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HATTIESBURG PUBLIC SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2018



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, 2018, 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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and

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analysis, budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions (PERS), the Schedule of the District's Proportionate Share of the Net OPEB Liability, and the Schedule of District Contributions (OPEB) on pages 7-14, 59-61, 65-67, and 69-71, 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*

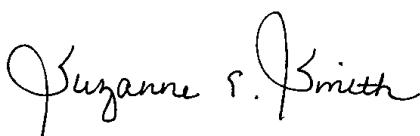
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hattiesburg Public School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations 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 3 2018, 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.



Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
December 3, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2018. 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 2018 increased \$1,274,816, including a prior period adjustment of (\$4,285,502), which represents a 4% increase from fiscal year 2017. 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.
- General revenues amounted to \$39,108,663 and \$38,916,120, or 79% and 79% of all revenues for fiscal years 2018 and 2017, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$10,435,197, or 21% of total revenues for 2018, and \$10,447,538, or 21% of total revenues for 2017.
- The District had \$43,983,542 and \$48,684,910 in expenses for fiscal years 2018 and 2017; only \$10,435,197 for 2018 and \$10,447,538 for 2017 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$39,108,663 for 2018 and \$38,916,120 for 2017 were adequate to provide for these programs.
- Among major funds, the General Fund had \$36,415,530 in revenues and \$31,096,997 in expenditures for 2018, and \$35,903,572 in revenues and \$30,321,527 in expenditures in 2017. The General Fund's fund balance increased by \$4,496,090, including a prior period adjustment of \$5,959 and a decrease in inventory of \$81,494, from 2017 to 2018, and 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.
- Capital assets, net of accumulated depreciation, decreased by \$969,990 for 2018 and decreased by \$1,127,656 for 2017. The decrease for 2018 was due to the increase in accumulated depreciation.
- Long-term debt, including compensated absences payable, decreased by \$2,938,992 for 2018 and decreased by \$2,408,870 for 2017. This decrease for 2018 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences increased by \$11,301 for 2018 and decreased by \$13,454 for 2017.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

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

### **Government-wide Financial Statements**

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

The Statement of Net Position presents information on all the District's nonfiduciary assets, deferred outflows, liabilities, and deferred inflows, with the differences between them reported as "net position." Over time, increases or decreases in the District's net position may serve as a useful indicator of whether its financial position is improving or deteriorating.

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, OPEB expense, and interest on long-term liabilities.

## **Fund Financial Statements**

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

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

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

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

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

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

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

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

Capital outlay spending results in capital assets on government-wide financial statements, but is 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 and net OPEB liability result in liabilities on the government-wide financial statements but are 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, Schedule of District Contributions (PERS), Schedule of the District's Proportionate Share of the Net OPEB Liability, and Schedule of District Contributions (OPEB) as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

## **Supplementary Information**

Additionally, a Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

## **Other Information**

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

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net position**

Net position may serve over time as a useful indicator of the District's financial position. Liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$30,026,189 as of June 30, 2018.

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, 2018 and June 30, 2017.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
Current assets	\$ 14,325,367	\$ 10,251,185	39.74 %
Restricted assets	5,022,726	4,960,744	1.25 %
Capital assets, net	29,443,224	30,413,214	-3.19 %
<b>Total assets</b>	<b>48,791,317</b>	<b>45,625,143</b>	<b>6.94 %</b>
 <b>Deferred outflows of resources</b>	 <b>7,895,995</b>	 <b>14,118,056</b>	 <b>-44.07 %</b>
Current liabilities	350,642	976,747	-64.10 %
Long-term debt outstanding	9,072,917	12,052,898	-24.72 %
Net pension liability	61,157,467	76,594,387	-20.15 %
Net OPEB liability	3,833,927	-	N/A %
<b>Total liabilities</b>	<b>74,414,953</b>	<b>89,624,032</b>	<b>-16.97 %</b>
 <b>Deferred inflows of resources</b>	 <b>12,298,548</b>	 <b>1,420,172</b>	 <b>765.99 %</b>
 <b>Net position:</b>			
Net investment in capital assets	24,549,009	23,081,251	6.36 %
Restricted	8,427,790	8,180,797	3.02 %
Unrestricted	(63,002,988)	(62,563,053)	-0.70 %
<b>Total net position</b>	<b>\$ (30,026,189)</b>	<b>\$ (31,301,005)</b>	<b>4.07 %</b>

Additional information on unrestricted net position:

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

Total unrestricted net position (deficit)	\$ (63,002,988)
Less unrestricted deficit in net position resulting from recognition of the net pension liability and net OPEB liability including the related deferred outflows and deferred inflows	69,399,061
Unrestricted net position, exclusive of the net pension liability and net OPEB liability effect	<u>\$ 6,396,073</u>

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

- Decrease in net capital assets in the amount of \$969,990.
- The principal retirement of \$2,950,293 of long-term debt.
- Implementation of GASB 75 which resulted in the recognition of a net OPEB liability in the amount of \$3,833,927.

### Changes in net position

The District's total revenues for the fiscal years ended June 30, 2018 and June 30, 2017 were \$49,543,860 and \$49,363,658, respectively. The total cost of all programs and services was \$43,983,542 for 2018 and \$48,684,910 for 2017.



Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2018 and June 30, 2017.

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

	<b>Year Ended June 30, 2018</b>	<b>Year Ended June 30, 2017</b>	<b>Percentage Change</b>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 466,597	\$ 461,540	1.10 %
Operating grants and contributions	9,960,100	9,980,498	(0.20) %
Capital Grants and Contributions	8,500	5,500	54.55 %
General revenues:			
Property taxes	19,079,046	19,090,030	(0.06) %
Grants and contributions not restricted	19,429,067	19,481,080	(0.27) %
Investment earnings	353,731	97,992	260.98 %
Sixteenth section sources	70,967	81,001	(12.39) %
Other	175,852	166,017	5.92 %
<b>Total revenues</b>	<b>49,543,860</b>	<b>49,363,658</b>	<b>0.37 %</b>
<b>Expenses:</b>			
Instruction	20,089,164	20,442,656	(1.73) %
Support services	15,321,086	14,831,225	3.30 %
Non-instructional	2,975,682	3,314,096	(10.21) %
Sixteenth section	16,282	10,649	52.90 %
Pension expense	4,962,964	9,601,976	(48.31) %
OPEB expense	125,553	-	N/A %
Interest on long-term liabilities	492,811	484,308	1.76 %
<b>Total expenses</b>	<b>43,983,542</b>	<b>48,684,910</b>	<b>(9.66) %</b>
<b>Increase (Decrease) in net position</b>	<b>5,560,318</b>	<b>678,748</b>	<b>719.20 %</b>
<b>Net Position, July 1, as previously reported</b>	<b>(31,301,005)</b>	<b>(31,845,292)</b>	<b>1.71 %</b>
<b>Prior Period Adjustment</b>	<b>(4,285,502)</b>	<b>(134,461)</b>	<b>(3,087.17) %</b>
<b>Net Position, July 1, as restated</b>	<b>(35,586,507)</b>	<b>(31,979,753)</b>	<b>(11.28) %</b>
<b>Net Position, June 30</b>	<b>\$ (30,026,189)</b>	<b>\$ (31,301,005)</b>	<b>4.07 %</b>

