



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2016

HATTIESBURG PUBLIC SCHOOL DISTRICT
TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT	5
MANAGEMENT'S DISCUSSION AND ANALYSIS	9
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Exhibit A - Statement of Net Position	19
Exhibit B - Statement of Activities	21
Governmental Funds Financial Statements	
Exhibit C - Balance Sheet	23
Exhibit C-1 - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	25
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances	27
Exhibit D-1 - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	29
Fiduciary Funds Financial Statements	
Exhibit E - Statement of Fiduciary Assets and Liabilities	31
Notes to the Financial Statements	33
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	57
Budgetary Comparison Schedule - Title I Fund	59
Schedule of the District's Proportionate Share of the Net Pension Liability	61
Schedule of District Contributions	63
Notes to the Required Supplementary Information	65
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	69
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds	71
OTHER INFORMATION	
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years	75
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years	77
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.	81
Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance	83
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	87
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	93
CORRECTIVE ACTION PLAN	99

(This page left blank intentionally)

INDEPENDENT AUDITOR'S REPORT

(This page left blank intentionally)

SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
sesmithcpa@msn.com

INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Hattiesburg Public 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 Hattiesburg Public School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Hattiesburg Public School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hattiesburg Public School District, as of June 30, 2016, 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.

POST OFFICE BOX 102
BRANDON, MISSISSIPPI 39043
PHONE: 601-938-5717

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 9-16, 57-59, 61, and 63, 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

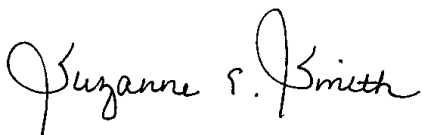
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hattiesburg Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2016, on our consideration of the Hattiesburg Public 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 Hattiesburg Public School District's internal control over financial reporting and compliance.



Suzanne E. Smith, CPA, PLLC
Brandon, MS
November 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The following discussion and analysis of Hattiesburg Public School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2016. 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 2016 decreased \$2,094,134, including a prior period adjustment of \$203,145, which represents a 7% decrease from fiscal year 2015. Total net position for 2015 decreased \$53,087,762, including a prior period adjustment of (\$54,233,753), which represents a 227.49% decrease from fiscal year 2014.
- General revenues amounted to \$39,189,384 and \$40,118,219, or 78% and 78% of all revenues for fiscal years 2016 and 2015, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,807,672, or 22% of total revenues for 2016, and \$11,587,821, or 22% of total revenues for 2015.
- The District had \$52,294,335 and \$50,560,049 in expenses for fiscal years 2016 and 2015; only \$10,807,672 for 2016 and \$11,587,821 for 2015 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$39,189,384 for 2016 were not adequate to provide for these programs, while general revenues of \$40,118,219 for 2015 were adequate to provide for these programs.
- Among major funds, the General Fund had \$36,255,541 in revenues and \$35,701,812 in expenditures for 2016, and \$35,610,275 in revenues and \$38,306,293 in expenditures in 2015. The General Fund's fund balance increased by \$258,040 from 2015 to 2016, including a prior period adjustment of \$83,128 and a decrease in inventory of \$65,931, and decreased by \$3,376,986, including a decrease in inventory of \$17,802, from 2014 to 2015.
- Capital assets, net of accumulated depreciation, decreased by \$963,375 for 2016 and increased by \$2,764,864 for 2015. The decrease for 2016 was due primarily to the increase in accumulated depreciation.
- Long-term debt, including compensated absences payable, decreased by \$2,311,166 for 2016 and decreased by \$2,397,587 for 2015. This decrease for 2016 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$28,029 for 2016 and decreased by \$39,157 for 2015.

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 differences between them reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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 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

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

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, Schedule of the District's Proportionate Share of the New Pension Liability, and Schedule of District Contributions as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards 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. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$31,845,292 as of June 30, 2016.

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.

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Table 1 presents a summary of the District's net position at June 30, 2016 and June 30, 2015.

Table 1
Condensed Statement of Net Position

	June 30, 2016	June 30, 2015	Percentage Change
Current assets	\$ 5,210,549	\$ 5,976,302	(12.81) %
Restricted assets	4,440,794	4,875,515	(8.92) %
Capital assets, net	31,540,870	32,504,245	(2.96) %
Total assets	41,192,213	43,356,062	(4.99) %
 Deferred outflows of resources	 16,931,739	 5,147,699	 228.92 %
Current liabilities	541,999	2,952,026	(81.64) %
Long-term debt outstanding	14,502,757	16,705,367	(13.19) %
Net pension liability	67,922,575	51,058,006	33.03 %
Total liabilities	82,967,331	70,715,399	17.33 %
 Deferred inflows of resources	 7,001,913	 7,539,520	 (7.13) %
 Net position:			
Net investment in capital assets	22,303,209	21,380,148	4.32 %
Restricted	8,339,767	7,406,644	12.60 %
Unrestricted	(62,488,268)	(58,537,950)	(6.75) %
Total net position	\$ (31,845,292)	\$ (29,751,158)	(7.04) %

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	(\$62,488,268)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	58,022,845
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ (4,465,423)</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 \$963,375.
- The principal retirement of \$2,413,116 of long-term debt.
- The increase in net pension liability of \$16,864,569.

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2016 and June 30, 2015 were \$49,997,056 and \$51,706,040, respectively. The total cost of all programs and services was \$52,294,335 for 2016 and \$50,560,049 for 2015.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2016 and June 30, 2015.

Table 2
Changes in Net Position

	Year Ended June 30, 2016	Year Ended June 30, 2015	Percentage Change
Revenues:			
Program revenues:			
Charges for services	\$ 431,879	\$ 514,286	(16.02) %
Operating grants and contributions	10,375,793	11,073,535	(6.30) %
General revenues:			
Property taxes	18,932,993	18,820,203	0.60 %
Grants and contributions not restricted	19,697,629	19,102,334	3.12 %
Investment earnings	87,432	45,870	90.61 %
Sixteenth section sources	73,203	73,633	(0.58) %
Other	398,127	2,076,179	(80.82) %
Total revenues	49,997,056	51,706,040	(3.31) %
Expenses:			
Instruction	22,756,058	23,898,256	(4.78) %
Support services	16,414,572	18,703,225	(12.24) %
Non-instructional	3,586,084	3,986,683	(10.05) %
Sixteenth section	21,325	13,499	57.97 %
Pension expense	8,977,261	3,452,698	160.01 %
Interest on long-term liabilities	539,035	505,688	6.59 %
Total expenses	52,294,335	50,560,049	3.43 %
Increase (Decrease) in net position	(2,297,279)	1,145,991	(300.46) %
Net Position, July 1, as previously reported	(29,751,158)	23,336,604	(227.49) %
Prior Period Adjustment	203,145	(54,233,753)	100.37 %
Net Position, July 1, as restated	(29,548,013)	(30,897,149)	4.37 %
Net Position, June 30	\$ (31,845,292)	\$ (29,751,158)	(7.04) %

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.

