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HATTIESBURG PUBLIC SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2017



# HATTIESBURG PUBLIC SCHOOL DISTRICT

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## INDEPENDENT AUDITOR'S REPORT

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**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, 2017, 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, 2017, 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**

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions on pages 9-16, 57-61, 63, and 65, 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**

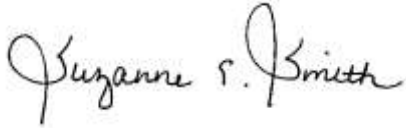
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hattiesburg Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations 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 December 5, 2017 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 solely 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 the effectiveness of the Hattiesburg Public School District's 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.

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

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
December 5, 2017

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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HATTIESBURG PUBLIC SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

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, 2017. 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 2017 increased \$544,287, including a prior period adjustment of (\$134,461), which represents a 1.71% increase from fiscal year 2016. 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.
- General revenues amounted to \$38,916,120 and \$39,189,384, or 79% and 78% of all revenues for fiscal years 2017 and 2016, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,447,538, or 21% of total revenues for 2017, and \$10,807,672, or 22% of total revenues for 2016.
- The District had \$48,684,910 and \$52,294,335 in expenses for fiscal years 2017 and 2016; only \$10,447,538 for 2017 and \$10,807,672 for 2016 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$38,916,120 for 2017 were adequate to provide for these programs, while general revenues of \$39,189,384 for 2016 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$35,903,572 in revenues and \$30,321,527 in expenditures for 2017, and \$36,255,541 in revenues and \$35,701,812 in expenditures in 2016. The General Fund's fund balance increased by \$5,036,505, including a prior period adjustment of (\$26,012) and an increase in inventory of \$47,208, from 2016 to 2017, and increased by \$258,040, including a prior period adjustment of \$83,128 and a decrease in inventory of \$65,931, from 2015 to 2016.
- Capital assets, net of accumulated depreciation, decreased by \$1,127,656 for 2017 and decreased by \$963,375 for 2016. The decrease for 2017 was due primarily to the expense for depreciation of \$1,188,493.
- Long-term debt, including compensated absences payable, decreased by \$2,408,870 for 2017 and decreased by \$2,311,166 for 2016. This decrease for 2017 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$13,454 for 2017 and decreased by \$28,029 for 2016.

## **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.

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

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.

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.



HATTIESBURG PUBLIC SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

**Reconciliation of Government-wide and Fund Financial Statements**

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

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

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

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

A net pension liability results in a liability on the government-wide financial statements but is not reported on 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 Net 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 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

## 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 \$31,301,005 as of June 30, 2017.

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

Table 1 presents a summary of the District's net position at June 30, 2017 and June 30, 2016.

**Table 1**  
**Condensed Statement of Net Position**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
Current assets	\$ 10,251,185	\$ 5,210,549	96.74 %
Restricted assets	4,960,744	4,440,794	11.71 %
Capital assets, net	30,413,214	31,540,870	(3.58) %
<b>Total assets</b>	<b><u>45,625,143</u></b>	<b><u>41,192,213</u></b>	<b>10.76 %</b>
 <b>Deferred outflows of resources</b>	 <b><u>14,118,056</u></b>	 <b><u>16,931,739</u></b>	 <b>(16.62) %</b>
 Current liabilities	 976,747	 541,999	 80.21 %
Long-term debt outstanding	12,052,898	14,502,757	(16.89) %
Net pension liability	76,594,387	67,922,575	12.77 %
<b>Total liabilities</b>	<b><u>89,624,032</u></b>	<b><u>82,967,331</u></b>	<b>8.02 %</b>
 <b>Deferred inflows of resources</b>	 <b><u>1,420,172</u></b>	 <b><u>7,001,913</u></b>	 <b>(79.72) %</b>
 <b>Net position:</b>			
Net investment in capital assets	23,081,251	22,303,209	3.49 %
Restricted	8,180,797	8,339,767	(1.91) %
Unrestricted	(62,563,053)	(62,488,268)	(0.12) %
<b>Total net position</b>	<b><u>\$ (31,301,005)</u></b>	<b><u>\$ (31,845,292)</u></b>	<b>1.71 %</b>

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)	\$ (62,563,053)
Less unrestricted deficit in net position resulting from recognition of the net pension liability, including the deferred outflows and deferred inflows related to pensions	63,914,108
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 1,351,055</u>

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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 \$1,127,656.
- The principal retirement of \$2,395,416 of long-term debt.
- Increase in net pension liability in the amount of \$8,671,812.

### Changes in net position

The District's total revenues for the fiscal years ended June 30, 2017 and June 30, 2016 were \$49,363,658 and \$49,997,056, respectively. The total cost of all programs and services was \$48,684,910 for 2017 and \$52,294,335 for 2016.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

**Table 2**  
**Changes in Net Position**

	Year Ended June 30, 2017	Year Ended June 30, 2016	Percentage Change
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 461,540	\$ 431,879	6.87 %
Operating grants and contributions	9,980,498	10,375,793	(3.81) %
Capital Grants and Contributions	5,500	-	N/A %
General revenues:			
Property Taxes	19,090,030	18,932,993	0.83 %
Grants and contributions not restricted	19,481,080	19,697,629	(1.10) %
Investment earnings	97,992	87,432	12.08 %
Sixteenth section sources	81,001	73,203	10.65 %
Other	166,017	398,127	(58.30) %
<b>Total revenues</b>	<b>49,363,658</b>	<b>49,997,056</b>	<b>(1.27) %</b>
<b>Expenses:</b>			
Instruction	20,442,656	22,756,058	(10.17) %
Support services	14,831,225	16,414,572	(9.65) %
Non-instructional	3,314,096	3,586,084	(7.58) %
Sixteenth section	10,649	21,325	(50.06) %
Pension expense	9,601,976	8,977,261	6.96 %
Interest on long-term liabilities	484,308	539,035	(10.15) %
<b>Total expenses</b>	<b>48,684,910</b>	<b>52,294,335</b>	<b>(6.90) %</b>
<b>Increase (Decrease) in net position</b>	<b>678,748</b>	<b>(2,297,279)</b>	<b>129.55 %</b>
<b>Net Position, July 1, as previously reported</b>	<b>(31,845,292)</b>	<b>(29,751,158)</b>	<b>(7.04) %</b>
<b>Prior Period Adjustment</b>	<b>(134,461)</b>	<b>203,145</b>	<b>(166.19) %</b>
<b>Net Position, July 1, as restated</b>	<b>(31,979,753)</b>	<b>(29,548,013)</b>	<b>(8.23) %</b>
<b>Net Position, June 30</b>	<b>\$ (31,301,005)</b>	<b>\$ (31,845,292)</b>	<b>1.71 %</b>

### 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

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Management's Discussion and Analysis  
For the Year Ended June 30, 2017

intergovernmental aid) provided for specific programs. The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

**Table 3**  
**Net Cost of Governmental Activities**

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2017</b>	<b>2016</b>	
Instruction	\$ 20,442,656	\$ 22,756,058	(10.17) %
Support services	14,831,225	16,414,572	(9.65) %
Non-instructional	3,314,096	3,586,084	(7.58) %
Sixteenth section	10,649	21,325	(50.06) %
Pension Expense	9,601,976	8,977,261	6.96 %
Interest on long-term liabilities	484,308	539,035	(10.15) %
<b>Total expenses</b>	<b>\$ 48,684,910</b>	<b>\$ 52,294,335</b>	<b>(6.90) %</b>