### **Governmental activities**

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

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

	<b>Total Expenses</b>		<b>Percentage Change</b>
	<b>2018</b>	<b>2017</b>	
Instruction	\$ 20,089,164	\$ 20,442,656	(1.73) %
Support services	15,321,086	14,831,225	3.30 %
Non-instructional	2,975,682	3,314,096	(10.21) %
Sixteenth section	16,282	10,649	52.90 %
Pension Expense	4,962,964	9,601,976	(48.31) %
OPEB Expense	125,553	-	N/A %
Interest on long-term liabilities	492,811	484,308	1.76 %
<b>Total expenses</b>	<b>\$ 43,983,542</b>	<b>\$ 48,684,910</b>	<b>(9.66) %</b>

	<b>Net (Expense) Revenue</b>		<b>Percentage Change</b>
	<b>2018</b>	<b>2017</b>	
Instruction	\$ (16,687,855)	\$ (16,857,240)	1.00 %
Support services	(11,749,110)	(11,810,577)	0.52 %
Non-instructional	345,290	386,890	(10.75) %
Sixteenth section	(16,282)	(10,649)	(52.90) %
Pension Expense	(4,962,964)	(9,601,976)	48.31 %
OPEB Expense	(125,553)	-	N/A %
Interest on long-term liabilities	(351,871)	(343,820)	(2.34) %
<b>Total net (expense) revenue</b>	<b>\$ (33,548,345)</b>	<b>\$ (38,237,372)</b>	<b>12.26 %</b>

- Net cost of governmental activities [(\$33,548,345) for 2018 and (\$38,237,372) for 2017] was financed by general revenue, which is primarily made up of property taxes (\$19,079,046 for 2018 and \$19,090,030 for 2017) and state and federal revenues (\$19,429,067 for 2018 and \$19,481,080 for 2017). In addition, there was \$70,967 and \$81,001 in Sixteenth Section sources for 2018 and 2017, respectively.
- Investment earnings amounted to \$353,731 for 2018 and \$97,992 for 2017.

## **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 \$19,156,592, an increase of \$4,724,871, which includes a prior period adjustment of \$5,959 and a decrease in inventory of \$104,617. \$6,961,108 or 36% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$12,195,484 or 64% 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 \$4,496,090, which includes a prior period adjustment of \$5,959 and a decrease in reserve for inventory of \$81,494. The fund balance of Other Governmental Funds showed an increase in the amount of \$264,041, which includes a decrease in reserve for inventory of \$23,123. 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-A Fund	no increase or decrease
IDEA Part B Fund	no increase or decrease
16th Section Principal Fund	\$ (35,260)

## 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 each major special revenue fund is provided in this report as required supplementary information.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

**Capital Assets.** As of June 30, 2018, the District's total capital assets were \$54,971,063, including land, school buildings, building improvements, buses, other school vehicles, and furniture and equipment. This amount represents a decrease of \$900,751 from 2017. Total accumulated depreciation as of June 30, 2018, was \$25,527,839, and total depreciation expense for the year was \$1,181,915, resulting in total net capital assets of \$29,443,224.

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

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
Land	\$ 522,861	\$ 522,861	0.00 %
Buildings	22,496,555	23,131,310	(2.74) %
Building improvements	1,081,012	1,146,507	(5.71) %
Improvements other than buildings	4,253,749	4,492,730	(5.32) %
Mobile equipment	817,508	817,296	0.03 %
Furniture and equipment	271,539	302,510	(10.24) %
<b>Total</b>	<b>\$ 29,443,224</b>	<b>\$ 30,413,214</b>	<b>(3.19) %</b>

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

**Debt Administration.** At June 30, 2018, the District had \$9,046,338 in outstanding long-term debt, of which \$1,559,270 is due within one year. The liability for compensated absences increased \$11,301 from the prior year.

The District maintains a Ba1 bond rating.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 1,155,000	\$ 2,530,000	(54.35) %
Limited obligation bonds payable	-	1,177,000	(100.00) %
Three mill notes payable	1,640,000	1,995,000	(17.79) %
Shortfall notes payable	44,270	87,563	(49.44) %
Qualified school construction bonds payable	6,000,000	6,000,000	0.00 %
Compensated absences payable	207,068	195,767	5.77 %
<b>Total</b>	<u><b>\$ 9,046,338</b></u>	<u><b>\$ 11,985,330</b></u>	<b>(24.52) %</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, 2018**

**Exhibit A**

	Governmental Activities
<b>Assets</b>	
Cash and cash equivalents	\$ 12,147,181
Cash with fiscal agents	195
Due from other governments	1,982,085
Other receivables, net	19,091
Prepaid items	79,108
Inventories	97,707
Restricted assets	5,022,726
Capital assets, net of accumulated depreciation	29,443,224
Total Assets	<u>48,791,317</u>
<b>Deferred Outflows of Resources</b>	
Deferred amount on refunding	5,114
Deferred outflows - pensions	7,727,435
Deferred outflows - OPEB	163,446
Total deferred outflows of resources	<u>7,895,995</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	72,935
Interest payable on long-term liabilities	159,141
Unearned revenue	118,566
Long-term liabilities, due within one year:	
Capital related liabilities	1,068,750
Non-capital related liabilities	490,520
Net OPEB liability	163,446
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,804,000
Non-capital related liabilities	3,683,068
Unamortized bond premium	26,579
Net pension liability	61,157,467
Net OPEB liability	3,670,481
Total Liabilities	<u>74,414,953</u>
<b>Deferred Inflows of Resources</b>	
Deferred inflows - pensions	11,734,286
Deferred inflows - OPEB	564,262
Total deferred inflows of resources	<u>12,298,548</u>
<b>Net Position</b>	
Net investment in capital assets	24,549,009
Restricted for:	
Expendable:	
School-based activities	1,069,553
Debt service	4,394,349
Capital improvements	10,838
Unemployment benefits	41,400
Non-expendable:	
Sixteenth section	2,911,650
Unrestricted	(63,002,988)
Total Net Position	<u><u>\$ (30,026,189)</u></u>

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**HATTIESBURG PUBLIC SCHOOL DISTRICT**

**Statement of Activities**

**For the Year Ended June 30, 2018**

**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	\$ 20,089,164	345,874	3,055,435		(16,687,855)
Support services	15,321,086	42,719	3,520,757	8,500	(11,749,110)
Non-instructional	2,975,682	78,004	3,242,968		345,290
Sixteenth section	16,282				(16,282)
Pension expense	4,962,964				(4,962,964)
OPEB expense	125,553				(125,553)
Interest on long-term liabilities	492,811		140,940		(351,871)
Total Governmental Activities	<u>\$ 43,983,542</u>	<u>466,597</u>	<u>9,960,100</u>	<u>8,500</u>	<u>\$ (33,548,345)</u>
General Revenues:					
Taxes:					
General purpose levies					16,906,226
Debt purpose levies					2,172,820
Unrestricted grants and contributions:					
State					19,332,187
Federal					96,880
Unrestricted investment earnings					353,731
Sixteenth section sources					70,967
Other					175,852
Total General Revenues					<u>39,108,663</u>
Change in Net Position					<u>5,560,318</u>
Net Position - Beginning, as previously reported					(31,301,005)
Prior Period Adjustments					<u>(4,285,502)</u>
Net Position - Beginning, as restated					<u>(35,586,507)</u>
Net Position - Ending					<u>\$ (30,026,189)</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**  
**June 30, 2018**