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2016	2015	
Instruction	\$ 22,756,058	\$ 23,898,256	(4.78) %
Support services	16,414,572	18,703,225	(12.24) %
Non-instructional	3,586,084	3,986,683	(10.05) %
Sixteenth section	21,325	13,499	57.97 %
Pension Expense	8,977,261	3,452,698	160.01 %
Interest on long-term liabilities	539,035	505,688	6.59 %
Total expenses	\$ 52,294,335	\$ 50,560,049	3.43 %

	Net (Expense) Revenue		Percentage Change
	2016	2015	
Instruction	\$ (18,721,958)	\$ (19,145,255)	2.21 %
Support services	(13,771,290)	(15,755,938)	12.60 %
Non-instructional	229,704	(99,150)	331.67 %
Sixteenth section	(21,325)	(13,499)	(57.97) %
Pension Expense	(8,977,261)	(3,452,698)	(160.01) %
Interest on long-term liabilities	(224,533)	(505,688)	55.60 %
Total net (expense) revenue	\$ (41,486,663)	\$ (38,972,228)	(6.45) %

- Net cost of governmental activities [(\$41,486,663) for 2016 and (\$38,972,228) for 2015] was financed by general revenue, which is primarily made up of property taxes (\$18,932,993 for 2016 and \$18,820,203 for 2015) and state and federal revenues (\$19,697,629 for 2016 and \$19,102,334 for 2015). In addition, there was \$73,203 and \$73,633 in Sixteenth Section sources for 2016 and 2015, respectively.
- Investment earnings amounted to \$87,432 for 2016 and \$45,870 for 2015.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$9,286,906, an increase of \$1,275,614, which includes a prior period adjustment of \$83,128 and a decrease in inventory of \$58,934. \$522,095 or 5% 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 \$8,764,811 or 95% 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$258,040, including a prior period adjustment of \$83,128, and a decrease in inventory of \$65,931. The fund balance of Other Governmental Funds showed an increase in the amount of \$817,271, which includes an increase in inventory of \$6,997. 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 change
QSCB 2009 Asset Fund	200,014
16th Section Principal Fund	289

BUDGETARY HIGHLIGHTS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2016, the District's total capital assets were \$56,161,390, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$149,886 from 2015. Total accumulated depreciation as of June 30, 2016, was \$24,620,520, and total depreciation expense for the year was \$1,220,955, resulting in total net capital assets of \$31,540,870.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 522,861	522,861	0.00 %
Construction in progress	-	2,376,401	(100.00) %
Buildings	23,743,251	24,340,092	(2.45) %
Building improvements	1,212,002	1,277,496	(5.13) %
Improvements other than buildings	4,731,711	2,370,591	99.60 %
Mobile equipment	981,462	1,086,588	(9.67) %
Furniture and equipment	349,583	431,588	(19.00) %
Leased property under capital lease	-	98,628	(100.00) %
Total	\$ 31,540,870	\$ 32,504,245	(2.96) %

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

HATTIESBURG PUBLIC SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

Debt Administration. At June 30, 2016, the District had \$14,394,200 in outstanding long-term debt, of which \$2,395,416 is due within one year. The liability for compensated absences decreased \$28,029 from the prior year.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 3,820,000	\$ 5,105,000	(25.17) %
Limited obligation bonds payable	1,895,000	2,589,000	(26.81) %
Three mill notes payable	2,340,000	2,675,000	(12.52) %
Shortfall notes payable	129,979	68,110	90.84 %
Obligations under capital lease	-	31,006	(100.00) %
Qualified school construction bonds payable	6,000,000	6,000,000	0.00 %
Compensated absences payable	209,221	237,250	(11.81) %
Total	<u>\$ 14,394,200</u>	<u>\$ 16,705,366</u>	<u>(13.83) %</u>

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

CURRENT ISSUES

The Hattiesburg Public School District has suffered a decrease in the general fund's fund balance over the last four years. This has affected the district's short-term liquidity. The district is in the process of budgeting for an increase in the general fund's fund balance to restore the balance to a more healthy level. The district is committed to this process in order to ensure financial stability for the future.

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 Hattiesburg Public School District, 301 Mamie Street, Hattiesburg, Mississippi 39403.

FINANCIAL STATEMENTS

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Statement of Net Position
June 30, 2016

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,275,861
Due from other governments	1,718,938
Other receivables	5,891
Prepaid items	91,756
Inventories	118,103
Restricted assets	4,440,794
Capital assets, net of accumulated depreciation	31,540,870
Total Assets	<u>41,192,213</u>
Deferred Outflows of Resources	
Pensions	16,901,643
Deferred amounts on refunding	30,096
Total deferred inflows of resources	<u>16,931,739</u>
Liabilities	
Accounts payable and accrued liabilities	358,340
Interest payable on long-term liabilities	177,562
Unearned revenue	6,097
Long-term liabilities, due within one year:	
Capital related liabilities	1,877,200
Non-capital related liabilities	518,216
Long-term liabilities, due beyond one year:	
Capital related liabilities	7,282,000
Non-capital related liabilities	4,716,784
Unamortized bond premium	108,557
Net Pension Liability	67,922,575
Total Liabilities	<u>82,967,331</u>
Deferred Inflows of Resources	
Pensions	7,001,913
Total deferred inflows of resources	<u>7,001,913</u>
Net Position	
Net investment in capital assets	22,303,209
Restricted for:	
Expendable:	
School-based activities	1,125,010
Ad valorem	340,644
Debt service	3,805,048
Capital improvement	121,108
Unemployment benefits	40,080
Non-expendable:	
Sixteenth section	2,907,877
Unrestricted	(62,488,268)
Total Net Position	<u>\$ (31,845,292)</u>

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Statement of Activities
For the Year Ended June 30, 2016

Exhibit B

					Net (Expense) Revenue and Changes in Net Position
		Program Revenues			
		Charges for	Operating	Capital	
Functions/Programs	Expenses	Services	Grants and Contributions	Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 22,756,058	274,393	3,759,707		(18,721,958)
Support services	16,414,572	50,339	2,592,943		(13,771,290)
Non-instructional	3,586,084	107,147	3,708,641		229,704
Sixteenth section	21,325				(21,325)
Pension expense	8,977,261				(8,977,261)
Interest on long-term liabilities	539,035		314,502		(224,533)
Total Governmental Activities	<u>\$ 52,294,335</u>	<u>431,879</u>	<u>10,375,793</u>	<u>0</u>	<u>(41,486,663)</u>
General Revenues:					
Taxes:					
General purpose levies 16,739,606					
Debt purpose levies 2,193,387					
Unrestricted grants and contributions:					
State 19,656,256					
Federal 41,373					
Unrestricted investment earnings 87,432					
Sixteenth section sources 73,203					
Other 398,127					
<u> Total General Revenues 39,189,384</u>					
Change in Net Position (2,297,279)					
Net Position - Beginning, as previously reported (29,751,158)					
Prior Period Adjustments 203,145					
<u>Net Position - Beginning, as restated (29,548,013)</u>					
Net Position - Ending \$ (31,845,292)					

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

Balance Sheet

June 30, 2016

Exhibit C

	Major Funds					
	General Fund	Title I Fund	QSCB 2009 Asset Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 1,115,450			36,985	2,160,410	3,312,845
Cash with fiscal agents				112,737		112,737
Investments			1,200,027	1,727,155	1,363,891	4,291,073
Due from other governments	659,397	285,080			774,461	1,718,938
Due from other funds	455,402					455,402
Advances to other funds				1,031,000		1,031,000
Other receivables	689					689
Prepaid items	91,756					91,756
Inventories	34,287				83,816	118,103
Total assets	2,356,981	285,080	1,200,027	2,907,877	4,382,578	11,132,543
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	299,145	8,185			51,010	358,340
Due to other funds		276,895			173,305	450,200
Advances from other funds	1,031,000					1,031,000
Unearned revenue					6,097	6,097
Total Liabilities	1,330,145	285,080	0	0	230,412	1,845,637
Fund Balances:						
Nonspendable						
Inventory	34,287				83,816	118,103
Permanent fund principal				2,907,877		2,907,877
Prepaid items	91,756					91,756
Restricted						
Ad valorem	340,644					340,644
Debt service			1,200,027		2,782,583	3,982,610
Capital improvements					121,108	121,108
Grant activities					1,006,907	1,006,907
Unemployment benefits					40,080	40,080
Assigned						
Student activities	38,054					38,054
Vocational education					42,873	42,873
Unemployment benefits					74,799	74,799
Unassigned	522,095					522,095
Total Fund Balances	1,026,836	0	1,200,027	2,907,877	4,152,166	9,286,906
Total Liabilities and Fund Balances	\$ 2,356,981	285,080	1,200,027	2,907,877	4,382,578	11,132,543

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2016**

Exhibit C-1

Total fund balances for governmental funds \$ 9,286,906

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	\$ 522,861	
Buildings	38,928,173	
Building improvements	1,637,367	
Improvements other than buildings	6,731,081	
Mobile equipment	3,440,215	
Furniture and equipment	4,901,693	
Accumulated depreciation	<u>(24,620,520)</u>	31,540,870

2. Some liabilities, including net position obligations, are not due and payable in the current period and, therefore, are not reported in the funds:

Net pension liability	(67,922,575)	
-----------------------	--------------	--

Deferred outflows and inflows related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	16,901,643	
Deferred inflows of resources related to pensions	<u>(7,001,913)</u>	(58,022,845)

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

General obligation refunding bonds	(3,820,000)	
Limited obligation refunding bonds	(1,895,000)	
Three mill notes payable	(2,340,000)	
Shortfall notes payable	(129,979)	
Qualified school construction bonds payable	(6,000,000)	
Compensated absences	(209,221)	
Unamortized deferred amounts on refunding	30,096	
Unamortized bond premiums	(108,557)	
Accrued interest payable	<u>(177,562)</u>	(14,650,223)

Net Position of governmental activities	<u><u>\$ (31,845,292)</u></u>
--	-------------------------------

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2016**

Exhibit D

	Major Funds					Total
	General Fund	Title I Fund	QSCB 2009 Asset Fund	16th Section Principal Fund	Other Governmental Funds	Governmental Funds
Revenues:						
Local sources	\$ 17,486,294		28		2,268,476	19,754,798
Intermediate	25,000					25,000
State sources	18,584,904				2,911,335	21,496,239
Federal sources	85,993	2,521,120			5,970,069	8,577,182
Sixteenth section sources	73,350			68,501		141,851
Total Revenues	36,255,541	2,521,120	28	68,501	11,149,880	49,995,070
Expenditures:						
Instruction	21,196,608	1,244,913			3,036,219	25,477,740
Support services	14,216,082	1,117,993			1,364,449	16,698,524
Noninstructional services	143,433	83,214			3,405,413	3,632,060
Sixteenth section	21,325					21,325
Facilities acquisition and construction					119,042	119,042
Debt service:						
Principal	99,116				2,314,000	2,413,116
Interest	19,982				481,490	501,472
Other	5,266				7,070	12,336
Total Expenditures	35,701,812	2,446,120	0	0	10,727,683	48,875,615
Excess (Deficiency) of Revenues over (under) Expenditures	553,729	75,000	28	68,501	422,197	1,119,455
Other Financing Sources (Uses):						
Proceeds of notes	129,979					129,979
Insurance loss recoveries					1,986	1,986
Transfer in to escrow agent			199,986		173,019	373,005
Operating transfers in	293,211				736,076	1,029,287
Transfer out to escrow agent					(373,005)	(373,005)
Operating transfers out	(736,076)	(75,000)		(68,211)	(150,000)	(1,029,287)
Total Other Financing Sources (Uses)	(312,886)	(75,000)	199,986	(68,211)	388,076	131,965
Net Change in Fund Balances	240,843	0	200,014	290	810,273	1,251,420
Fund Balances:						
July 1, 2015, as previously reported	768,796	0	1,000,013	2,907,587	3,334,896	8,011,292
Prior period adjustments	83,128					83,128
July 1, 2015, as restated	851,924	0	1,000,013	2,907,587	3,334,896	8,094,420
Increase (Decrease) in reserve for inventory	(65,931)				6,997	(58,934)
June 30, 2016	\$ 1,026,836	0	1,200,027	2,907,877	4,152,166	9,286,906

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

(This page left blank intentionally)

HATTIESBURG PUBLIC 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, 2016**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 1,251,420

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	\$ 126,428	
Depreciation expense	<u>(1,220,955)</u>	(1,094,527)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold.

	(2,083)	(2,083)
--	---------	---------

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on Net Position. Also, governmental funds report the effect of 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	2,413,116	
Issuance of notes	(129,979)	
Amortization of deferred amounts on refunding	(12,491)	
Amortization of bond premiums	40,989	
Accrued interest payable	<u>(66,061)</u>	2,245,574

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

Pension expense - current year	(8,977,261)	
Deferred outflows - pensions	<u>4,310,503</u>	(4,666,758)

5. 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	28,029	
Change in inventory reserve	<u>(58,934)</u>	(30,905)

Change in Net Position of governmental activities \$ (2,297,279)

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT**Fiduciary Funds****Statement of Fiduciary Assets and Liabilities
June 30, 2016****Exhibit E**

	Agency Funds
Assets	
Cash and cash equivalents	\$ 1,713,576
Total Assets	<u>1,713,576</u>
Liabilities	
Accounts payable and accrued liabilities	1,686,005
Due to other funds	5,202
Due to student clubs	<u>22,369</u>
Total Liabilities	<u>\$ 1,713,576</u>

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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 Hattiesburg, Mississippi, since the governing authority of the city selects the majority of the school district's board but does not have financial accountability for the school district.

For financial reporting purposes, Hattiesburg Public 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 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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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 the revenues and related expenditures of the Title I grants to local educational agencies.

QSCB 2009 Asset Fund – This is a debt service fund that accounts for the assets held in a debt sinking fund to satisfy the 2009 Qualified School Construction Bonds issued in 2009.

16th Section Principal Fund – This is a permanent fund that accounts for the nonexpendable revenues earned on sixteenth section lands.

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. The District's fiduciary funds include the following:

Student Club Funds – These various funds account for the monies raised through student club activities.

Payroll Clearing Fund – This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets and liabilities) and does not involve the measurement of results of operations.

Accounts Payable Clearing Fund – This fund is used to report the resources of paid claims held by the district in a purely custodial capacity (assets and liabilities) and does not involve the measurement of results of operations.

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 restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

FIDUCIARY FUNDS

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

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

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

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

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

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

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

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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

D. Encumbrances

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

E. Assets, liabilities, 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

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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	*	*

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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 periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows – Pension contributions

Deferred outflows – Deferred amounts on refunding

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 periods and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows – Pension Settlements to Plan Members

See Note 8 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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 the approval of the type and amount of the commitment through a formal order of the school board. Currently there is no committed fund balance for this school district.

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

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

Note 2 – Cash and Cash Equivalents, Cash with fiscal agents and Investments

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school 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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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

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

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,312,845 and \$1,713,576, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. 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. 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.

Cash with Fiscal Agents

The carrying amount of cash with fiscal agents reported in the governmental funds was \$112,737.

Investments

As of June 30, 2016, the district had the following investments.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in Years)</u>	<u>Fair Value</u>
Hancock Bank Federal U.S. Treasury Reserve Money Market Funds	AAAm	Less than 1	\$ 362,378
Federated U. S. Treasury Cash Reserve Fund	AAAm	Less than 1	1,200,027
U. S. Treasury SLGS Deposit	AAA	Less than 10	981,900
Federal Govt. Oblg. Tax-Managed Money Market Funds	AAAm	Less than 1	19,613
Federal National Assn Pool Securities	Unrated	Less than 1	527,140
Federal Home Loan Securities	Unrated	Less than 1	221,260
Corporate Bonds	A-/A/AA	Less than 3	261,349
Municipal Bonds	AA/A+	Less than 5	92,219
U. S. Treasury/Agency Securities	AA+	Less than 1	625,187
			\$ <u><u>4,291,073</u></u>

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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

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

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

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

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	\$ 276,895
	Other Governmental Funds	173,305
	Fiduciary Funds	5,202
		<u>\$ 455,402</u>

The amounts represent inter-fund balances created by loans from the General Fund to special revenue funds to provide adequate cash flow for those funds operating on an expenditure reimbursement basis. Cash is loaned to the funds for operational purposes, and the loans are repaid after reimbursement for grant expenditures is received. Also represented are interest earnings on fiduciary clearing funds (fiduciary funds) and other adjustments due to the general fund.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
16th Section Principal Fund	General Fund	\$ 1,031,000
		<u>\$ 1,031,000</u>

The purpose of the Advances to/from other funds was to purchase school buses and to make facility improvements.

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the 16th Section Principal Fund (permanent fund) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

C. Inter-fund Transfers

Transfers out	Transfers in	Amount
General Fund	Other Governmental Funds	\$ 736,076
Title I Fund	General Fund	75,000
16th Section Principal Fund	General Fund	68,211
Other governmental funds	General Fund	150,000
		<u>\$ 1,029,287</u>

Transfers represent indirect costs from special revenue funds to the General Fund and operational transfers from the General Fund to other governmental funds.