	<b>Net (Expense) Revenue</b>		<b>Percentage Change</b>
	<b>2017</b>	<b>2016</b>	
Instruction	\$ (16,857,240)	\$ (18,721,958)	9.96 %
Support services	(11,810,577)	(13,771,290)	14.24 %
Non-instructional	386,890	229,704	68.43 %
Sixteenth section	(10,649)	(21,325)	50.06 %
Pension Expense	(9,601,976)	(8,977,261)	(6.96) %
Interest on long-term liabilities	(343,820)	(224,533)	(53.13) %
<b>Total net (expense) revenue</b>	<b>\$ (38,237,372)</b>	<b>\$ (41,486,663)</b>	<b>7.83 %</b>

- Net cost of governmental activities [(\$38,237,372) for 2017 and (\$41,486,663) for 2016] was financed by general revenue, which is primarily made up of property taxes (\$19,090,030 for 2017 and \$18,932,993 for 2016) and state and federal revenues (\$19,481,080 for 2017 and \$19,697,629 for 2016). In addition, there was \$81,001 and \$73,203 in Sixteenth Section sources for 2017 and 2016, respectively.
- Investment earnings amounted to \$97,992 for 2017 and \$87,432 for 2016.

## 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 \$14,431,721, an increase of \$5,144,815, which includes a prior period adjustment of (\$162,965) and an increase in inventory of \$84,221. \$5,837,305 or 40% 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

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Management's Discussion and Analysis  
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restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$8,594,416 or 60% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$5,036,505, which included a prior period adjustment of (\$26,012) and an increase in inventory of \$47,208. The fund balance of other governmental funds showed an increase in the amount of \$716,390, which includes a prior period adjustment of (\$80,887) and an increase in reserve for inventory of \$37,013. This increase in fund balance of other governmental funds was due primarily to the increase in revenues over expenditures of the Child Nutrition Fund (special revenue fund) and the increase in amounts held for retirement of debt in the QSCB Debt Retirement Funds (debt service funds). 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
Digital Learning Grant		(647,113)
16th Section Principal Fund		39,033

## BUDGETARY HIGHLIGHTS

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

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

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2017, the District's total capital assets were \$55,871,814, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents a decrease of \$289,576 from 2016. Total accumulated depreciation as of June 30, 2017, was \$25,458,600, and total depreciation expense for the year was \$1,188,493, resulting in total net capital assets of \$30,413,214.

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

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 522,861	522,861	0.00 %
Buildings	23,131,310	23,743,251	(2.58) %
Building improvements	1,146,507	1,212,002	(5.40) %
Improvements other than buildings	4,492,730	4,731,711	(5.05) %
Mobile equipment	817,296	981,462	(16.73) %
Furniture and equipment	302,510	349,583	(13.47) %
<b>Total</b>	<b>\$ 30,413,214</b>	<b>\$ 31,540,870</b>	<b>(3.58) %</b>

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, 2017

**Debt Administration.** At June 30, 2017, the District had \$11,985,330 in outstanding long-term debt, of which \$2,950,322 is due within one year. The liability for compensated absences decreased \$13,454 from the prior year. The district made principal payments totaling \$2,395,416 for the year.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 2,530,000	\$ 3,820,000	(33.77) %
Limited obligation bonds payable	1,177,000	1,895,000	(37.89) %
Three mill notes payable	1,995,000	2,340,000	(14.74) %
Shortfall notes payable	87,563	129,979	(32.63) %
Qualified school construction bonds payable	6,000,000	6,000,000	0.00 %
Compensated absences	195,767	209,221	(6.43) %
<b>Total</b>	<b><u>\$ 11,985,330</u></b>	<b><u>\$ 14,394,200</u></b>	<b><u>(16.74) %</u></b>

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 is financially stable. The District is proud of its community support of the public schools. The district has committed itself to financial excellence for many years. The District plans to continue its sound financial management to meet the challenges and to embrace the opportunities of 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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Statement of Net Position**  
**June 30, 2017**

**Exhibit A**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 7,761,428
Due from other governments	2,241,607
Other receivables	1,656
Inventories	202,324
Prepaid items	44,170
Restricted assets	4,960,744
Capital assets, net of accumulated depreciation	30,413,214
Total Assets	<u>45,625,143</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows - pensions	14,100,451
Deferred amount on refunding	17,605
Total deferred inflows of resources	<u>14,118,056</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	353,934
Interest payable on long-term liabilities	196,539
Unearned revenue	426,274
Long-term liabilities, due within one year:	
Capital related liabilities	2,690,750
Non-capital related liabilities	259,572
Long-term liabilities, due beyond one year:	
Capital related liabilities	4,591,250
Non-capital related liabilities	4,443,758
Net pension liability	76,594,387
Unamortized bond premium	67,568
Total Liabilities	<u>89,624,032</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	1,420,172
Total deferred inflows of resources	<u>1,420,172</u>
<b>Net Position</b>	
Net investment in capital assets	
Restricted for:	23,081,251
Expendable:	
School-based activities	876,069
Debt service	4,293,537
Capital improvements	6,081
Unemployment benefits	58,200
Non-expendable:	
Sixteenth section	2,946,910
Unrestricted	(62,563,053)
Total Net Position	<u>\$ (31,301,005)</u>

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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Statement of Activities**

**For the Year Ended June 30, 2017**

**Exhibit B**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 20,442,656	304,866	3,280,550		(16,857,240)
Support services	14,831,225	47,231	2,973,417		(11,810,577)
Non-instructional	3,314,096	109,443	3,586,043	5,500	386,890
Sixteenth section	10,649				(10,649)
Pension expense	9,601,976				(9,601,976)
Interest on long-term liabilities	484,308		140,488		(343,820)
Total Governmental Activities	<u>\$ 48,684,910</u>	<u>461,540</u>	<u>9,980,498</u>	<u>5,500</u>	<u>\$ (38,237,372)</u>
General Revenues:					
Taxes:					
General purpose levies					
					16,935,111
Debt purpose levies					
					2,154,919
Unrestricted grants and contributions:					
State					
					19,382,195
Federal					
					98,885
Unrestricted investment earnings					
					97,992
Sixteenth section sources					
					81,001
Other					
					166,017
Total General Revenues					<u>38,916,120</u>
Change in Net Position					<u>678,748</u>
Net Position - Beginning, as previously reported					(31,845,292)
Prior Period Adjustments					<u>(134,461)</u>
Net Position - Beginning, as restated					<u>(31,979,753)</u>
Net Position - Ending					<u><u>\$ (31,301,005)</u></u>

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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Governmental Funds**

**Balance Sheet**

**Exhibit C**

**June 30, 2017**

	Major Funds					
	General Fund	Title I Fund	Digital Learning Grant	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash and cash equivalents	\$ 5,547,520		383,743	128,332	1,830,166	7,889,761
Cash with fiscal agents				50,029	1,789,097	1,839,126
Investments				1,782,339	1,199,900	2,982,239
Accrued interest				7,751	3,295	11,046
Due from other governments	551,897	855,898			833,812	2,241,607
Due from other funds	987,164					987,164
Advances to other funds				978,459		978,459
Inventories	81,495				120,829	202,324
Prepaid items	44,170					44,170
Total assets	7,212,246	855,898	383,743	2,946,910	5,777,099	17,175,896
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	169,341	87,344			97,249	353,934
Due to other funds	1,105	768,554			215,849	985,508
Advances from other funds	978,459					978,459
Unearned revenue			383,743		42,531	426,274
Total Liabilities	1,148,905	855,898	383,743	0	355,629	2,744,175
<b>Fund Balances:</b>						
<b>Nonspendable:</b>						
Inventory	81,495				120,829	202,324
Permanent fund principal				2,946,910		2,946,910
Prepaid items	44,170					44,170
<b>Restricted:</b>						
Debt service					4,490,076	4,490,076
Capital improvements					6,081	6,081
Grant activities					673,746	673,746
Unemployment benefits					58,200	58,200
<b>Assigned:</b>						
Unemployment benefits					72,538	72,538
Student activities	100,371					100,371
<b>Unassigned</b>	5,837,305					5,837,305
Total Fund Balances	6,063,341	0	0	2,946,910	5,421,470	14,431,721
Total Liabilities and Fund Balances	\$ 7,212,246	855,898	383,743	2,946,910	5,777,099	17,175,896