**Exhibit C**

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title I-A Fund	IDEA Part B Fund	16th Section Principal Fund		
<b>Assets</b>						
Cash and cash equivalents	\$ 9,507,711			144,141	2,639,470	12,291,322
Cash with fiscal agents				56,713	1,632,536	1,689,249
Investments				1,780,413	1,399,900	3,180,313
Due from other governments	471,426	630,337	273,884		606,438	1,982,085
Accrued interest receivable				5,586	3,632	9,218
Due from other funds	1,472,596	2,546			1,576	1,476,718
Advances to other funds				924,797		924,797
Inventories					97,707	97,707
Prepaid items	79,108					79,108
Total assets	11,530,841	632,883	273,884	2,911,650	6,381,259	21,730,517
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	45,037		4,534		23,364	72,935
Due to other funds	1,576	632,883	269,350		553,818	1,457,627
Advances from other Funds	924,797					924,797
Unearned revenue					118,566	118,566
Total Liabilities	971,410	632,883	273,884	0	695,748	2,573,925
<b>Fund Balances:</b>						
<b>Nonspendable:</b>						
Inventory					97,707	97,707
Prepaid items	79,108					79,108
Permanent fund principal				2,911,650		2,911,650
<b>Restricted:</b>						
Debt service					4,212,107	4,212,107
Capital improvement					10,838	10,838
Grant activities					892,738	892,738
Unemployment benefits					41,400	41,400
<b>Assigned:</b>						
Student activities	159,540					159,540
Capital improvement	3,200,000					3,200,000
Debt service					341,383	341,383
Instructional activities	43,738					43,738
Technology projects	115,937					115,937
Unemployment benefits					89,338	89,338
<b>Unassigned</b>	6,961,108					6,961,108
Total Fund Balances	10,559,431	0	0	2,911,650	5,685,511	19,156,592
Total Liabilities and Fund Balances	\$ 11,530,841	632,883	273,884	2,911,650	6,381,259	21,730,517

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** **Exhibit C-1**  
**June 30, 2018**

**Total fund balances for governmental funds** **\$ 19,156,592**

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	38,814,103	
Building improvements	1,637,367	
Improvements other than buildings	6,731,081	
Mobile equipment	3,397,521	
Furniture and equipment	3,868,130	
Accumulated depreciation	<u>(25,527,839)</u>	29,443,224

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

Net pension liability (61,157,467)

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	7,727,435	
Deferred inflows of resources related to pensions	<u>(11,734,286)</u>	(65,164,318)

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

Net OPEB liability (3,833,927)

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

Deferred outflows of resources related to OPEB	163,446	
Deferred inflows of resources related to OPEB	<u>(564,262)</u>	(4,234,743)

4. 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	(1,155,000)	
Three mill notes payable	(1,640,000)	
Shortfall notes payable	(44,270)	
Qualified school construction bonds payable	(6,000,000)	
Unamortized bond premium	(26,579)	
Unamortized deferred amounts on refunding	5,114	
Compensated absences payable	(207,068)	
Accrued interest payable	<u>(159,141)</u>	(9,226,944)

**Net Position of governmental activities** **\$ (30,026,189)**

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, 2018**

**Exhibit D**

	Major Funds				Other	Total
	General Fund	Title I-A Fund	IDEA Part B Fund	16th Section Principal Fund	Governmental Funds	Governmental Funds
<b>Revenues:</b>						
Local sources	\$ 17,476,500				2,556,455	20,032,955
State sources	18,737,418				1,987,257	20,724,675
Federal sources	129,691	2,880,176	1,136,383		4,526,742	8,672,992
Sixteenth section sources	71,921			41,317		113,238
Total Revenues	36,415,530	2,880,176	1,136,383	41,317	9,070,454	49,543,860
<b>Expenditures:</b>						
Instruction	18,496,350	1,177,025	566,424		2,211,575	22,451,374
Support services	12,540,111	1,417,993	529,959		2,073,529	16,561,592
Noninstructional services	6,710	151,246			2,885,924	3,043,880
Sixteenth section	16,282					16,282
Debt service:						
Principal					2,950,293	2,950,293
Interest	37,544				521,163	558,707
Other					2,250	2,250
Total Expenditures	31,096,997	2,746,264	1,096,383	0	10,644,734	45,584,378
Excess (Deficiency) of Revenues over (under) Expenditures	5,318,533	133,912	40,000	41,317	(1,574,280)	3,959,482
<b>Other Financing Sources (Uses):</b>						
Insurance loss recoveries	10,636				853,411	864,047
Transfer in to escrow agent					566,539	566,539
Operating transfers in	403,151				1,160,695	1,563,846
Transfer to QSCB escrow agent					(566,539)	(566,539)
Operating transfers out	(1,160,695)	(133,912)	(40,000)	(76,577)	(152,662)	(1,563,846)
Total Other Financing Sources (Uses)	(746,908)	(133,912)	(40,000)	(76,577)	1,861,444	864,047
Net Change in Fund Balances	4,571,625	0	0	(35,260)	287,164	4,823,529
<b>Fund Balances:</b>						
July 1, 2017, as previously reported	6,063,341	0	0	2,946,910	5,421,470	14,431,721
Prior period adjustments	5,959					5,959
July 1, 2017, as restated	6,069,300	0	0	2,946,910	5,421,470	14,437,680
Increase (Decrease) in reserve for inventory	(81,494)				(23,123)	(104,617)
June 30, 2018	\$ 10,559,431	0	0	2,911,650	5,685,511	19,156,592

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, 2018**

**Exhibit D-1**

**Net change in fund balances - total governmental funds** \$ 4,823,529

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	\$ 255,687	
Depreciation expense	<u>(1,181,915)</u>	(926,228)

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>(24,937)</u>	(24,937)
--	-----------------	----------

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	2,950,293	
Amortization of bond premium	40,989	
Accrued interest payable	<u>37,398</u>	3,028,680

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	(4,962,964)	
Contributions subsequent to the measurement date	<u>3,712,754</u>	(1,250,210)

5. Some items relating to OPEB 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:

OPEB expense	(125,553)	
Contributions subsequent to the measurement date	<u>163,446</u>	37,893

6. 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	(11,301)	
Amortization of deferred amounts on refunding	(12,491)	
Change in inventory reserve	<u>(104,617)</u>	(128,409)

**Change in Net Position of governmental activities** \$ 5,560,318

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, 2018**

**Exhibit E**

	Agency Funds
<b>Assets</b>	
Cash and cash equivalents	\$ 1,734,972
Total Assets	<u>1,734,972</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,692,134
Due to other funds	19,091
Due to student clubs	<u>23,747</u>
Total Liabilities	<u>\$ 1,734,972</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, 2018

#### **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, 2018

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-A Fund** – This is a special revenue fund that accounts for the revenues and related expenditures of the Title I grants to local educational agencies.