Note 4 – Restricted Assets

The restricted assets represent the cash balance (\$36,985), the cash with fiscal agent balance (\$112,737), and the investment balance (\$1,727,155) 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 investment balances of the MAEP Retirement Fund (\$362,378), the QSCB 2009 Asset Account Fund (\$1,200,027), and the QSCB 2010 Asset Account Fund (\$1,001,512). The total of restricted assets is \$4,440,794.

Note 5 – Capital Assets

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

	7/1/2015	Increases	Decreases	Adjustments	6/30/2016
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 522,861				522,861
Construction in progress	2,376,401	119,042	2,600,101	104,658	-
Total non-depreciable capital assets	2,899,262	119,042	2,600,101	104,658	522,861
<u>Depreciable capital assets:</u>					
Buildings	38,913,073	-		15,100	38,928,173
Building improvements	1,637,367	-		-	1,637,367
Improvements other than buildings	4,130,980	2,600,101		-	6,731,081
Mobile equipment	2,453,916	-	-	986,299	3,440,215
Furniture and equipment	4,990,607	7,386	17,737	(78,563)	4,901,693
Leased property under capital lease	986,299	-	-	(986,299)	-
Total depreciable capital assets	53,112,242	2,607,487	17,737	(63,463)	55,638,529
<u>Less accumulated depreciation for:</u>					
Buildings	14,572,981	611,941		-	15,184,922
Building improvements	359,871	65,494		-	425,365
Improvements other than buildings	1,760,389	238,981		-	1,999,370
Mobile equipment	1,367,328	203,754	-	887,671	2,458,753
Furniture and equipment	4,559,019	100,785	15,654	(92,040)	4,552,110
Leased property under capital lease	887,671	-	-	(887,671)	-
Total accumulated depreciation	23,507,259	1,220,955	15,654	(92,040)	24,620,520
Total depreciable capital assets, net	29,604,983	1,386,532	2,083	28,577	31,018,009
Governmental activities capital assets, net	\$ 32,504,245	1,505,574	2,602,184	133,235	31,540,870

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

The adjustments were necessary to properly categorize assets and to adjust the value on a previously added construction in progress.

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental Activities:	
Instruction	\$ 19,009
Support services	1,147,686
Non-instructional	54,260
Total depreciation expense	\$ <u>1,220,955</u>

Note 6 – Long-term Liabilities

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

	Balance July 1, 2015	Additions	Reductions	Balance June 30, 2016	Amounts due within one year
A. General obligation bonds payable	\$ 5,105,000		1,285,000	3,820,000	1,290,000
B. Limited obligation bonds payable	2,589,000		694,000	1,895,000	718,000
C. Three mill notes payable	2,675,000		335,000	2,340,000	345,000
D. Shortfall notes payable	68,110	129,979	68,110	129,979	42,416
E. Obligations under capital leases	31,006		31,006	-	
F. Qualified school construction bonds payable	6,000,000			6,000,000	
G. Compensated absences payable	237,250		28,029	209,221	
	<u>\$ 16,705,366</u>	<u>129,979</u>	<u>2,441,145</u>	<u>14,394,200</u>	<u>2,395,416</u>

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation					
1. refunding series 2013	3.00%	10-Sep-13	15-Apr-19	\$ 3,375,000	2,130,000
General obligation					
2. refunding series 2010	1.0 - 3.0%	1-Apr-11	1-Apr-18	\$ 6,355,000	1,690,000
				<u>\$ 9,730,000</u>	<u>3,820,000</u>

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

- General obligation bond issue of September 10, 2013:

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

<u>Year Ending</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2017	\$	465,000	63,900	528,900
2018		510,000	49,950	559,950
2019		1,155,000	34,650	1,189,650
	\$	<u>2,130,000</u>	<u>148,500</u>	<u>2,278,500</u>

This debt will be retired from the Bond Retirement Fund.

2. General obligation bond issue of April 1, 2011:

<u>Year Ending</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2017	\$	825,000	50,700	875,700
2018		865,000	25,950	890,950
	\$	<u>1,690,000</u>	<u>76,650</u>	<u>1,766,650</u>

This debt will be retired from the Bond Retirement Fund:

Total general obligation bond payments for all issues:

<u>Year Ending</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2017	\$	1,290,000	114,600	1,404,600
2018		1,375,000	75,900	1,450,900
2019		1,155,000	34,650	1,189,650
	\$	<u>3,820,000</u>	<u>225,150</u>	<u>4,045,150</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2016, the amount of outstanding bonded indebtedness was equal to 1.3% of property assessments as of October 1, 2015.

B. Limited obligation bonds payable

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital refunding bonds series 2008	3.34%	31-Jul-08	1-Feb-18	\$ 5,973,000	1,895,000
				<u>\$ 5,973,000</u>	<u>1,895,000</u>

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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

Limited obligation bond issue of July 31, 2008:

<u>Year Ending</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2017	\$	718,000	51,303	769,303
2018		1,177,000	26,921	1,203,921
	\$	<u>1,895,000</u>	<u>78,224</u>	<u>1,973,224</u>

The debt will be retired from the MAEP Debt Retirement Fund.

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

C. Three mill notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited tax notes, Series					
1. 2011	2.84%	7-Mar-11	9-Mar-19	\$ 1,000,000	440,000
Limited tax notes, Series					
2. 2012	2.42%	15-Jun-12	15-Jun-25	\$ 2,700,000	1,900,000
				<u>\$ 3,700,000</u>	<u>2,340,000</u>

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

1. Limited tax notes of March 7, 2011:

<u>Year Ending</u>		<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>				
2017	\$	140,000	12,496	152,496
2018		150,000	8,520	158,520
2019		150,000	4,260	154,260
	\$	<u>440,000</u>	<u>25,276</u>	<u>465,276</u>

The debt will be retired from the Three Mill Note Debt Service Fund.

2. Limited tax notes of June 15, 2012:

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2016

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 205,000	45,219	250,219
2018	205,000	41,888	246,888
2019	210,000	38,300	248,300
2020	210,000	34,363	244,363
2021	215,000	30,163	245,163
2022-2025	855,000	63,813	918,813
	<u>\$ 1,900,000</u>	<u>253,746</u>	<u>2,153,746</u>

The debt will be retired from the Three Mill Note Debt Service Fund.

Total three mill notes payable for all issues:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 345,000	57,715	402,715
2018	355,000	50,408	405,408
2019	360,000	42,560	402,560
2020	210,000	34,363	244,363
2021	215,000	30,163	245,163
2022-2025	855,000	63,813	918,813
	<u>\$ 2,340,000</u>	<u>279,022</u>	<u>2,619,022</u>

D. Shortfall notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Revenue shortfall note, Series 2015	2.09%	9-Oct-15	9-Oct-18	\$ 129,979	129,979
				<u>\$ 129,979</u>	<u>129,979</u>

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

Revenue shortfall note issue of October 9, 2015:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 42,416	2,762	45,178
2018	43,322	1,856	45,178
2019	44,241	937	45,178
	<u>\$ 129,979</u>	<u>5,555</u>	<u>135,534</u>

The debt will be retired from the Shortfall Note Retirement Fund.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

E. Qualified school construction bonds payable

As more fully explained in Note 14, debt has been issued by the school district that qualifies as Qualified School Construction Bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified School Construcion Bonds,					
1. Series 2009	0.94%	15-Sep-09	15-Sep-24	\$ 3,000,000	3,000,000
Qualified School Construcion Bonds,					
2. Series 2010	1.25%	1-Dec-10	1-Dec-25	\$ 3,000,000	3,000,000
				<u>\$ 6,000,000</u>	<u>6,000,000</u>

The series 2009 and 2010 Qualified School Construction Bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi in the form of Education Enhancement Funds pursuant to Code Section 37-61-33(2)(d), Miss. Code Ann. (1972).

The School District has pledged a portion of future state Education Enhancement Fund revenue to repay \$6,000,000 in Qualified School Construction Bonds. \$3,000,000 was issued September 15, 2009, and another \$3,000,000 was issued December 1, 2010. Proceeds from the bonds were used to finance capital improvements made to the District's buildings. The bonds are payable solely from the future revenues of the State Education Enhancement Fund and other district funds and are payable through September 15, 2024, and December 1, 2025, respectively. Annual principal and interest payments on the bonds are expected to require all of such state revenues, with the remaining amounts to be paid through revenues received from a local debt service tax levy. As further explained in Note 13, minimum total annual sinking fund payments remaining to be paid on the Series 2009 bonds is \$1,800,000, while the minimum total annual sinking fund payments remaining to be paid on the Series 2010 bonds is \$2,000,000.