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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position  
June 30, 2017**

**Exhibit C-1**

**Total fund balances for governmental funds** \$ 14,431,721

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	3,389,650	
Furniture and equipment	4,662,682	
Accumulated depreciation	<u>(25,458,600)</u>	30,413,214

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	(76,594,387)	
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:

Deferred outflows of resources related to pensions	14,100,451	
Deferred inflows of resources related to pensions	<u>(1,420,172)</u>	(63,914,108)

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 bonds	(2,530,000)	
Limited obligation refunding bonds payable	(1,177,000)	
Three mill notes payable	(1,995,000)	
Shortfall notes payable	(87,563)	
Qualified school construction bonds payable	(6,000,000)	
Unamortized bond premium	(67,568)	
Unamortized deferred amounts on refunding	17,605	
Compensated absences payable	(195,767)	
Accrued interest payable	<u>(196,539)</u>	(12,231,832)

<b>Net Position of governmental activities</b>	<b>\$ <u>(31,301,005)</u></b>
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The notes to the financial statements are an integral part of this statement.

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Governmental Funds**

**Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended June 30, 2017**

**Exhibit D**

	Major Funds				Other	Total
	General	Title I	Digital Learning	16th Section	Governmental	Governmental
	Fund	Fund	Grant	Principal	Funds	Funds
<b>Revenues:</b>						
Local sources	\$ 17,420,685				2,353,732	19,774,417
State sources	18,302,873				2,323,586	20,626,459
Federal sources	98,885	3,146,231			5,595,504	8,840,620
Sixteenth section sources	81,129			39,033		120,162
<b>Total Revenues</b>	<b>35,903,572</b>	<b>3,146,231</b>	<b>0</b>	<b>39,033</b>	<b>10,272,822</b>	<b>49,361,658</b>
<b>Expenditures:</b>						
Instruction	18,250,841	1,436,538	469,056		2,671,079	22,827,514
Support services	11,845,777	1,482,728	172,156		1,461,246	14,961,907
Noninstructional services	140,010	56,800			3,252,371	3,449,181
Sixteenth section	10,649					10,649
Debt service:						
Principal					2,395,416	2,395,416
Interest	74,250				419,579	493,829
Other					7,550	7,550
<b>Total Expenditures</b>	<b>30,321,527</b>	<b>2,976,066</b>	<b>641,212</b>	<b>0</b>	<b>10,207,241</b>	<b>44,146,046</b>
Excess (Deficiency) of Revenues over (under) Expenditures	5,582,045	170,165	(641,212)	39,033	65,581	5,215,612
<b>Other Financing Sources (Uses):</b>						
Insurance loss recoveries	5,947					5,947
Sale of other property	2,000					2,000
Transfer in to escrow agent					584,094	584,094
Operating transfers in	120,000				694,683	814,683
Transfer to QSCB escrow agent					(584,094)	(584,094)
Operating transfers out	(694,683)	(120,000)				(814,683)
<b>Total Other Financing Sources (Uses)</b>	<b>(566,736)</b>	<b>(120,000)</b>	<b>0</b>	<b>0</b>	<b>694,683</b>	<b>7,947</b>
<b>Net Change in Fund Balances</b>	<b>5,015,309</b>	<b>50,165</b>	<b>(641,212)</b>	<b>39,033</b>	<b>760,264</b>	<b>5,223,559</b>
<b>Fund Balances:</b>						
July 1, 2016, as originally presented	1,026,836	0	647,113	2,907,877	4,705,080	9,286,906
Prior period adjustments	(26,012)	(50,165)	(5,901)		(80,887)	(162,965)
July 1, 2016, as restated	1,000,824	(50,165)	641,212	2,907,877	4,624,193	9,123,941
Increase in reserve for inventory	47,208				37,013	84,221
<b>June 30, 2017</b>	<b>\$ 6,063,341</b>	<b>0</b>	<b>0</b>	<b>2,946,910</b>	<b>5,421,470</b>	<b>14,431,721</b>

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

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**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, 2017**

**Exhibit D-1**

**Net change in fund balances - total governmental funds** \$ 5,223,559

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	\$ 43,129	
Depreciation expense	<u>(1,188,493)</u>	(1,145,364)
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.		
	<u>(10,796)</u>	(10,796)
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	2,395,416	
Amortization of bond premium	40,989	
Accrued interest payable	<u>(18,977)</u>	2,417,428
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. The activities include:		
Pension expense	(9,601,976)	
Contributions subsequent to the measurement date	<u>3,710,713</u>	(5,891,263)
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	13,454	
Amortization of deferred amounts on refunding	(12,491)	
Change in inventory reserve	<u>84,221</u>	85,184
<b>Change in Net Position of governmental activities</b>		<b><u>\$ 678,748</u></b>

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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT****Fiduciary Funds****Statement of Fiduciary Assets and Liabilities  
June 30, 2017****Exhibit E**

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 1,435,225
Due from other funds	1,105
Total Assets	<u>1,436,330</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,404,044
Due to other funds	2,761
Due to student clubs	25,642
Other payables	3,883
Total Liabilities	<u>\$ 1,436,330</u>

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

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HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

**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 a 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 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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.

**Digital Learning Grant** – This is a special revenue fund that accounts for the revenues and related expenditures of the state funded interactive digital learning grant.

**16<sup>th</sup> Section Principal Fund** – This is a permanent fund that accounts for the nonexpendable revenues earned on sixteenth section trust 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 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.

#### 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.



HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

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

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

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

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

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2014*, 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

## 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.

### 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. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

### 5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified School Construction Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> 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

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the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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

The following schedule details the capitalization thresholds:

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

7. Deferred outflows/inflows of resources

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

Deferred outflows – Pensions

Deferred outflows - Deferred amount 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 period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred inflows – Pensions

See Note 9 for further details on deferred amounts relating to pensions.

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

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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.

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 the district has no committed fund balances.

*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

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and returns. Restrictions on deposits and investments are imposed by statutes as follows:

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

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

#### Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$7,889,761 and \$1,435,225, 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 school district's cash with fiscal agents held by financial institutions was \$1,839,126.

#### Investments

As of June 30, 2017, the district had the following investments:

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Investment Type	Rating	Maturities (in years)	Fair Value
U. S. Treasury Notes and Bonds	AA+	Less than 10	\$ 1,199,900
U. S. Government Asset Backed Securities	Unrated	Less than 3	141,542
		Less than 10	288,695
		Less than 15	353,569
Corporate Bonds	A-/AA-	Less than 1	102,828
	AA-/A	Less than 2	100,579
	A	Less than 3	50,470
Municipal Bonds	A+	Less than 5	50,501
	AA/AA-	Less than 10	174,185
U. S. Agency Securities	AA+	Less than 3	100,539
	AA+	Less than 5	97,521
	Unrated	Less than 10	321,910
Total			<u>\$ 2,982,239</u>

The district categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The district has the following recurring fair value measurements as of June 30, 2017:

- All investments are valued using quoted market prices (Level 1 inputs).