**IDEA Part B Fund** – This special revenue fund accounts for the revenues and expenditures of the Special Education grant, which is a part of the Special Education Cluster of federal awards.

**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 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 the 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 the 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, 2018

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, 2018

### 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.



# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

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

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

The following schedule details the capitalization thresholds:

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

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

### 7. Deferred outflows/inflows of resources

In addition to assets, the statement 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 amount on Refunding

Deferred outflows – Pensions

Deferred outflows - Postemployment Benefits Other Than Pensions (OPEB)

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

Deferred inflows - Postemployment Benefits Other Than Pensions (OPEB)

See Note 8 for further details on Pensions and Note 9 for further details on OPEB.

### 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.

## HATTIESBURG PUBLIC SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2018

#### 9. Long-term Liabilities and Bond Discounts/Premiums

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

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

#### 10. Pensions

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

#### 11. Postemployment Benefits Other than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State and School Employees' Life and Health Plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by the OPEB Plan. For this purpose, the OPEB Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Fiduciary net position was zero as of the measurement date of June 30, 2017.

#### 12. 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 commitment by the school board. Currently there is no committed fund balance for this school district.

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

## HATTIESBURG PUBLIC SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2018

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

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

#### **Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments**

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the 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 \$12,291,322 and \$1,734,972, 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 the school district's cash with fiscal agents held by financial institutions at June 30, 2018, was \$1,689,249.

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

### Investments

As of June 30, 2018, the district had the following investments:

Investment Type	Rating	Maturities (in years)	Fair Value
U. S. Treasury Notes and Bonds	Unrated	Less than 10 years	\$ 1,399,900
U. S. Government Asset Backed Securities	Unrated	Less than 5 years	136,433
	Unrated	Less than 10 years	361,809
	Unrated	Less than 15 years	248,660
Corporate Bonds	A	Less than 5 years	99,624
	A-	Less than 5 years	49,718
Municipal Bonds	Aa2/AA	Less than 10 years	98,252
	Aa2/AA	Less than 15 years	50,153
	AA-	Less than 10 years	120,775
U. S. Agency Securities	Aaa/AA+	Less than 5 years	244,579
	Aaa/AA+	Less than 5 years	99,915
	Unrated	Less than 10 years	270,495
Total			<u>\$ 3,180,313</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, 2018:

- 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.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2018

**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-A Fund	\$ 632,883
	IDEA Part B Fund	269,350
	Other governmental funds	553,818
	Fiduciary funds	16,545
Title I-A Fund	Fiduciary funds	2,546
Other governmental funds	General Fund	1,576
Total		<u>\$ 1,476,718</u>

The amounts represent inter-fund balances created by loans from the General Fund to special revenue funds to provide adequate cash flow for those funds operating on an expenditure reimbursement basis. Cash is loaned to the funds for operational purposes, and the loans are repaid after reimbursement for grant expenditures is received. Also included are amounts due from clearing accounts to governmental funds.

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

Receivable Fund	Payable Fund	Amount
16th Section Principal Fund	General Fund	\$ 924,797
Total		<u>\$ 924,797</u>

The interfund-balances represent a loan from the 16<sup>th</sup> Section Principal Fund to the General Fund. The purpose of the loan was to purchase school buses and to make needed facility improvements.

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) 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 interest rate on the sixteenth section principal loans payable as of June 30, 2018 is four (4) percent.

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

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2018

Year Ending June 30	Principal	Interest	Total
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	59,981	31,226	91,207
2024-2028	224,361	112,609	336,970
2029-2033	243,162	64,043	307,205
2034-2038	170,502	13,819	184,321
Total	<u>\$ 924,797</u>	<u>359,734</u>	<u>1,284,531</u>

**C. Inter-fund Transfers**

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 1,160,695
Title I-A Fund	General Fund	133,912
IDEA Part B Fund	General Fund	40,000
16th Section Principal Fund	General Fund	76,577
Other governmental funds	General Fund	152,662
Total		<u>\$ 1,563,846</u>

Transfers represent direct costs from special revenue funds transferred to the General Fund and operational transfers from the General Fund to other governmental funds. Also included are transfers of interest earned on nonexpendable permanent funds to the General Fund.

**Note 4 – Restricted Assets**

The restricted assets represent the cash balance, cash with fiscal agents, investments, and accrued interest balances, totaling \$144,141 , \$56,713, \$1,780,413, and \$5,586, respectively, of the Sixteenth Section Principal Fund (Permanent Fund) which are legally restricted and may not be used for purposes that support the district's programs.

In addition, the restricted assets represent the cash with fiscal agents balance, totaling \$1,615,895, of the QSCB 2009 Bond Retirement Fund.

In addition, the restricted assets represent the cash with fiscal agents, investments, and accrued interest balances, totaling \$16,446, \$1,399,900, and \$3,632, respectively, of the QSCB 2010 Bond Retirement Fund.

Restricted assets shown on the Statement of Net Position total \$5,022,726.

HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2018

**Note 5 – Capital Assets**

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

	Balance 7/1/2017	Increases	Decreases	Adjustments	Balance 6/30/2018
Governmental Activities:					
<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			(114,070)	38,814,103
Building improvements	1,637,367				1,637,367
Improvements other than buildings	6,731,081				6,731,081
Mobile equipment	3,389,650	160,000	160,341	8,212	3,397,521
Furniture and equipment	4,662,682	95,687	890,239		3,868,130
Total depreciable capital assets	55,348,953	255,687	1,050,580	(105,858)	54,448,202
<u>Less accumulated depreciation for:</u>					
Buildings	15,796,863	611,941		(91,256)	16,317,548
Building improvements	490,860	65,495			556,355
Improvements other than buildings	2,238,351	238,981			2,477,332
Mobile equipment	2,572,354	147,743	144,307	4,223	2,580,013
Furniture and equipment	4,360,172	117,755	881,336		3,596,591
Total accumulated depreciation	25,458,600	1,181,915	1,025,643	(87,033)	25,527,839
Total depreciable capital assets, net	29,890,353	(926,228)	24,937	(18,825)	28,920,363
Governmental activities capital assets, net	\$ 30,413,214	(926,228)	24,937	(18,825)	29,443,224

Depreciation expense was charged to the following governmental functions:

	Amount
<b>Governmental activities:</b>	
Instruction	\$ 28,335
Support services	1,104,712
Non-instructional	48,868
Total depreciation expense - Governmental activities	<u>\$ 1,181,915</u>

**Note 6 – Long-term Liabilities**

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

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

	Balance 7/1/2017	Additions	Reductions	Balance 6/30/2018	Amounts due within one year
A. General obligation refunding bonds payable	\$ 2,530,000		1,375,000	1,155,000	1,155,000
B. Limited obligation bonds payable	1,177,000		1,177,000	-	
C. Three mill notes payable	1,995,000		355,000	1,640,000	360,000
D. Shortfall notes payable	87,563		43,293	44,270	44,270
E. Qualified school construction bonds payable	6,000,000			6,000,000	
F. Compensated absences payable	195,767	11,301		207,068	
Subtotal	\$ 11,985,330	11,301	2,950,293	9,046,338	1,559,270
Add: Premiums on General obligation bonds payable	67,568		40,989	26,579	
Total	\$ 12,052,898	11,301	2,991,282	9,072,917	1,559,270

### A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding series 2013	3.00%	10-Sep-13	15-Apr-19	\$ 3,375,000	\$ 1,155,000
Total				\$ 3,375,000	\$ 1,155,000

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

#### 1. General obligation bond issue of September 10, 2013:

Year Ending June 30	Principal	Interest	Total
2019	\$ 1,155,000	34,650	1,189,650
Total	\$ 1,155,000	34,650	1,189,650

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

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2018, the amount of outstanding bonded indebtedness was less than 1% of property assessments as of October 1, 2017.



HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Financial Statements  
For Year Ended June 30, 2018

**B. Limited obligation bonds payable**

The state aid capital refunding bonds of July 31, 2008, were paid in full during the year ended June 30, 2018.

**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 note, series 2011	2.84%	7-Mar-11	9-Mar-19	\$ 1,000,000	\$ 150,000
2. Limited tax note, series 2012	2.42%	15-Jun-12	15-Jun-25	2,700,000	1,490,000
Total				<u>\$ 3,700,000</u>	<u>\$ 1,640,000</u>

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

1. Limited tax notes (Three mill notes payable) of March 7, 2011:

Year Ending June 30	Principal	Interest	Total
2019	\$ 150,000	4,260	154,260
Total	<u>\$ 150,000</u>	<u>4,260</u>	<u>154,260</u>

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

2. Three mill notes payable issue of June 15, 2012:

Year Ending June 30	Principal	Interest	Total
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	225,000	19,281	244,281
2024-2025	410,000	19,475	429,475
Total	<u>\$ 1,490,000</u>	<u>166,638</u>	<u>1,656,638</u>

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

Total three mill notes payable payments for all issues:

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

Year Ending June 30	Principal	Interest	Total
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	225,000	19,281	244,281
2024-2025	410,000	19,475	429,475
Total	<u>\$ 1,640,000</u>	<u>\$ 170,898</u>	<u>\$ 1,810,898</u>

### 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	\$ 44,270
Total				<u>\$ 129,979</u>	<u>\$ 44,270</u>

The amount outstanding is included in due from other governments on the Statement of Net Position.

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

Shortfall notes payable issue of October 9, 2015:

Year Ending June 30	Principal	Interest	Total
2019	\$ 44,270	908	45,178
Total	<u>\$ 44,270</u>	<u>908</u>	<u>45,178</u>

This 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 14, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Qualified School Construction Bonds, Series 2009	0.94%	15-Sep-09	15-Sep-24	\$ 3,000,000	3,000,000
2. Qualified School Construction Bonds, Series 2010	1.25%	1-Dec-10	1-Dec-25	3,000,000	3,000,000
Total				<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
2019	\$ -	28,200	28,200
2020	-	28,200	28,200
2021	-	28,200	28,200
2022	-	28,200	28,200
2023	-	28,200	28,200
2024-2025	3,000,000	56,400	3,056,400
Total	<u>\$ 3,000,000</u>	<u>197,400</u>	<u>3,197,400</u>

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

### 2. Qualified School Construction Bonds of December 1, 2010:

Year Ending June 30	Principal	Interest	Total
2019	\$ -	165,000	165,000
2020	-	165,000	165,000
2021	-	165,000	165,000
2022	-	165,000	165,000
2023	-	165,000	165,000
2024-2026	3,000,000	495,000	3,495,000
Total	<u>\$ 3,000,000</u>	<u>1,320,000</u>	<u>4,320,000</u>

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

Total qualified school construction bonds for all issues:

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

Year Ending June 30	Principal	Interest	Total
2019	\$ -	193,200	193,200
2020	-	193,200	193,200
2021	-	193,200	193,200
2022	-	193,200	193,200
2023	-	193,200	193,200
2024-2026	6,000,000	551,400	6,551,400
Total	<u>\$ 6,000,000</u>	<u>1,517,400</u>	<u>7,517,400</u>

The series 2009 and 2010 Qualified School Construction Bonds are secured by an irrevocable pledge of certain revenues the district received 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 pledged revenues, with the remaining amounts to be paid through the avails of a local debt service tax levy. As further explain in Note 14, minimum total sinking fund payments remaining to be paid on the Series 2009 bonds is \$1,400,000, while the minimum total annual sinking fund payments remaining to be paid on the Series 2010 bonds is \$1,600,000.

Sinking fund payments for the current year and the total Education Enhancement Fund pledged revenues were \$566,539 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.

### Note 7 – Other Commitments

The school district has several operating leases for thirty-seven (37) copiers.

Lease expenditures for the year ended June 30, 2018, amounted to \$103,099. Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2019	\$ 94,059
2020	27,279
2021	5,945
Total	<u>\$ 127,283</u>

## HATTIESBURG PUBLIC SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2018

#### **Note 8 – Defined Benefit Pension Plan**

##### **General Information about the Pension Plan**

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

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

*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, 2018 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, 2018, 2017 and 2016 were \$3,712,754, \$3,716,759 and \$4,320,459, 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, 2018, the school district reported a liability of \$61,157,467 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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, 2018 net pension liability was 0.367861 percent, which was based on a measurement date of June 30, 2017. This was a decrease of 0.060941 percent from its proportionate share used to calculate the June 30, 2017 net pension liability, which was based on a measurement date of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$4,962,964. At June 30, 2018 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 1,059,485	\$ 446,248
Net difference between projected and actual earnings on pension plan investments		2,763,152
Changes of assumptions	1,194,969	121,465
Changes in proportion and differences between District contributions and proportionate share of contributions	1,760,227	8,403,421
District contributions subsequent to the measurement date	3,712,754	
Total	\$ <u>7,727,435</u>	\$ <u>11,734,286</u>

\$3,712,754 reported as deferred outflows of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended June 30, 2019. 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:

2019	\$ (1,902,311)
2020	(3,709,261)
2021	( 926 693)
2022	(1,181,340)

*Actuarial assumptions.* The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.25-18.50 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 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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:

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

<u>Asset Class</u>	<u>Target Allocation</u>		<u>Long-Term Expected Real Rate of Return</u>	
U.S. Broad	27.00	%	4.60	%
International Equity	18.00		4.50	
Emerging Markets Equity	4.00		4.75	
Global	12.00		4.75	
Fixed Income	18.00		0.75	
Real Estate	10.00		3.50	
Private Equity	8.00		5.10	
Emerging Debt	2.00		2.25	
Cash	1.00		0.00	
Total	<u>100</u>	<u>%</u>		

*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.