Sinking fund payments for the current year and the total Education Enhancement Fund pledged revenues were \$373,005 and \$200,473, respectively.

F. 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 – Short Term Financing

During the year the school district participated in the following short-term financing for the purpose of revenue anticipation:

The school district issued a revenue anticipation note payable to a local bank at an annual rate of interest of 0.45%, with the proceeds being accounted for as a current liability in the general fund of the school district. Once cash flow was available, the note was liquidated with a payment consisting of both principal and interest. The note was repaid in full on May 31, 2016.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

Description	Balance July 1, 2014	Additions	Deletions	Balance June 30, 2015
Revenue Anticipation Note	\$ -	6,000,000	6,000,000	-
	\$ -	6,000,000	6,000,000	-

Note 7 – Other Commitments

The school district has several operating leases for the following:

1. Forty-nine (49) copiers
2. Seven hundred twenty-five (725) student computers

Lease expenditures for the year ended June 30, 2016, amounted to \$215,387.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2017	\$ 205,354
2018	171,058
2019	79,347
2020	12,567
Total	\$ 468,326

Note 8 – Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) and may be amended only by the Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Benefits provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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, 2016 was 15.75% of annual covered payroll. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Section 25-11-1 of the Mississippi Code of 1972, as amended, and may be amended only by the Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2016, 2015 and 2014 were \$4,310,503, \$4,323,770 and \$3,994,934, 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, 2016, the school district reported a liability of \$67,922,575 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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. The school district's proportionate share used to calculate the June 30, 2016 net pension liability was 0.4394 percent, which was based on a measurement date of June 30, 2015. This was an increase of 0.024 percent from its proportionate share used to calculate the June 30, 2015 net pension liability, which was based on a measurement date of June 30, 2014.

For the year ended June 30, 2016, the District recognized pension expense of \$8,977,261. At June 30, 2016 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,663,028	\$
Net difference between projected and actual earnings on pension plan investments		7,001,913
Changes of assumptions	4,278,368	
Changes in proportion and differences between District contributions and proportionate share of contributions	6,649,744	
District contributions subsequent to the measurement date	4,310,503	
Total	\$ <u>16,901,643</u>	\$ <u>7,001,913</u>

\$4,310,503 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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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:	
2017	\$ 2,515,607
2018	2,452,671
2019	985,807
2020	(364,858)

Actuarial assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.75-19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

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

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

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75 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 (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
District's proportionate share of the net pension liability	\$ 89,528,176	\$ 67,922,575	\$ 49,993,965

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

Note 9 – Sixteenth Section Lands

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

Year Ending June 30	Amount
2017	\$ 51,055
2018	51,055
2019	51,055
2020	51,054
2021	51,054
2022 – 2026	253,320
2027 – 2031	239,614
2032 – 2036	209,714
Thereafter	283,379
Total	<u>\$ 1,241,300</u>

Note 10– Prior Period Adjustments

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

Exhibit B - Statement of Activities

Explanation	Amount
1. Reclassification of a prior year asset or liability	\$ 83,128
2. Adjustment of original costs of certain assets and depreciation	120,017
Total	<u>\$ 203,145</u>

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

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

Fund	Explanation	Amount
General Fund	Reclassification of a prior year asset	\$ 83,128
Total		<u>\$ 83,128</u>

Note 11 – Contingencies

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

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

Note 12 – Risk Management

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

Note 13 – Qualified School Construction Bonds

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

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U. S. Treasury, which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2016, the subsidy payments amounted to \$140,639.

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 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, 2016 was \$2,201,540. 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2016

<u>Year Ending</u>		<u>2009 Series</u>	<u>2010 Series</u>	<u>Total</u>
<u>June 30</u>				
2017	\$	200,000	200,000	400,000
2018		200,000	200,000	400,000
2019		200,000	200,000	400,000
2020		200,000	200,000	400,000
2021		200,000	200,000	400,000
2022-2026		800,000	1,000,000	1,800,000
	\$	<u>1,800,000</u>	<u>2,000,000</u>	<u>3,800,000</u>

Note 14 - Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Hattiesburg Public School District evaluated the activity of the district through November 28, 2016, and determined the following subsequent events:

The school district issued a revenue anticipation note on August 9, 2016, with a capacity to drawn down \$6,000,000 in proceeds to maintain a positive cash flow while awaiting the collection of ad valorem taxes levied upon all taxable property in the district. The note was issued at an annual interest rate of 1.3579%.

(This page left blank intentionally)

REQUIRED SUPPLEMENTARY INFORMATION

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

General Fund

For the Year Ended June 30, 2016

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 17,190,579	17,573,917	17,486,294	383,338	(87,623)
Intermediate sources	0	25,000	25,000	25,000	0
State sources	19,005,376	18,584,904	18,584,904	(420,472)	0
Federal sources	409,500	86,539	85,993	(322,961)	(546)
Sixteenth section sources	80,000	73,350	73,350	(6,650)	0
Total Revenues	36,685,455	36,343,710	36,255,541	(341,745)	(88,169)
Expenditures:					
Instruction	21,317,137	21,238,966	21,196,608	78,171	42,358
Support services	15,536,238	14,216,082	14,216,082	1,320,156	0
Noninstructional services	149,632	143,433	143,433	6,199	0
Sixteenth section	12,000	21,325	21,325	(9,325)	0
Debt service					
Principal	9,916	99,213	99,116	(89,297)	97
Interest	2,272	19,885	19,982	(17,613)	(97)
Other	0	5,264	5,266	(5,264)	(2)
	37,027,195	35,744,168	35,701,812	1,283,027	42,356
Excess (Deficiency) of Revenues over (under) Expenditures	(341,740)	599,542	553,729	941,282	(45,813)
Other Financing Sources (Uses):					
Proceeds of notes	0	129,979	129,979	129,979	0
Insurance loss recoveries	20,000	0	0	(20,000)	0
Operating transfers in	5,806,777	5,887,487	293,211	80,710	(5,594,276)
Operating transfers out	(6,270,645)	(6,330,352)	(736,076)	(59,707)	5,594,276
Total Other Financing Sources (Uses)	(443,868)	(312,886)	(312,886)	130,982	0
Net Change in Fund Balances	(785,608)	286,656	240,843	1,072,264	(45,813)
Fund Balances:					
July 1, 2015, as previously reported	2,625,000	811,153	768,796	(1,813,847)	(42,357)
Prior period adjustments		(76,549)	83,128	(76,549)	159,677
July 1, 2015, as restated	2,625,000	734,604	851,924	(1,890,396)	117,320
Decrease in reserve for inventory	0	0	(65,931)	0	(65,931)
June 30, 2016	\$ 1,839,392	1,021,260	1,026,836	(818,132)	5,576

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Required Supplementary Information

Budgetary Comparison Schedule

Title I Fund

For the Year Ended June 30, 2016

				Variances		
	Budgeted Amounts		Actual (GAAP Basis)	Positive (Negative)		
	Original	Final		Original to Final	Final to Actual	
Revenues:						
Federal sources	\$	0	2,623,326	2,521,120	2,623,326	(102,206)
Total Revenues		0	2,623,326	2,521,120	2,623,326	(102,206)
Expenditures:						
Instruction		0	1,819,655	1,244,913	(1,819,655)	574,742
Support services		0	1,547,845	1,117,993	(1,547,845)	429,852
Noninstructional services		0	149,717	83,214	(149,717)	66,503
Total Expenditures		0	3,517,217	2,446,120	(3,517,217)	1,071,097
Excess (Deficiency) of Revenues						
over (under) Expenditures		0	(893,891)	75,000	(893,891)	968,891
Other Financing Sources (Uses):						
Operating transfers out		0	(100,000)	(75,000)	(100,000)	25,000
Total Other Financing Sources (Uses)		0	(100,000)	(75,000)	(100,000)	25,000
Net Change in Fund Balances		0	(993,891)	0	(993,891)	993,891
Fund Balances:						
July 1, 2015, as previously reported		0	0	0	0	0
Prior period adjustments			0	0	0	0
July 1, 2015, as restated		0	0	0	0	0
June 30, 2016	\$	0	(993,891)	0	(993,891)	993,891

