

Recommendation

We recommend that the district strengthen its internal controls by implementing and enforcing an efficient and effective human resources process to properly review and assess qualifications required for all district administration personnel.

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.

AUDITEE'S CORRECTIVE ACTION PLAN

Hazlehurst City School District
119 Robert McDaniel Drive
Hazlehurst, MS 39083
Lisa Davis - Superintendent
Tony Foster, Director of Business Services

AUDITEE'S CORRECTIVE ACTION PLAN

Hazlehurst City School District has prepared and hereby submits the following corrective action plan for the finding included in the Schedule of Findings and Questioned Costs for the Year ended June 30, 2015:

Finding Corrective Action Plan Details

2015-01

A. Name of contact person responsible for Corrective Action:

Name: Tony Foster

Title: Director of Business Services

Phone Number: 601-894-1152

B. Corrective Action Planned:

The district has implemented internal controls policies and procedures which will ensure that all accounts are reconciled in a timely manner to the books.

C. June 30, 2016

2015-02

A. Name of contact person responsible for Corrective Action:

Name: Tony Foster

Title: Director of Business Services

Phone Number: 601-894-1152

B. Corrective Action Planned:

The district has implemented proper human resources guidelines and controls which will ensure the district hire qualified and experience personnel.

C. June 30, 2016