*Sensitivity of the District's proportionate share of the net pension liability to changes in the discount rate.* The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.75%, 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%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
District's proportionate share of the net pension liability	\$ 80,212,100	\$ 61,157,467	\$ 45,337,980

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

## Note 9— Other Postemployment Benefits (OPEB)

### General Information about the OPEB Plan.

*Plan description.* State law mandates that all state, public education, library, junior and community college and retiring employees be offered health and life benefit coverage through the State and School Employees' Life and Health Insurance Plan (the Plan). The Plan was established by Section 25-15-3 et seq., Mississippi Code Ann. (1972), which may be amended only by the State Legislature. The State and School Employees' Health Insurance Management Board (the Board) administers the Plan. The Board has the sole legal authority to promulgate rules and regulations governing the operations of the Plan within the confines of the law governing the Plan. The Plan is self-insured and is financed through premiums collected from employers, employees, retirees and COBRA participants. The Plan provides for Other Postemployment Benefits (OPEB) as a multiple-employer defined benefit OPEB plan. A trust was created June 28, 2018 for the OPEB Plan and, while no trust was in place for the June 30, 2017 plan year-end, for purposes of comparability for future periods, terminology used herein is based on the plan being a cost-sharing multiple-employer defined benefit OPEB plan. The plan does not issue a stand-alone financial report.

### *Benefits provided.*

The Plan was formed by the State Legislature to provide group health and life benefits to full-time active and retired employees of the State, agencies, universities, community/junior colleges, public school districts and public libraries. In addition, the spouse and/or children of covered employees and retirees, as well as surviving spouses and COBRA

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

participants, may be eligible for health insurance coverage under the Plan. Benefits of the OPEB Plan consist of an implicit rate subsidy, which is essentially the difference between the average cost of providing health care benefits to retirees under age 65 and the average cost of providing health care benefits to all participants when premiums paid by retirees are not age adjusted. Employees' premiums are funded primarily by their employers. Retirees must pay their own premiums, as do active employees for spouse and dependent medical coverage. The Board has the sole authority for setting life and health insurance premiums for the Plan. Per Section 12-15-15 (10) Mississippi Code Ann. (1972), a retired employee electing to purchase retiree life and health insurance must pay the full cost of such insurance premium. If the Board determined actuarially that the premium paid by the participating retirees adversely affects the overall cost of the Plan to the State, then the Board may impose a premium surcharge, not to exceed 15%, upon such participating retired employees who are under the age for Medicare eligibility and who are initially employed before January 1, 2006. For participating retired employees who are under the age for Medicare eligibility and who are initially employed on or after January 1, 2006, the Board may impose a premium surcharge in an amount the Board determined actuarially to cover the full cost of insurance. The Plan offers a Base option and a Select option for health benefits for non-Medicare participants. The Plan includes a separate coverage level for Medicare eligible retirees, Medicare Eligible surviving spouses, and Medicare eligible dependents of retirees and surviving spouses.

### *Contributions.*

The Board has the sole authority for setting life and health insurance premiums for the Plan. The required premiums vary based on the plan selected and the type of participant. Employers pay no premiums for retirees while employees' premiums are funded primarily by their employer. Contributions to the OPEB plan from the District were \$163,446 for the year ended June 30, 2018.

### **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB**

At June 30, 2018, the District reported a liability of \$3,833,927 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The basis for the District's proportion is determined by comparing the employer's average monthly employees participating in the Plan with the total average employees participating in the Plan in the fiscal year of all employers. The allocation was utilized because the level of premiums contributed by each employer is the same for any employee regardless of plan participation elections made by the employee. At the measurement date of June 30, 2017, the District's proportion was 0.48864168 percent. This was a decrease of 0.05312791 percent from the proportionate share as of the measurement date of June 30, 2016.

For the year ended June 30, 2018, the District recognized OPEB expense of \$125,553. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$	\$
Changes of assumptions		195,222
Net difference between projected and actual earnings on OPEB plan investments		
Changes in proportion and differences between District contributions and proportionate share of contributions		369,040
District contributions subsequent to the measurement date	163,446	
Total	\$ <u>163,446</u>	\$ <u>564,262</u>



# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

\$163,446 reported as deferred outflows of resources related to OPEB resulting from school district contributions subsequent to the measurement date will be recognized as a reduction to the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

### Year Ending June 30:

2019	\$ (98,993)
2020	(98,993)
2021	(98,993)
2022	(98,993)
2023	(98,993)
Thereafter	(69,297)

*Actuarial assumptions.* The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00 percent
Salary increases	3.25-18.50 percent, including wage inflation
Long-term Investment Rate of Return, net of OPEB plan investment expense, including inflation	N/A
Municipal Bond Index Rate	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Year FNP is projected to be depleted	
Measurement Date	2017
Prior Measurement Date	2016
Single Equivalent Interest Rate, net of OPEB plan investment expense, including inflation	
Measurement Date	3.56 percent
Prior Measurement Date	3.01 percent
Health Care Cost Trends	
Medicare Supplement Claims	7.75 percent for 2017 decreasing to an
Pre-Medicare	ultimate rate of 5.00 percent by 2023

Both pre-retirement and post-retirement mortality rates were based on the RP 2014 Healthy Annuitant Blue Collar Table projected with Scale BB to 2022, male rates set forward 1 year and adjusted by 106% for males at all ages, and females adjusted to 90% for ages less than 76, 95% for age 76, 105% for age 78 and 110% for ages 79 and greater. Post-disability mortality rates were based on the RP 2014 Disabled Retiree Mortality Table set forward 4 years for males and 3 years for females.

The demographic actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study dated April 18, 2017.

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

The plan had no assets as of the measurement date of 2017.

*Discount rate.* The discount rate used to measure the total OPEB liability at June 30, 2017 was 3.56 percent. Since the Prior Measurement Date, the Discount Rate has changed from 3.01% to 3.56%.

Since no trust was set up as of June 30, 2017, there was no projection of cash flows for the Plan and the Plan was projected to be depleted in 2017.

The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used, if necessary, for this purpose is the average of the Bond Buyer General Obligation 20-year Municipal Bond Index Rates during the month of June published at the end of each week by the Bond Buyer.

*Sensitivity of the District's proportionate share of the net OPEB liability to changes in the discount rate.* The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Net OPEB liability	\$ 3,935,178	\$ 3,833,927	\$ 3,758,524

*Sensitivity of the District's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.* The following presents the District's proportionate share of the net OPEB liability, as well as what the District's proportionate share of the net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Healthcare Cost Trend Rates Current	1% Increase
Net OPEB liability	\$ 3,540,888	\$ 3,833,927	\$ 4,168,460

*OPEB plan fiduciary net position.* The fiduciary net position for the OPEB plan was zero as of June 30, 2017, the measurement date. Therefore, no separately issued financials were prepared. Detailed information about the OPEB plan's fiduciary net position for June 30, 2018 and going forward will be available in separately issued financial reports available on the Mississippi Department of Finance and Administration's website.

### 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.

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

Year Ending June 30	Amount
2019	\$ 48,476
2020	48,476
2021	48,476
2022	48,476
2023	48,476
2024 – 2028	232,662
2029 – 2033	214,275
2034 – 2038	347,894
Total	<u>\$ 1,037,211</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. Correct of a prior period error in recording an asset/liability	\$ 5,959
2. Adjustment to remove capital asset disposed of in prior period	(18,825)
3. Adjustment to reflect the implementation of GASB No. 75	(4,272,636)
Total	<u>\$ (4,285,502)</u>

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

Fund	Explanation	Amount
General Fund	Correction of a prior period error in recording an asset/liability	\$ 5,959
Total		<u>\$ 5,959</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.