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT**Required Supplementary Information****SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY****PERS****Last 10 Fiscal Years***

	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.4394%	0.4151%
District's proportionate share of the net pension liability (asset)	\$ 67,922,575	51,058,006
District's covered-employee payroll	27,452,508	25,364,660
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	247.42%	201.30%
Plan fiduciary net position as a percentage of the total pension liability	62%	67%

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

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

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

PERS

Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Contractually required contribution	\$ 4,310,503	4,323,770								
Contributions in relation to the contractually required contribution	4,310,503	4,323,770								
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
District's covered-employee payroll	27,368,273	27,452,508								
Contributions as a percentage of covered-employee payroll	15.75%	15.75%								

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

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT
Notes to the Required Supplementary information

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

Pension Schedules

(1) Changes of assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

(This page left blank intentionally)

SUPPLEMENTARY INFORMATION

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Supplementary Information

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2016

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	\$ 1,089,689
National school lunch program	10.555	2,381,476
Summer school food service for children	10.559	221,780
Total child nutrition cluster		3,692,945
Total passed-through Mississippi Department of Education		3,692,945
Fresh fruits and vegetables grant	10.582	133,491
Total U.S. Department of Agriculture		3,826,436
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	55,533
Total U.S. Department of Defense		55,533
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	41,373
Total Federal Communications Commission		41,373
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Adult education grants to states	84.002	90,821
Title I grants to local educational agencies	84.010	2,525,833
Title I state agency program for neglected & delinquent children and youth	84.013	37,747
Career and technical education - basic grants to states	84.048	85,000
Education for homeless children and youth	84.196	34,381
English language acquisition grants	84.365	5,272
Improving teacher quality-State Grants	84.367	282,500
Subtotal		3,061,554
Special education cluster:		
Special education - grants to states	84.027	1,365,370
Special education - preschool grants	84.173	54,237
Total special education cluster		1,419,607
Total passed-through Mississippi Department of Education		4,481,161
Total U.S. Department of Education		4,481,161
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	32,040
Total U.S. Department of Health and Human Services		32,040
Total for All Federal Awards		\$ 8,436,543

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.

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Supplementary Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds

For the Year Ended June 30, 2016

<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	\$ 37,445,307	28,435,730	1,378,388	2,437,649	5,193,540
Other	11,430,308	2,442,969	758,577	189,188	8,039,574
Total	<u>\$ 48,875,615</u>	<u>30,878,699</u>	<u>2,136,965</u>	<u>2,626,837</u>	<u>13,233,114</u>
Total number of students *	<u>4,452</u>				
Cost per student	<u>\$ 10,978</u>	<u>6,936</u>	<u>480</u>	<u>590</u>	<u>2,972</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

(This page left blank intentionally)

OTHER INFORMATION

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 17,486,294	16,729,617	16,722,866	16,742,055
Intermediate sources	25,000			
State sources	18,584,904	18,367,117	17,598,969	17,799,329
Federal sources	85,993	440,008	332,821	338,588
Sixteenth section sources	73,350	73,533		
Total Revenues	36,255,541	35,610,275	34,654,656	34,879,972
Expenditures:				
Instruction	21,196,608	21,812,451	20,164,378	20,206,182
Support services	14,216,082	16,158,408	15,069,210	14,424,037
Noninstructional services	143,433	132,218	132,102	189,272
Sixteenth section	21,325	13,499		
Facilities acquisition and construction			51,642	17,000
Debt service:				
Principal	99,116	176,429	387,448	108,869
Interest	19,982	13,288	20,498	229,583
Other	5,266			
Total Expenditures	35,701,812	38,306,293	35,825,278	35,174,943
Excess (Deficiency) of Revenues over (under) Expenditures	553,729	(2,696,018)	(1,170,622)	(294,971)
Other Financing Sources (Uses):				
Bonds and notes issued	129,979			200,000
Insurance loss recoveries			21,110	5,277
Operating transfers in	293,211	552,759	310,998	368,200
Operating transfers out	(736,076)	(1,215,925)	(883,569)	(978,583)
Total Other Financing Sources (Uses)	(312,886)	(663,166)	(551,461)	(405,106)
Net Change in Fund Balances	240,843	(3,359,184)	(1,722,083)	(700,077)
Fund Balances:				
Beginning of period, as previously reported	768,796	4,145,782	5,842,080	6,533,014
Prior period adjustments	83,128			
Beginning of period, as restated	851,924	4,145,782	5,842,080	6,533,014
Increase (decrease) in reserve for inventory	(65,931)	(17,802)	25,785	9,143
End of Period	\$ 1,026,836	768,796	4,145,782	5,842,080

*SOURCE - PRIOR YEAR AUDIT REPORTS

(This page left blank intentionally)

HATTIESBURG PUBLIC SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2016	2015*	2014*	2013*
Revenues:				
Local sources	\$ 19,754,799	19,408,270	19,398,212	18,924,478
Intermediate sources	25,000			
State sources	21,496,239	20,970,117	20,094,099	19,771,423
Federal sources	8,577,182	9,500,138	8,874,241	9,959,558
Sixteenth section sources	141,850	102,666	88,334	79,898
Total Revenues	49,995,070	49,981,191	48,454,886	48,735,357
Expenditures:				
Instruction	25,477,740	26,556,016	26,017,708	25,943,731
Support services	16,698,524	19,371,418	19,406,689	19,525,630
Noninstructional services	3,632,060	4,182,225	3,650,895	3,756,254
Sixteenth section	21,325	13,499	12,230	9,014
Facilities acquisition and construction	119,042	3,601,935	1,666,838	436,490
Debt service:				
Principal	2,413,116	2,358,429	2,812,449	2,470,580
Interest	501,472	532,381	421,894	547,280
Other	12,336	12,317		6,335
Total Expenditures	48,875,615	56,628,220	53,988,703	52,695,314
Excess (Deficiency) of Revenues over (under) Expenditures	1,119,455	(6,647,029)	(5,533,817)	(3,959,957)
Other Financing Sources (Uses):				
Bonds and notes issued	129,979		3,375,000	200,000
Insurance loss recoveries	1,986	1,584,962	2,197,037	4,706,575
Subsidy payments on QSCB		139,884		
Premium on bonds			175,416	
Transfer in/payment to to escrow agent	373,005	400,000		400,000
Operating transfers in	1,029,287	1,768,684	1,340,893	1,456,710
Transfer out to escrow agent	(373,005)	(400,000)	(3,692,082)	(400,000)
Operating transfers out	(1,029,287)	(1,768,684)	(1,340,893)	(1,456,710)
Total Other Financing Sources (Uses)	131,965	1,724,846	2,055,371	4,906,575
Net Change in Fund Balances	1,251,420	(4,922,183)	(3,478,446)	946,618
Fund Balances:				
Beginning of period, as previously reported	8,011,292	12,944,431	16,388,471	15,454,522
Prior period adjustments	83,128			
Beginning of period, as restated	8,094,420	12,944,431	16,388,471	15,454,522
Increase (Decrease) in reserve for inventory	(58,934)	(10,956)	34,406	(12,669)
End of Period	\$ 9,286,906	8,011,292	12,944,431	16,388,471

*SOURCE - PRIOR YEAR AUDIT REPORTS

(This page left blank intentionally)

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

(This page left blank intentionally)

SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
sesmithcpa@msn.com

**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
Hattiesburg Public 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 Hattiesburg Public School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hattiesburg Public School District's basic financial statements, and have issued our report thereon dated November 28, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hattiesburg Public 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 Hattiesburg Public School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hattiesburg Public 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 weaknesses 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 (2016-001, 2016-002, 2016-003, 2016-004, and 2016-005). 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 Hattiesburg Public School District's financial statements are free from material misstatement, we performed tests of its compliance with certain

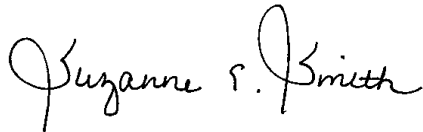
provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, 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*.