*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.

*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.

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**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	\$ 768,554
	Other governmental funds	215,849
	Fiduciary funds	2,761
Fiduciary Funds	General Fund	1,105
Total		<u>\$ 988,269</u>

The amounts primarily 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 included are amounts due to/from clearing accounts from/to the General Fund.

**B. Advances To/From Other Funds**

Receivable Fund	Payable Fund	Amount
16th Section Principal Fund	General Fund	\$ 978,459
		<u>\$ 978,459</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 loan payments are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the 16<sup>th</sup> 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. The advances yield an annual interest rate of 4%.

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 53,662	37,544	91,206
2019	54,829	36,378	91,207
2020	56,042	35,165	91,207
2021	57,304	33,903	91,207
2022	58,616	32,591	91,207
2023 - 2027	241,175	125,562	366,737
2028 - 2032	233,808	73,395	307,203
Thereafter	223,023	22,740	245,763
Total	<u>\$ 978,459</u>	<u>397,278</u>	<u>1,375,737</u>

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**C. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 694,683
Title I Fund	General Fund	120,000
Total		<u>\$ 814,683</u>

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

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance, totaling \$128,332, the cash with fiscal agents balance, totaling \$50,029, the investment balance, totaling \$1,782,339, and the accrued interest balance, totaling \$7,751, of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent the cash with fiscal agents balance of \$373,435 and the accrued interest balance of \$159 of the MAEP Retirement Fund. The restricted assets also represent the cash with fiscal agents balance of \$1,402,239 in the 2009 Qualified School Construction Bond (QSCB) Fund. Also included in restricted assets are cash of \$1, cash with fiscal agents totaling \$13,423, investments of \$1,199,900, and accrued interest of \$3,136 in the 2010 Qualified School Construction Bond (QSCB) Fund. Restricted Assets total \$4,960,744.

**Note 5 – Capital Assets**

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

	Balance 7/1/2016	Increases	Decreases	Adjustments	Balance 6/30/2017
<b>Governmental Activities:</b>					
<u>Non-depreciable capital assets:</u>					
Land	\$ 522,861				522,861
Total non-depreciable capital assets	522,861	-	-		522,861
<u>Depreciable capital assets:</u>					
Buildings	38,928,173				38,928,173
Building improvements	1,637,367				1,637,367
Improvements other than buildings	6,731,081				6,731,081
Mobile equipment	3,440,215		66,989	16,424	3,389,650
Furniture and equipment	4,901,693	43,129	312,156	30,016	4,662,682
Total depreciable capital assets	55,638,529	43,129	379,145	46,440	55,348,953
<u>Less accumulated depreciation for:</u>					
Buildings	15,184,922	611,941			15,796,863
Building improvements	425,365	65,495			490,860
Improvements other than buildings	1,999,370	238,981			2,238,351
Mobile equipment	2,458,753	168,613	60,291	5,279	2,572,354
Furniture and equipment	4,552,110	103,463	308,058	12,657	4,360,172
Total accumulated depreciation	24,620,520	1,188,493	368,349	17,936	25,458,600
Total depreciable capital assets, net	31,018,009	(1,145,364)	10,796	28,504	29,890,353
Governmental activities capital assets, net	\$ 31,540,870	(1,145,364)	10,796	28,504	30,413,214



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Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 19,792
Support services	1,118,027
Non-instructional	50,674
Total depreciation expense - Governmental activities	<u>\$ 1,188,493</u>

## Note 6 – Long-term Liabilities

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

	Balance			Balance	Amounts due
	July 1, 2016	Additions	Reductions	June 30, 2017	within one year
A. General obligation bonds payable	\$ 3,820,000		1,290,000	2,530,000	1,375,000
B. Limited obligation bonds payable	1,895,000		718,000	1,177,000	1,177,000
C. Three mill notes payable	2,340,000		345,000	1,995,000	355,000
D. Shortfall notes payable	129,979		42,416	87,563	43,322
E. Qualified school construction bonds payable	6,000,000			6,000,000	
F. Compensated absences payable	209,221		13,454	195,767	
Subtotal	<u>14,394,200</u>	-	<u>2,408,870</u>	<u>11,985,330</u>	<u>2,950,322</u>
Add: Premiums on bonds	\$ 108,557		40,989	67,568	
	<u>14,502,757</u>	-	<u>2,449,859</u>	<u>12,052,898</u>	<u>2,950,322</u>

### A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. General obligation refunding series 2013	3.00%	10-Sep-13	15-Apr-19	\$ 3,375,000	\$ 1,665,000
2. General obligation refunding series 2010	1.0 - 3.0%	1-Apr-11	1-Apr-18	6,355,000	865,000
Total				<u>\$ 9,730,000</u>	<u>\$ 2,530,000</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 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, 2017, the amount of outstanding bonded indebtedness was equal to less than 1% of property assessments as of October 1, 2016.

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

- General obligation refunding bond issue of September 10, 2013:

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Year Ending June 30	Principal	Interest	Total
2018	\$ 510,000	49,950	559,950
2019	1,155,000	34,650	1,189,650
Total	<u>\$ 1,665,000</u>	<u>84,600</u>	<u>1,749,600</u>

This debt will be retired from the Bond Retirement Fund (debt service fund).

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

Year Ending June 30	Principal	Interest	Total
2018	\$ 865,000	25,950	890,950
Total	<u>\$ 865,000</u>	<u>25,950</u>	<u>890,950</u>

This debt will be retired from the Bond Retirement Fund (debt service fund).

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ 1,375,000	75,900	1,450,900
2019	1,155,000	34,650	1,189,650
Total	<u>\$ 2,530,000</u>	<u>110,550</u>	<u>2,640,550</u>

**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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital refunding bonds series 2008	3.34%	31-Jul-08	1-Feb-18	\$ 5,973,000	\$ 1,177,000
Total				<u>\$ 5,973,000</u>	<u>\$ 1,177,000</u>

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

Limited obligation bond issue of July 31, 2008:

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Year Ending June 30	Principal	Interest	Total
2018	\$ 1,177,000	26,921	1,203,921
Total	\$ 1,177,000	26,921	1,203,921

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 limited percentage. This debt will be retired from the Bond Retirement Fund (debt service fund).

**C. Three mill notes payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Limited tax notes, series 2011	2.84%	7-Mar-11	9-Mar-19	\$ 1,000,000	\$ 300,000
2. Limited tax notes, series 2012	2.42%	15-Jun-12	15-Jun-25	2,700,000	1,695,000
Total				<u>\$ 3,700,000</u>	<u>\$ 1,995,000</u>

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

1. Limited tax notes of March 7, 2011:

Year Ending June 30	Principal	Interest	Total
2018	\$ 150,000	8,520	158,520
2019	150,000	4,260	154,260
Total	<u>\$ 300,000</u>	<u>12,780</u>	<u>312,780</u>

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

2. Limited tax notes of June 15, 2012:

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Year Ending June 30		Principal	Interest	Total
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		220,000	25,056	245,056
2023-2025		635,000	38,757	673,757
Total	\$	1,695,000	208,527	1,903,527

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

Total three mill notes payable for all issues:

Year Ending June 30		Principal	Interest	Total
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		220,000	25,056	245,056
2023-2025		635,000	38,757	673,757
Total	\$	1,995,000	221,307	2,216,307

**D. Shortfall notes payable**

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Revenue shortfall note, series 2015	2.09%	9-Oct-15	9-Oct-18	\$ 129,979	\$ 87,563
Total				<u>\$ 129,979</u>	<u>\$ 87,563</u>

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

Revenue shortfall note issue of October 9, 2015:

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Year Ending June 30	Principal	Interest
2018	\$ 43,322	1,856
2019	44,241	937
Total	<u>\$ 87,563</u>	<u>2,793</u>

The debt will be retired from the Shortfall Note Retirement Fund (debt service fund).