## HATTIESBURG PUBLIC SCHOOL DISTRICT

### Notes to the Financial Statements For Year Ended June 30, 2018

#### 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. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

#### Note 14 – Qualified School Construction Bonds

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

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB. For the year ended June 30, 2018, the subsidy payments amounted to \$140,940.

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, 2018 for the 2009 Series Bonds was \$1,615,895, which includes cash with fiscal agent. The amount on deposit at June 30, 2018 for the 2010 Series Bonds was \$1,419,978, which includes cash with fiscal agent, investments, and accrued interest. The amount accumulated in the sinking fund at the end of the seventeen-year period is expected to be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	2009 Series	2010 Series	Amount
2019	\$ 200,000	200,000	400,000
2020	200,000	200,000	400,000
2021	200,000	200,000	400,000
2022	200,000	200,000	400,000
2023	200,000	200,000	400,000
2024 – 2028	400,000	600,000	1,000,000
Total	<u>\$ 1,400,000</u>	<u>1,600,000</u>	<u>3,000,000</u>

#### Note 15 - Insurance loss recoveries

The Hattiesburg Public School District received \$864,047 in insurance loss recoveries related to building damage caused by a tornado during the 2017-2018 fiscal year and to automobile accident claims during the 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:

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Financial Statements For Year Ended June 30, 2018

Insurance Loss			
Recoveries	Percentage	Expense Function	
\$ 864,047	100%	Support services	
<u>\$ 864,047</u>	<u>100%</u>		

### Note 16 – Effect of Deferred Amounts on Net Position

The net investment in capital assets amount of \$24,549,009 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from advance refunding of capital related debt. The \$5,114 balance of deferred outflows relating to deferred amounts on refunding at June 30, 2018, will be recognized as expense and decrease the net investment in capital assets net position during the next year.

The unrestricted net position amount of (\$63,002,988) includes the effect of deferring the recognition of deferred outflows and deferred inflows related to pensions and OPEB. \$3,712,754 of the deferred outflow of resources related to pensions resulting from school district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. The remaining \$4,014,681 of the deferred outflow of resources related to pensions at June 30, 2018, will be recognized as expense and decrease unrestricted net position over the next three (3) years. \$163,446 of the deferred outflow of resources related to OPEB resulting from school district contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2019.

The unrestricted net position of (\$63,002,988) includes the effect of deferring the recognition of deferred inflows related to pensions and OPEB. The balance of \$11,734,286 of the deferred inflow of resources related to pensions at June 30, 2018 will be recognized as a reduction of expense and increase unrestricted net position over the next four (4) years. The \$564,262 balance of deferred inflows related to OPEB at June 30, 2018, will be recognized as a reduction of expense and increase unrestricted net position over the next six (6) years.

### 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 3, 2018 and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements. The district passed a bond referendum with bonding authority of \$22,500,000 on May 23, 2018. The district issued \$310,000 in bonds on August 9, 2018. The bonds bear a rate of 2.50% interest and mature on May 1, 2019. The district will issue the bonds remaining under the referendum authority prior to June 30, 2019.

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## 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, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 18,468,915	17,476,500	17,476,500	(992,415)	0
State sources	18,707,285	18,737,418	18,737,418	30,133	0
Federal sources	25,200	209,691	129,691	184,491	(80,000)
Sixteenth section sources	80,000	71,921	71,921	(8,079)	0
Total Revenues	37,281,400	36,495,530	36,415,530	(785,870)	(80,000)
<b>Expenditures:</b>					
Instruction	20,559,385	18,577,844	18,496,350	1,981,541	81,494
Support services	15,024,215	12,606,413	12,540,111	2,417,802	66,302
Noninstructional services	0	6,710	6,710	(6,710)	0
Sixteenth section	12,000	16,282	16,282	(4,282)	0
Debt service:					
Principal	53,662	0	0	53,662	0
Interest	52,545	37,544	37,544	15,001	0
Total Expenditures	35,701,807	31,244,793	31,096,997	4,457,014	147,796
Excess (Deficiency) of Revenues over (under) Expenditures	1,579,593	5,250,737	5,318,533	3,671,144	67,796
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	0	10,636	10,636	10,636	0
Operating transfers in	550,206	5,342,982	403,151	4,792,776	(4,939,831)
Operating transfers out	(2,088,827)	(9,257,132)	(1,160,695)	(7,168,305)	8,096,437
Total Other Financing Sources (Uses)	(1,538,621)	(3,903,514)	(746,908)	(2,364,893)	3,156,606
Net Change in Fund Balances	40,972	1,347,223	4,571,625	1,306,251	3,224,402
<b>Fund Balances:</b>					
July 1, 2017, as previously reported	5,783,960	6,063,341	6,063,341	279,381	0
Prior period adjustments	0	4,613	5,959	4,613	1,346
July 1, 2017, as restated	5,783,960	6,067,954	6,069,300	283,994	1,346
Decrease in inventory	0	0	(81,494)	0	(81,494)
June 30, 2018	\$ 5,824,932	7,415,177	10,559,431	1,590,245	3,144,254

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-A Fund**

**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 4,076,072	2,881,586	2,880,176	(1,194,486)	(1,410)
Total Revenues	4,076,072	2,881,586	2,880,176	(1,194,486)	(1,410)
<b>Expenditures:</b>					
Instruction	2,116,495	1,177,025	1,177,025	939,470	0
Support services	1,690,105	1,419,402	1,417,993	270,703	1,409
Noninstructional services	52,841	151,246	151,246	(98,405)	0
Total Expenditures	3,859,441	2,747,673	2,746,264	1,111,768	1,409
Excess (Deficiency) of Revenues over (under) Expenditures	216,631	133,913	133,912	(82,718)	(1)
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(216,631)	(133,913)	(133,912)	82,718	1
Total Other Financing Sources (Uses)	(216,631)	(133,913)	(133,912)	82,718	1
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2017	0	0	0	0	0
June 30, 2018	\$ 0	0	0	0	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**

**Budgetary Comparison Schedule**

**IDEA Part B Fund**

**For the Year Ended June 30, 2018**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 1,232,658	1,136,383	1,136,383	(96,275)	0
Total Revenues	1,232,658	1,136,383	1,136,383	(96,275)	0
<b>Expenditures:</b>					
Instruction	577,009	566,424	566,424	10,585	0
Support services	616,649	529,959	529,959	86,690	0
Noninstructional services	9,000	0	0	9,000	0
Total Expenditures	1,202,658	1,096,383	1,096,383	106,275	0
Excess (Deficiency) of Revenues over (under) Expenditures					
	30,000	40,000	40,000	10,000	0
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(30,000)	(40,000)	(40,000)	(10,000)	0
Total Other Financing Sources (Uses)	(30,000)	(40,000)	(40,000)	(10,000)	0
Net Change in Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2017	0	0	0	0	0
June 30, 2018	\$ 0	0	0	0	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\***