District's Response to Findings

The district's responses to the findings identified in our audit are described in the accompanying auditee's corrective action plan. Hattiesburg Public School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

A handwritten signature in cursive script that reads "Suzanne E. Smith".

Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
November 28, 2016

SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
sesmithcpa@msn.com

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance
Required by the Uniform Guidance

Superintendent and School Board
Hattiesburg Public School District

Report on Compliance for Each Major Federal Program

We have audited Hattiesburg Public School District's compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the district's major federal programs for the year ended June 30, 2016. Hattiesburg Public 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hattiesburg Public 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 the audit requirements of Title 2 *U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Hattiesburg Public 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 Hattiesburg Public School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hattiesburg Public 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, 2016.

Report on Internal Control Over Compliance

Management of Hattiesburg Public 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 Hattiesburg Public 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

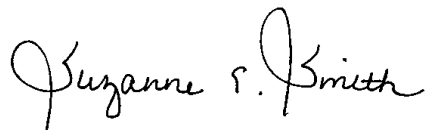
POST OFFICE BOX 102
BRANDON, MISSISSIPPI 39043
PHONE: 601-938-5717

internal control over compliance in accordance with the Uniform Guidance, 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 Hattiesburg Public 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Suzanne E. Smith". The signature is written in a cursive, flowing style.

Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
November 28, 2016

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

(This page left blank intentionally)

SUZANNE E. SMITH, CPA, PLLC
AUDITING AND ACCOUNTING SERVICES
sesmithcpa@msn.com

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

Superintendent and School Board
Hattiesburg Public School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hattiesburg Public School District as of and for the year ended June 30, 2016, which collectively comprise Hattiesburg Public School District's basic financial statements and have issued our report thereon dated November 28, 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 no classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following instances of noncompliance with other state laws and regulations:

Finding SL2016-01: Transfer from 16th Section Principal Funds. Finding: The school district business manager transferred \$300,000 from the 16th Section Principal Fund (permanent fund) bank account to the Payroll Clearing (fiduciary fund) bank account on July 3, 2015. This in effect created an interfund loan from the 16th Section Principal fund to the imprest clearing fund used to settle payroll matching benefits,

POST OFFICE BOX 102
BRANDON, MISSISSIPPI 39043
PHONE: 601-938-5717

withholdings and net payroll amounts. There is no indication that the school board was ever informed of the transfer, and the transfer was not approved by the school board or entered into the district's accounting system. Code Section 29-3-113, Miss. Code Ann. (1972), allows for loans from the 16th Section Principal fund for specified reasons, none of which include operating cash flow. This transfer of fund constitutes an illegal transfer. The \$300,000 loan was returned to the 16th Section Principal Fund bank account on December 7, 2015; therefore, the corpus of the permanent fund was restored. Recommendation: 16th Section Principal Fund balances should not be used for cash flow borrowing. All transfers from this fund should be approved by the school board as either transfers of investment income earned (expendable revenues) or duly approved, allowable loans for those purposes outlined in state law.

District Response: In the future, any transfer or other use by the district of 16th Section Principal Funds will be made in accordance with Code Section 29-3-113, Miss. Code Ann. (1972). Those transfers or other allowable uses such as interfund advances of 16th section principal funds will be made only upon prior approval by the school board.

Finding SL2016-02: Late 16th Section Lease Rentals. It is the duty of the superintendent of education to collect promptly all lease rentals due on 16th Section lands. Upon a sixty (60) day default of payment in any rentals according to the terms of such leases, the leases shall be declared terminated unless the school board finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such leases. Finding: Our testing of fifteen (15) rental payments revealed three (3) payments that were more than 60 days late. No termination proceedings were started on either of the three leases, and no extenuating circumstances were documented. Recommendation: We recommend that the district place before the board all leases that are more than 60 days late for payment and that the board act upon such lease terminations in accordance with state law.

District Response: Beginning immediately, a review of all 16th section lease agreements will begin to identify any rental fees that are past due in payment. Any leases determined to be over 60 days late in payment will be presented to the school board with a recommendation to terminate the lease.

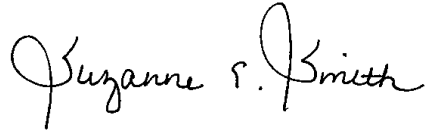
Finding SL2016-03: Budgeting – Approval of Budget by Fund. The school board is limited by Code Section 37-61-19, Miss. Code Ann. (1972), from approving expenditures that exceed expendable financial resources by fund. As such, the superintendent of education is required to present a budget to the board for its approval by August 15 of the fiscal year that begins on July 1. The school board approved the 2015-2016 budget on July 15, 2015. However, only a three page combined budget was presented and approved. There was no reference made to a combining budget by fund. Recommendation: The superintendent of education should present to the school board an original budget by August 15 of each year that outlines the amounts budgeted by fund for the year beginning July 1. This fund by fund approval may take the form of a combining budget with a combined recap available to supplement the fund by fund budgets.

District Response: In the future, all original budgets for the new fiscal year beginning on July 1, presented to the board for approval on or before August 15, will include the combined budgets as well as the combining budgets for all funds.

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

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

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.

A handwritten signature in black ink that reads "Suzanne E. Smith". The signature is written in a cursive, flowing style.

Suzanne E. Smith, CPA, PLLC
Brandon, Mississippi
November 28, 2016

(This page left blank intentionally)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(This page left blank intentionally)

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued: Unmodified

2. Internal control over financial reporting:
 - a. Material weakness(es) identified? (Yes/No) Yes
 - b. Significant deficiency(ies) identified? (Yes/None reported) None reported

3. Noncompliance material to financial statements noted? (Yes/No) No

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? (Yes/No) No
 - b. Significant deficiency(ies) identified? (Yes/None reported) 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 2 CFR 200.516(a)? (Yes/No) No

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.010	Title I grants to local educational agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$750,000

9. Auditee qualified as low-risk auditee? (yes/no) No

Section II: Financial Statement Findings

Significant Deficiencies considered to be Material Weaknesses

Finding – 2016-001. Deficiencies in Controls Surrounding Payroll Expenditures and Disbursements

Criteria: Management is responsible for developing and implementing a system of controls to ensure that the control cycle of payroll expenditures will serve to safeguard district assets and protect the integrity of financial information. Such controls should be designed to ensure compliance with the Federal Wage and Hour legislation.

Condition: Our testing in the area of payroll expenditures yielded the following control deficiencies related to hourly employees who are not exempt from Federal Wage and Hour legislation.

- A record of hours worked each day and each work week is not being maintained for all categories of workers. We noted seven (7) instances out of a payroll sample size of 55 employees where required daily and weekly time records were not available for all pay periods during the year.
- For those categories of workers who maintain daily and weekly time records, overtime is not paid automatically from the time records but is provided directly to the payroll department by the supervisor of the worker/workers based on criteria established by the supervisor/s.
- There is no systematic review of weekly time records as a means of verifying overtime that is being paid.

Cause and Effect: The cause is not fully known. While the district central administration is attempting to have the local schools gather and report all hours worked for most categories of non-exempt workers, there are inaccuracies in the information being reported as overtime hours worked. The effect of these combined deficiencies is an increase in exposure to noncompliance with Federal Wage and Hour legislation.

Questioned Costs: None

Recommendation: We recommend that the district begin the practice of maintaining daily and weekly time records on all categories of employees. We further recommend that the district strengthen the control procedures surrounding the monitoring of overtime hours.

Repeat Finding 2016-002. Deficiencies in Controls Surrounding Capital Assets and Related Expenditures.

Criteria: Management is responsible for developing and implementing a system of controls to ensure that the control cycle of capital assets and related expenditures will serve to safeguard district capital assets and protect the integrity of financial information. Such controls should be designed to properly capture and depreciate all new asset additions and to properly remove deletions of capital assets from subsidiary records. Such controls should further provide a timely periodic reconciliation of inventory items in the subsidiary ledger to actual items on site in the various district locations. All discrepancies should be investigated and differences resolved at the completion of each physical inventory.