**E. Qualified school construction bonds payable**

As more fully explained in Note 15, debt has been issued by the school district that qualifies as Qualified School Construction Bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified School Construction Bonds,					
1. Series 2009	0.94%	15-Sep-09	15-Sep-24	\$ 3,000,000	3,000,000
Qualified School Construction 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 following is a schedule by years of the total payments due on this debt:

1. Qualified School Construction Bonds of September 15, 2009:

Year Ending June 30	Principal	Interest	Total
2018	\$ -	28,200	28,200
2019	-	28,200	28,200
2020	-	28,200	28,200
2021	-	28,200	28,200
2022	-	28,200	28,200
2023-2025	3,000,000	84,600	3,084,600
Total	<u>\$ 3,000,000</u>	<u>225,600</u>	<u>3,225,600</u>

This debt will be retired from the 2009 QSCB Retirement Fund (debt service fund).

2. Qualified School Construction Bonds of December 1, 2010

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Year Ending June 30	Principal	Interest	Total
2018	\$ -	165,000	165,000
2019	-	165,000	165,000
2020	-	165,000	165,000
2021	-	165,000	165,000
2022	-	165,000	165,000
2023-2026	3,000,000	660,000	3,660,000
Total	<u>\$ 3,000,000</u>	<u>1,485,000</u>	<u>4,485,000</u>

This debt will be retired from the 2010 QSCB Retirement Fund (debt service fund).

Total qualified school construction bonds for all issues:

Year Ending June 30	Principal	Interest	Total
2018	\$ -	193,200	193,200
2019	-	193,200	193,200
2020	-	193,200	193,200
2021	-	193,200	193,200
2022	-	193,200	193,200
2023-2026	6,000,000	744,600	6,744,600
Total	<u>\$ 6,000,000</u>	<u>1,710,600</u>	<u>7,710,600</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 15, minimum total annual sinking fund payments remaining to be paid on the Series 2009 bonds is \$1,600,000, while the minimum total annual sinking fund payments remaining to be paid on the Series 2010 bonds is \$1,800,000.

Sinking fund payments for the current year and the total Education Enhancement Fund pledged revenues were \$584,094 and \$173,863, 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.

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## Note 7 – Short Term Financing

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

Description	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Revenue anticipation note	\$ -	5,000,000	5,000,000	-
	<u>\$ -</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>-</u>

The school district issued a revenue anticipation note payable to a local bank in the maximum amount of \$6,000,000 at an annual interest rate of 1.36%, giving the district the ability to draw down monies as needed to correct negative cash flow amounts. The district drew down a total of \$5,000,000 from the period August 9, 2016 through September 8, 2016. The note was repaid in full on April 7, 2017.

## Note 8 – Other Commitments

The district has operating leases for the following:

1. Forty-one (41) copiers

Lease expenditures for copiers for the year ended June 30, 2017, amounted to \$139,862. The district paid in full an operating lease for seven hundred twenty-five (725) student computers at a total amount of \$74,259 during the 2016-2017 year.

Future lease payments for these copier leases are as follows:

Year Ending June 30	Amount
2018	\$ 111,511
2019	94,059
2020	24,279
2021	<u>5,945</u>
Total	<u>\$ 235,794</u>

## Note 9 – 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,

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

**Contributions.** PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2017 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, 2017, 2016 and 2015 were \$3,710,713, \$4,320,459 and \$4,323,770, 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, 2017, the school district reported a liability of \$76,594,387 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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, 2017 net pension liability was 0.4288 percent, which was based on a measurement date of June 30, 2016. This is a 0.0106% decrease from the proportionate share used to calculate the June 30, 2016 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$9,601,976. At June 30, 2017 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 2,216,320	\$
Net difference between projected and actual earnings on pension plan investments	1,262,995	
Changes of assumptions	2,705,438	203,536
Changes in proportion and differences between District contributions and proportionate share of contributions	4,204,985	1,216,636
District contributions subsequent to the measurement date	3,710,713	
Total	\$ <u>14,100,451</u>	\$ <u>1,420,172</u>

\$3,710,713 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June



HATTIESBURG PUBLIC SCHOOL DISTRICT  
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30, 2018. 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 Ending June 30:	
2018	\$ 3,902,661
2019	3,699,360
2020	(145,594)
2021	1,513,139

*Actuarial assumptions.* The total pension liability in the June 30, 2016 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, 2016 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	100	%		

*Discount rate.* The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that Employer contributions will be made at the current employer contribution 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 members. 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Financial Statements  
For Year Ended June 30, 2017

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 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	\$ 98,211,177	\$ 76,594,387	\$ 58,659,458

*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 10 – Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and 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
2018	\$ 47,868
2019	47,868
2020	47,868
2021	47,868
2022	47,868
2023 – 2027	235,758
2028 – 2032	217,579
2033 - 2037	189,599
Thereafter	176,003
Total	<u>\$ 1,058,279</u>

### Note 11 – 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 period asset or liability	\$ (162,965)
2. Prior period adjustment to include certain depreciable assets	28,504
	<u>\$ (134,461)</u>

HATTIESBURG PUBLIC SCHOOL DISTRICT  
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Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
General Fund	Reclassification of a prior year asset or liability	\$ (26,012)
Title I Fund	Reclassification of a prior year liability	(50,165)
Digital Learning Grant	Reclassification of a prior year liability	(5,901)
Other governmental funds	Reclassification of a prior year liability	(80,887)
		<u>\$ (162,965)</u>

**Note 12 – Contingencies**

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are 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 13 – Risk Management**

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

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

**Note 14 – Effect of Deferred Amounts on Net Position**

The unrestricted net position amount of (\$62,563,053) includes the effect of deferring the recognition of expenses resulting from a deferred outflow from pensions. \$10,389,738 of deferred outflow of resources balance at June 30, 2017, will be recognized as expense and will decrease the unrestricted net position over the next four (4) years. The net investment in capital assets net position amount of \$23,081,251 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from advance refunding of school district debt. The \$17,605 balance of deferred outflows relating to deferred amounts on refunding at June 30, 2017, will be recognized as an expense and decrease the net investment in capital assets net position over the next 2 years.

The unrestricted net position amount of (\$62,563,053) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from pensions. The \$1,420,172 balance of deferred inflow of resources at June 30, 2017, will be recognized as revenue and will increase the unrestricted net position over the next three (3) years.

**Note 15 – 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

HATTIESBURG PUBLIC SCHOOL DISTRICT  
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For Year Ended June 30, 2017

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, 2017, the subsidy payments amounted to \$140,488.

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 \$2,618,699, which includes cash with fiscal agents, investments, and accrued interest. 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.

<u>Year Ending</u>		<u>2009 Series</u>	<u>2010 Series</u>	<u>Total</u>
<u>June 30</u>				
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>1,600,000</u>	<u>1,800,000</u>	<u>3,400,000</u>

#### **Note 16 – Insurance Loss Recoveries**

The Hattiesburg Public School District received \$5,947 in insurance loss recoveries related to bus damages sustained in a bus accident during the 2016-2017 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

<u>Insurance Loss</u>			
<u>Recoveries</u>	<u>Percentage</u>	<u>Expense Function</u>	
\$ 5,947	100%	Support services	
<u>\$ 5,947</u>	<u>100%</u>		

#### **Note 17 - 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 December 5, 2017, (the date the financial statements were available to be issued), and determined that no events have occurred requiring disclosure in the notes to the financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule**

**General Fund**

**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 16,950,380	17,420,685	17,420,685	470,305	0
Intermediate sources	25,000	0	0	(25,000)	0
State sources	19,080,999	18,770,920	18,302,873	(310,079)	(468,047)
Federal sources	119,000	98,885	98,885	(20,115)	0
Sixteenth section sources	80,000	81,129	81,129	1,129	0
Total Revenues	36,255,379	36,371,619	35,903,572	116,240	(468,047)
<b>Expenditures:</b>					
Instruction	19,655,470	18,180,341	18,250,841	1,475,129	(70,500)
Support services	13,717,939	11,790,245	11,845,777	1,927,694	(55,532)
Noninstructional services	118,494	119,946	140,010	(1,452)	(20,064)
Sixteenth section	12,000	10,649	10,649	1,351	0
Debt service:					
Principal	66,250	52,541	0	13,709	52,541
Interest	15,000	74,250	74,250	(59,250)	0
Total Expenditures	33,585,153	30,227,972	30,321,527	3,357,181	(93,555)
Excess (Deficiency) of Revenues over (under) Expenditures	2,670,226	6,143,647	5,582,045	3,473,421	(561,602)
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	0	5,947	5,947	5,947	0
Sale of other property	0	2,000	2,000	2,000	0
Operating transfers in	5,415,656	5,163,084	120,000	(252,572)	(5,043,084)
Operating transfers out	(6,328,767)	(6,205,814)	(694,683)	122,953	5,511,131
Total Other Financing Sources (Uses)	(913,111)	(1,034,783)	(566,736)	(121,672)	468,047
Net Change in Fund Balances	1,757,115	5,108,864	5,015,309	3,351,749	(93,555)
<b>Fund Balances:</b>					
July 1, 2016, as originally reported	0	1,026,836	1,026,836	1,026,836	0
Prior period adjustments		(24,820)	(26,012)	(24,820)	(1,192)
July 1, 2016, as restated	0	1,002,016	1,000,824	1,002,016	(1,192)
Increase in reserve for inventory	0	0	47,208	0	47,208
June 30, 2017	\$ 1,757,115	6,110,880	6,063,341	4,353,765	(47,539)

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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule**

**Title I Fund**

**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 2,979,629	4,138,075	3,146,231	1,158,446	(991,844)
Total Revenues	2,979,629	4,138,075	3,146,231	1,158,446	(991,844)
<b>Expenditures:</b>					
Instruction	1,397,537	1,845,755	1,436,538	(448,218)	409,217
Support services	1,416,530	2,010,404	1,482,728	(593,874)	527,676
Noninstructional services	105,388	107,993	56,800	(2,605)	51,193
Total Expenditures	2,919,455	3,964,152	2,976,066	(1,044,697)	988,086
Excess (Deficiency) of Revenues over (under) Expenditures	60,174	173,923	170,165	113,749	(3,758)
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	100,000	100,000	0	0	(100,000)
Operating transfers out	(150,811)	(175,912)	(120,000)	(25,101)	55,912
Total Other Financing Sources (Uses)	(50,811)	(75,912)	(120,000)	(25,101)	(44,088)
Net Change in Fund Balances	9,363	98,011	50,165	88,648	(47,846)
<b>Fund Balances:</b>					
July 1, 2016, as originally reported	0	0	0	0	0
Prior period adjustments	0	0	(50,165)	0	(50,165)
July 1, 2016, as restated	0	0	(50,165)	0	(50,165)
June 30, 2017	\$ 9,363	98,011	0	88,648	(98,011)

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

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Required Supplementary Information**

**Budgetary Comparison Schedule**

**Digital Learning Grant**

**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
State sources	\$ 0	0	0	0	0
Total Revenues	0	0	0	0	0
<b>Expenditures:</b>					
Instruction	337,265	469,056	469,056	(131,791)	0
Support services	162,735	172,156	172,156	(9,421)	0
Total Expenditures	500,000	641,212	641,212	(141,212)	0
Excess (Deficiency) of Revenues over (under) Expenditures	(500,000)	(641,212)	(641,212)	(141,212)	0
Net Change in Fund Balances	(500,000)	(641,212)	(641,212)	(141,212)	0
<b>Fund Balances:</b>					
July 1, 2016, as originally reported	647,113	647,113	647,113	0	0
Prior period adjustments	0	(5,901)	(5,901)	(5,901)	0
July 1, 2016, as restated	647,113	641,212	641,212	(5,901)	0
June 30, 2017	\$ 147,113	0	0	(147,113)	0

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

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

	<b>2017</b>	<b>2016</b>	<b>2015</b>
District's proportion of the net pension liability (asset)	0.4288%	0.4394%	0.4151%
District's proportionate share of the net pension liability (asset)	\$ 76,594,387	67,922,575	51,058,006
District's covered payroll	27,431,486	27,452,508	25,364,660
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	279.22%	247.42%	201.30%
Plan fiduciary net position as a percentage of the total pension liability	57%	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 Statement No. 68 was implemented in FYE 6/30/15, and, until a full 10-year trend is compiled, the District has only presented information in the years for which information is available.

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**HATTIESBURG PUBLIC SCHOOL DISTRICT****Required Supplementary Information****SCHEDULE OF DISTRICT CONTRIBUTIONS****PERS****Last 10 Fiscal Years**

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 3,710,713	4,320,459	4,323,770
Contributions in relation to the contractually required contribution	3,710,713	4,320,459	4,323,770
Contribution deficiency (excess)	\$ 0	0	0
District's covered payroll	23,560,083	27,431,486	27,452,508
Contributions as a percentage of covered payroll	15.75%	15.75%	15.75%

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

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented in FYE 6/30/2015, and, until a full 10-year trend is compiled, the District has only presented information for the years in which information is available.

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HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Required Supplementary Information  
For Year Ended June 30, 2017

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

2015:

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.

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.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016:

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

(2) Changes in benefit provisions

2016:

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

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## SUPPLEMENTARY INFORMATION

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Supplementary Information**

**Schedule of Expenditures of Federal Awards**

**For the Year Ended June 30, 2017**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<b><u>U.S. Department of Agriculture</u></b>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 1,048,169
National school lunch program	10.555	2,131,059
National school lunch program - commodities	10.555	219,921
Summer food service program for children	10.559	190,468
Total child nutrition cluster		<u>3,589,617</u>
Fresh fruits and vegetables grant	10.582	123,067
<b>Total U.S. Department of Agriculture</b>		<u><b>3,712,684</b></u>
<b><u>U.S. Department of Defense</u></b>		
Direct Funding:		
Reserve Officers' Training Corps	12.xxx	67,163
<b>Total U.S. Department of Defense</b>		<u><b>67,163</b></u>
<b><u>U.S. Department of Education</u></b>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	3,224,532
Title I state agency program for neglected & delinquent children and youth	84.013	41,475
Career and technical education - basic grants to states	84.048	89,252
Education for homeless children and youth	84.196	40,769
English language acquisition grants	84.365	13,668
Improving teacher quality-State Grants	84.367	296,246
Subtotal		<u>3,705,942</u>
Special education cluster:		
Special education - grants to states	84.027	1,092,380
Special education - preschool grants	84.173	23,077
Total special education cluster		<u>1,115,457</u>
Total passed-through Mississippi Department of Education		<u>4,821,399</u>
<b>Total U.S. Department of Education</b>		<u><b>4,821,399</b></u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	19,597
<b>Total U.S. Department of Health and Human Services</b>		<u><b>19,597</b></u>
Total for All Federal Awards		<u><u><b>\$ 8,620,843</b></u></u>

The notes to the Supplementary Information are an integral part of this schedule.