Condition: Our testing of capital assets and related expenditures revealed that the district removed six (6) servers from inventory when the servers were damaged by fire. While the assets were removed and returned to the vendor, there was no official board approval for the removal of the assets. When the vendor provided six (6) replacement servers, district officials failed to add those servers to the subsidiary records and failed to depreciate the six (6) replacement servers. As a result capital assets were understated by \$43,814, and accumulated depreciation at June 30, 2015, was understated by \$14,459.

Our physical observation of inventory revealed that, in a sample of 24 items chosen for physical observation, two (2) items were not found for inspection. Local school officials said the items were old items that had not been in the schools for a period of time. The assets not located were a letter machine with an original cost of \$8,391 that was purchased July 1, 1989, and a booklet maker with an original cost of \$6,073 that was purchased July 1, 1991. Both of the missing assets were fully depreciated. Inventory procedures should have identified that the items were unavailable prior to audit observation. Audit adjustments were made and accepted to correct the subsidiary records.

Cause and Effect: The cause is not fully known. The likely reason for the failure to add the new replacement servers and the failure to obtain board approval for the deletion of the old servers is either an oversight or a misunderstanding of the control system by key personnel. The likely reason for the missing items is the failure of the district's periodic inventory counts to identify all missing items and to resolve the discrepancies between those items missing and the district's subsidiary records.

Questioned Costs: None

Recommendation: We recommend that the district review and strengthen controls in the area of capital assets and related expenditures. More care should be taken with respect to periodic inventories with central office oversight playing a vital role in the process.

Finding 2016-003. Differences between physical counts of instructional warehouse inventory and general ledger amounts.

Criteria: Management is responsible for the proper accounting of instructional supplies/materials purchased for classroom use and for other consumable items used routinely in the schools that are purchased and held for distribution to the classrooms as orders are made to the warehouse.

Condition: A physical count of inventory items on hand in the warehouse at June 30, 2016, yielded items with a cost of \$34,287. However, the district's general ledger balance showed that the warehouse items should yield an expected cost of \$79,119. This constitutes a \$44,832 difference. The inventory tracking system used in the warehouse is not linked directly to the general ledger balance, and this system showed a balance of \$102,196. This is \$23,077 more than the general ledger balance and \$67,909 more than the physical inventory. The warehouse manager stated that the inventory tracking system has never yielded accurate totals.

Cause and Effect: It is not fully known why the district did not take steps to reconcile the tracking system balances to the general ledger balances and the periodic physical inventory counts. The district adjusted the general ledger balance to the inventory balance.

Questioned Costs: None

Recommendation: We recommend that the district develop policies and procedures for reconciling inventory counts to the general ledger, with the general ledger balances serving as a check on the expected values to be in the warehouse at period end.

Finding 2016-004. Reconciliation of district bank statements – adjustments made.

Criteria: Management is responsible for the monthly reconciliation of bank statements for all district bank accounts. Such a reconciliation should include the monthly reconciliation of general ledger balances to bank statement balances. Differences should not be allowed to accumulate.

Condition: Three general journal entries were required during the year to adjust fund cash balances to reconciled bank balances. The bank statements involved were the payroll clearing imprest bank account and the general fund pooled bank account. In all three instances cash was increased in the general fund. Such entries were reflective of cumulative prior period adjustments and should have been shown as a prior period adjustment. Instead the entries were shown as a local revenue source, thereby overstating local revenues by \$87,625. The need for such entries shows that the bank statements were not reconciled in full for the periods before.

Cause and Effect: The cause is not known. Local revenues were overstated at \$87,625. An audit adjustment was made and accepted to correct this misstatement.

Questioned Costs: None

Recommendation: It is recommended that bank statements be reconciled on a monthly basis and that all differences be investigated and resolved in the month that the differences first appear.

Finding 2016-005. Accounting for Workers' Compensation Matching Benefit Expenditures.

Criteria: The district charges workers' compensation benefits for each \$100 in gross payroll expenditures in accordance with pre-established rates. These amounts are matched each payroll period to the gross expenditures and held in the district's accounts to be settled in the form of premiums to the insurance company holding the coverage policy. The rates are established to generate the amounts needed for the premiums. Any deficiencies may be charged to the funds and functional expenditures from which the original amounts were charged, and any overcharges should be returned to the funds and functional expenditure line items from which the original amounts were charged.

Condition: The rates being applied to gross salary amounts to generate workers' compensation benefit expenditures are yielding charges that exceed the premiums. Current year expenditures for the benefit were \$273,188, while premiums paid prior to the premium audit were \$232,364.

Cause and Effect: The cause is not fully known. The cumulative effect is a balance of \$91,756 being held to satisfy future premiums. This is likely a cumulative overcharge for a period of approximately three (3) years. An analysis of amounts from various funds shows that federal award program amounts are not material.

Questions Costs: None

Recommendation: It is recommended that the district review all cumulative charges for this benefit and to either make adjustments to the current year rate to reduce the accumulation of amounts available for premiums or to return the accumulated amounts to the funds from which the original amounts were paid. The district should begin, with the new premium year, an effort to reconcile the premiums paid with the charges made on an annual basis.

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

(This page left blank intentionally)



Business Office

301 Mamie Street
Hattiesburg, MS 39401
Phone: 601-582-5078 Fax: 601-582-2501

Corrective Action Plan Details

Finding – 2016-001. Deficiencies in Controls surrounding Payroll Expenditures and Disbursements

Corrective Action Planned: The district will begin an immediate review of procedures and processes currently used to capture and account for regular time and overtime hours worked by non-exempt workers. The maintenance of daily and weekly time records on all employee categories will begin immediately. Overtime hours will be awarded in accordance with district policy which provides pre-approval before the hours are actually worked. All records will be approved by district level personnel before payment.

Anticipated Completion Date: Immediately

Name of contact person responsible for corrective action: Sheryle Coaker, Chief Financial Officer

Repeat Finding 2016-002. Deficiencies in Controls Surrounding Capital Assets and Related Expenditures.

Corrective Action Planned: A district review will begin immediately of all fixed asset processes and procedures. Appropriate corrections and editing of procedures will be performed as needed. In addition, training will be provided to all staff involved with fixed asset management to remind and inform them of all processes and procedures involving fixed assets. The district has implemented an inventory process that will ensure that at least one location per week has a 100% physical inventory of several rooms within that school or department. This inventory will be conducted throughout the year rotating weekly between locations. Monthly reconciliations will also be prepared to account for any differences in the fixed asset inventory and the general ledger. Removal of any fixed asset will be board approved before the removal.

Anticipated Completion Date: Immediately

Name of contact person responsible for corrective action: Sheryle Coaker, Chief Financial Officer

Finding 2016-003. Differences between physical counts of instructional warehouse inventory and general ledger amounts.

Corrective Action Planned: All policies and procedures will be reviewed for possible change. The district will also evaluate and determine if the district still benefits from the existence of the warehouse. If not, consideration will be given to closing the warehouse. If it is determined by the district that the warehouse best serves the district by remaining open, accounting for purchases and sales of warehouse inventory will be carefully monitored and inventories as per general ledger will be reconciled on a monthly basis to physical inventories.

Anticipated Completion Date: Immediately

Name of contact person responsible for corrective action: Sheryle Coaker, Chief Financial Officer

Finding 2016-004. Reconciliation of district bank statements – adjustments made.

Corrective Action Planned: The district does not intend to have a need to make any more adjustments of this nature. All transfers in and out of the payroll clearing account will be carefully made and corrected for voided checks. Checks written directly out of the account using funds deposited not through the interfund transfer process will be appropriately accounted for in the general ledger.

Anticipated Completion Date: Immediately

Name of contact person responsible for corrective action: Sheryle Coaker, Chief Financial Officer

Finding 2016-005 Accounting for Worker's compensation Matching Benefit Expenditures.

Corrective Action Planned: The district will reduce the current year rate appropriately in order to dissipate the excess worker's compensation charges. The district will monitor both the charges and the annual premiums so that the charges do not exceed premiums.

Anticipated Completion Date: Immediately

Name of contact person responsible for corrective action: Sheryle Coaker, Chief Financial Officer