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Supplementary Information**

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds**

**For the Year Ended June 30, 2017**

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 32,636,396	24,541,755	1,282,657	2,220,283	4,591,701
Other	11,509,650	3,065,077	491,630	182,828	7,770,115
Total	<u>\$ 44,146,046</u>	<u>27,606,832</u>	<u>1,774,287</u>	<u>2,403,111</u>	<u>12,361,816</u>
Total number of students *	<u>4,289</u>				
Cost per student	<u>\$ 10,293</u>	<u>6,437</u>	<u>414</u>	<u>560</u>	<u>2,882</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

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.

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HATTIESBURG PUBLIC SCHOOL DISTRICT  
Notes to the Supplementary Information  
For Year Ended June 30, 2017

Schedule of Expenditures of Federal Awards

(1) Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Hattiesburg Public School District under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Hattiesburg Public School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Hattiesburg Public School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the same basis of accounting and the same significant accounting policies, as applicable, as those used for the governmental funds financial statements (modified accrual basis of accounting); however, expenditures reported on the Schedule include operating transfers out. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

(3) Indirect Cost Rate

The Hattiesburg Public School District has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(4) The pass-through entities did not assign identifying numbers to the school district.

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## OTHER INFORMATION

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Other Information**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**General Fund**

**Last Four Years**

**UNAUDITED**

	2017	2016*	2015*	2014*
<b>Revenues:</b>				
Local sources	\$ 17,420,685	17,486,294	16,729,617	16,722,866
Intermediate sources		25,000		
State sources	18,302,873	18,584,904	18,367,117	17,598,969
Federal sources	98,885	85,993	440,008	332,821
Sixteenth section sources	81,129	73,350	73,533	
Total Revenues	35,903,572	36,255,541	35,610,275	34,654,656
<b>Expenditures:</b>				
Instruction	18,250,841	21,196,608	21,812,451	20,164,378
Support services	11,845,777	14,216,082	16,158,408	15,069,210
Noninstructional services	140,010	143,433	132,218	132,102
Sixteenth section	10,649	21,325	13,499	
Facilities acquisition and construction				51,642
Debt service:				
Principal		99,116	176,429	387,448
Interest	74,250	19,982	13,288	20,498
Other		5,266		
Total Expenditures	30,321,527	35,701,812	38,306,293	35,825,278
Excess (Deficiency) of Revenues over (under) Expenditures	5,582,045	553,729	(2,696,018)	(1,170,622)
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued		129,979		
Insurance loss recoveries	5,947			21,110
Sale of other property	2,000			
Operating transfers in	120,000	293,211	552,759	310,998
Operating transfers out	(694,683)	(736,076)	(1,215,925)	(883,569)
Total Other Financing Sources (Uses)	(566,736)	(312,886)	(663,166)	(551,461)
Net Change in Fund Balances	5,015,309	240,843	(3,359,184)	(1,722,083)
<b>Fund Balances:</b>				
Beginning of period, as previously reported	1,026,836	768,796	4,145,782	5,842,080
Prior period adjustments	(26,012)	83,128		
Beginning of period, as restated	1,000,824	851,924	4,145,782	5,842,080
Increase (decrease) in reserve for inventory	47,208	(65,931)	(17,802)	25,785
End of Period	\$ 6,063,341	1,026,836	768,796	4,145,782

\*SOURCE - PRIOR YEAR AUDIT REPORTS

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Other Information**

**Statement of Revenues, Expenditures and Changes in Fund Balances**

**All Governmental Funds**

**Last Four Years**

**UNAUDITED**

	2017	2016*	2015*	2014*
<b>Revenues:</b>				
Local sources	\$ 19,774,417	19,754,799	19,408,270	19,398,212
Intermediate sources		25,000		
State sources	20,626,459	21,496,239	20,970,117	20,094,099
Federal sources	8,840,620	8,577,182	9,500,138	8,874,241
Sixteenth section sources	120,162	141,850	102,666	88,334
Total Revenues	49,361,658	49,995,070	49,981,191	48,454,886
<b>Expenditures:</b>				
Instruction	22,827,514	25,477,740	26,556,016	26,017,708
Support services	14,961,907	16,698,524	19,371,418	19,406,689
Noninstructional services	3,449,181	3,632,060	4,182,225	3,650,895
Sixteenth section	10,649	21,325	13,499	12,230
Facilities acquisition and construction		119,042	3,601,935	1,666,838
Debt service:				
Principal	2,395,416	2,413,116	2,358,429	2,812,449
Interest	493,829	501,472	532,381	421,894
Other	7,550	12,336	12,317	
Total Expenditures	44,146,046	48,875,615	56,628,220	53,988,703
Excess (Deficiency) of Revenues over (under) Expenditures	5,215,612	1,119,455	(6,647,029)	(5,533,817)
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued		129,979		3,375,000
Premium on bonds				175,416
Insurance loss recoveries	5,947	1,986	1,584,962	2,197,037
Subsidy payments on QSCB			139,884	
Sale of other property	2,000			
Transfer in to escrow agent	584,094	373,005	400,000	
Operating transfers in	814,683	1,029,287	1,768,684	1,340,893
Transfer out to escrow agent	(584,094)	(373,005)	(400,000)	(3,692,082)
Operating transfers out	(814,683)	(1,029,287)	(1,768,684)	(1,340,893)
Total Other Financing Sources (Uses)	7,947	131,965	1,724,846	2,055,371
Net Change in Fund Balances	5,223,559	1,251,420	(4,922,183)	(3,478,446)
<b>Fund Balances:</b>				
Beginning of period, as previously reported	9,286,906	8,011,292	12,944,431	16,388,471
Prior period adjustments	(162,965)	83,128		
Beginning of period, as restated	9,123,941	8,094,420	12,944,431	16,388,471
Increase (Decrease) in reserve for inventory	84,221	(58,934)	(10,956)	34,406
End of Period	\$ 14,431,721	9,286,906	8,011,292	12,944,431

\*SOURCE - PRIOR YEAR AUDIT REPORTS

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## REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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**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, 2017, 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 December 5, 2017.

**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 and significant deficiencies.

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 as Findings 2017-001 and 2017-002 to be material weaknesses. 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding 2017-003 to be a significant deficiency.

**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*.

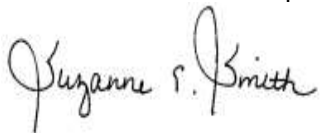
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**BRANDON, MISSISSIPPI 39043**  
**PHONE: 601-938-5717**

### **District's Response to Findings**

The district's responses to the findings identified in our audit are described in the accompanying schedule of 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 black ink that reads "Suzanne E. Smith". The signature is written in a cursive, flowing style.

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
December 5, 2017

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

**Independent Auditor's 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, 2017. 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, 2017.

**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 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.

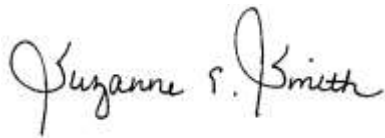
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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

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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 cursive script that reads "Suzanne E. Smith".

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
December 5, 2017

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

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**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, 2017, which collectively comprise Hattiesburg Public School District's basic financial statements and have issued our report thereon dated December 5, 2017. 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.

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 instance of noncompliance with other state laws and regulations:

---

**Finding SL2017-01: Late 16<sup>th</sup> Section Lease Rentals.** It is the duty of the superintendent of education to collect promptly all lease rentals due on 16<sup>th</sup> 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 twenty (20) rental payments revealed seven (7) payments that were more than sixty (60) days late. No termination proceedings were documented. Recommendation: We recommend that the district place before the board all leases that are more than sixty (60) days late for payment and that the board act upon such lease terminations in accordance with state law.

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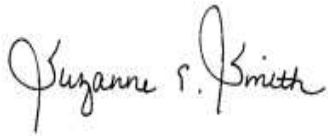
District Response: A review of all 16<sup>th</sup> section lease agreements will start immediately to identify any lease rentals that are past due in payment. Any leases determined to be over 60 days late in payment will be presented to the school board with a recommendation to terminate the lease.

---

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 response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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

A handwritten signature in cursive script that reads "Suzanne E. Smith". The signature is written in dark ink and is positioned above the printed name.

Suzanne E. Smith, CPA, PLLC

Brandon, Mississippi

December 5, 2017

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017

**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) | Yes        |
| 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>
84.010	Title I grants to local educational agencies
84.027/84.173	Special Education Cluster
84.367	Improving teacher quality – state grants

- |    |  |           |
|----|--|-----------|
| 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 |
|----|---|----|

HATTIESBURG PUBLIC SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2017

**Section II: Financial Statement Findings**

**Significant Deficiencies considered to be Material Weaknesses:**

**Repeat Finding 2017-001. 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, 2017, yielded items with a cost of \$81,494. However, the district's general ledger balance showed that the warehouse items should yield an expected cost of \$9,467. The general ledger inventory account was increased for purchases of inventory and decreased for orders captured as filled from the warehouse records. This constitutes a \$72,027 difference. We were not present for the physical count of inventory, and this figure is considered an unaudited amount.

Cause and Effect: It is not fully known why the difference existed. The district did not reconcile the general ledger balances to physical counts during the year. The district adjusted the general ledger balance to the on hand amounts at June 30, 2017, for financial statement presentation.

Questioned Costs: None

Recommendation: We recommend that the district develop policies and procedures for reconciling inventory counts to the general ledger and to any subsidiary inventory tracking systems.

**Repeat Finding 2017-002. 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 should be resolved at the completion of each physical inventory.

Condition: Our testing of capital assets and related expenditures revealed that the district failed to remove six (6) assets with an original combined cost of \$63,048 from the subsidiary records after the school board approved the disposal of such assets during the 2016-2017 year. Out of a non-statistical sample of 60 assets chosen for physical verification, we noted four (4) instances where the assets were listed as active when in fact the assets were either known to have been salvaged or otherwise discarded in prior years or were not located at the time of the physical observation of inventory. Furthermore, the district produced a listing of assets that were considered "missing" at the date of the year-end inventory. The "missing" assets were not fully investigated and were allowed to remain in active inventory. Of these missing assets, eighteen (18) assets were capital assets that were fully depreciated and still being carried as active assets even though they had not been located in recent physical inventories. As part of our audit adjustments, we recommended that the subsidiary records be adjusted for those assets determined to have been disposed of or otherwise discarded during prior periods. We discovered five (5) assets that met the criteria for depreciable asset designation that were not being depreciated. As part of our audit adjustments, we recommended that the subsidiary records be adjusted for those five (5) assets with a combined original cost of \$46,400 and prior year and current year depreciation with a combined total of \$23,475.

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**Cause and Effect:** The likely reason for the assets remaining on inventory after board approval of disposal is likely human error and inadequate controls. There is no established procedure for making sure that all missing items at the time of physical inventory are carefully and completely investigated to make certain that no assets are being carried as active that are not on site at the various locations and that have been approved as disposed or by the board and removed from the district premises. Many of the assets in question are older, fully depreciated items. This condition is likely the effect of the failure to remove disposed items from the subsidiary records in prior years. The assets that were not being depreciated were not depreciated because of the failure of personnel entering the assets into the subsidiary records to designate the assets as depreciable in the software.

**Questioned Costs:** None

**Recommendation:** We recommend that the district review and strengthen controls in the area of capital assets and related expenditures. More control should be exercised in completing a 100% physical inventory at least annually with central office oversight and complete resolution of all missing items and other exceptions.

*Significant Deficiencies not considered to be Material Weaknesses:*

**Repeat Finding 2017-003. 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 and disbursements 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 requirements.

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

- A record of hours worked each day and each work week was not available for all workers. We noted four (4) instances out of a non-statistical sample size of fifty (50) where required daily and weekly time records were not available for the period corresponding with the March 2017 end of month payroll.
- We noted five (5) instances where there was no evidence of supervisory review of the time records to check for overtime hours worked.
- We noted five (5) instances where small amounts of overtime hours were documented on the cards but not paid at the overtime rate. The district maintained that in some instances compensatory time was taken at a later time; however, there was no readily available record of the compensatory time taken.

**Cause and Effect:** The cause is not fully known. While the district central administration is attempting to have the various departments gather and report all hours using electronic timekeeping systems, there are instances where workers are not using the system. There are also instances where documented overtime is not being paid. The effect of these combined deficiencies is an increase in exposure to noncompliance with Federal Wage and Hour requirements.

**Questioned Costs:** None

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Recommendation: We recommend that the district continue the implementation of the electronic timekeeping system while fine tuning the controls surrounding the system to ensure that accurate, complete time records are maintained for each non-exempt employee and that all overtime is captured and paid or taken subsequently as compensatory leave time in accordance with Fair Labor Standards.

**Section III: Federal Award Findings and Questioned Costs**

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

## AUDITEE'S CORRECTIVE ACTION PLAN

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Hattiesburg Public Schools

Dr. Robert Williams  
Interim Superintendent

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**Business Office**

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

**Repeat Finding 2017-001. Differences between physical counts of instructional warehouse inventory and general ledger amounts.**

Corrective Action Planned: After comparing the prices of the items in the warehouse to those available locally and on state contract, the district has determined that maintaining a warehouse for instructional supplies is not the most efficient use of budgeted dollars. Therefore, the district has ceased purchasing any new inventory for the instructional warehouse and will distribute the remaining inventory to the school locations.

Anticipated Completion Date: January 30, 2018

Name of contact person responsible for corrective action: Bonnie P. Granger, Chief Financial Officer

**Repeat Finding 2017-002. 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. The district has started a 100% inventory of all fixed assets in the district and plans to remove all items that cannot be located after a thorough search. The district will also implement continuing controls through beginning a 10% monthly inventory of each site by the school site administrator in addition to continual random monthly inventory checks by the Fixed Asset Coordinator.

Anticipated Completion Date: March 1, 2018

Name of contact person responsible for corrective action: Bonnie P. Granger, Chief Financial Officer

**Repeat Finding 2017-003. Deficiencies in Controls surrounding Payroll Expenditures and Disbursements.**

Corrective Action Planned: The district has begun requiring all non-exempt employees to clock in/out with new finger scanning technology. In addition, the district has implemented procedures for checking the time of each employee and notifying supervisors of employees nearing 40 hours in that workweek. The district has also began paying classified employees who serve as coaches required overtime. The maintenance of daily and weekly time records on all employee categories began in the 2017-2018 fiscal year.

Anticipated Completion Date: June 30, 2018

Name of contact person responsible for corrective action: Bonnie P. Granger, Chief Financial Officer

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