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.3679%	0.4288%	0.4394%	0.4151%
District's proportionate share of the net pension liability	\$ 61,157,467	76,594,387	67,922,575	51,058,006
District's covered payroll	\$ 23,598,470	27,431,486	27,452,508	25,364,660
District's proportionate share of the net pension liability as a percentage of its covered payroll	259.16%	279.22%	247.42%	201.30%
Plan fiduciary net position as a percentage of the total pension liability	61%	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 for the years in 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>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
Contractually required contribution	\$ 3,712,754	3,716,759	4,320,459	4,323,770
Contributions in relation to the contractually required contribution	3,712,754	3,716,759	4,320,459	4,323,770
Contribution deficiency (excess)	\$ 0	-	-	-
District's covered payroll	23,573,041	23,598,470	27,431,486	27,452,508
Contributions as a percentage of covered payroll	15.75%	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**

**Required Supplementary Information**

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY**

**OPEB**

**Last 10 Fiscal Years\***

	<u>2018</u>
District's proportion of the net OPEB liability	0.4886%
District's proportionate share of the net OPEB liability	\$ 3,833,927
District's covered payroll	\$ 23,598,470
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	16.25%
Plan fiduciary net position as a percentage of the total OPEB liability	0%

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, 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

Required Supplementary Information

SCHEDULE OF DISTRICT CONTRIBUTIONS

OPEB

Last 10 Fiscal Years

	2018
Contractually required contribution	\$ 163,446
Contributions in relation to the contractually required contribution	163,446
Contribution deficiency (excess)	\$ 0
District's covered payroll	\$ 23,573,041
Contributions as a percentage of covered payroll	0.69%

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.75 was implemented in FYE 6/30/2018, 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 the Year Ended June 30, 2018

#### 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%.

2017:

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumption was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6% to 7%.

# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Required Supplementary Information For the Year Ended June 30, 2018

### (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.

### (3) *Method and assumptions used in calculations of actuarially determined contributions.*

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (June 30, 2015 valuation for the June 30, 2017 fiscal year end). The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	33.9 years
Asset valuation method	5-year smoothed market
Price Inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

### OPEB Schedules

### (1) *Changes of assumptions*

2017: The discount rate was changed from 3.01% for the prior Measurement Date to 3.56% for the current Measurement Date.

### (2) *Changes in benefit provisions*

2017: None

### (3) *Methods and assumptions used in calculations of Actuarially Determined Contributions.* The Actuarially Determined Contributions rates, as a percentage of payroll, used to determine the Actuarially Determined Contribution amounts in the Schedule of Employer Contributions are calculated as of the most recent Valuation Date. The following actuarial methods and assumptions (from the June 30, 2016 actuarial valuation) were used to determine contribution rates reported in that schedule for the year ending June 30, 2017:

Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years, open
Asset valuation method	Market Value of Assets
Price inflation	3 percent
Salary increases, including wage inflation	3.25 percent to 18.50 percent
Initial health care cost trend rates	



HATTIESBURG PUBLIC SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended June 30, 2018

Medicare Supplement Claims	7.75 percent
Pre-Medicare	
Ultimate health care cost trend rates	
Medicare Supplement Claims	5.00 percent
Pre-Medicare	
Year of ultimate trend rates	
Medicare Supplement Claims	2022
Pre-Medicare	
Long-term investment rate of return, net of pension plan investment expense, including price inflation	3.56 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, 2018**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Pass-through Entity Identifying Number	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	N/A	\$ 947,234
National school lunch program	10.555	N/A	2,031,490
National school lunch program - commodities	10.555	N/A	219,874
Summer feeding	10.559	N/A	110,897
Total child nutrition cluster			<u>3,309,495</u>
Fresh fruits and vegetables grant	10.582	N/A	73,042
Subtotal			<u>3,382,537</u>
Total passed-through Mississippi Department of Education			<u>3,382,537</u>
<b>Total U.S. Department of Agriculture</b>			<u><b>3,382,537</b></u>
<b><u>U.S. Department of Defense</u></b>			
Direct Funding:			
Reserve Officers' Training Corps	12.xxx	N/A	63,910
<b>Total U.S. Department of Defense</b>			<u><b>63,910</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	N/A	2,955,913
Title I state agency program for neglected and delinquent children and youth	84.013	N/A	73,771
Career and technical education - basic grants to states	84.048	N/A	70,118
Education for homeless children and youth	84.196	N/A	29,448
English language acquisition grants	84.365	N/A	25,349
Supporting Effective Instruction State Grants	84.367	N/A	430,978
Student support and academic enrichment program grants	84.424	N/A	34,020
Subtotal			<u>3,619,597</u>
Special education cluster:			
Special education - grants to states	84.027	N/A	1,180,331
Special education - preschool grants	84.173	N/A	44,582
Total special education cluster			<u>1,224,913</u>
Total passed-through Mississippi Department of Education			<u>4,844,510</u>
<b>Total U.S. Department of Education</b>			<u><b>4,844,510</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	N/A	23,864
<b>Total U.S. Department of Health and Human Services</b>			<u><b>23,864</b></u>
<b><u>U. S. Federal Emergency Management Agency</u></b>			
Disaster grants - public assistance	97.036	N/A	14,423
<b>Total U.S. Federal Emergency Management Agency</b>			<u><b>14,423</b></u>
 Total for All Federal Awards			 <u><u><b>\$ 8,329,244</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, 2018**

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 31,816,793	24,020,677	1,472,561	2,315,613	4,007,942
Other	13,767,585	3,613,464	437,142	32,560	9,684,419
Total	<u>\$ 45,584,378</u>	<u>27,634,141</u>	<u>1,909,703</u>	<u>2,348,173</u>	<u>13,692,361</u>
Total number of students *	<u>4,073</u>				
Cost per student	<u>\$ 11,192</u>	<u>6,785</u>	<u>469</u>	<u>576</u>	<u>3,362</u>

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

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

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

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

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

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

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# HATTIESBURG PUBLIC SCHOOL DISTRICT

## Notes to the Supplementary Information For the Year Ended June 30, 2018

### 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, 2018. 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 position, or cash flows of the Hattiesburg Public School District.

(2) Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. 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.

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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**

	2018	2017*	2016*	2015*
<b>Revenues:</b>				
Local sources	\$ 17,476,500	17,420,685	17,486,294	16,729,617
Intermediate sources			25,000	
State sources	18,737,418	18,302,873	18,584,904	18,367,117
Federal sources	129,691	98,885	85,993	440,008
Sixteenth section sources	71,921	81,129	73,350	73,533
Total Revenues	36,415,530	35,903,572	36,255,541	35,610,275
<b>Expenditures:</b>				
Instruction	18,496,350	18,250,841	21,196,608	21,812,451
Support services	12,540,111	11,845,777	14,216,082	16,158,408
Noninstructional services	6,710	140,010	143,433	132,218
Sixteenth section	16,282	10,649	21,325	13,499
Debt Service:				
Principal			99,116	176,429
Interest	37,544	74,250	19,982	13,288
Other			5,266	
Total Expenditures	31,096,997	30,321,527	35,701,812	38,306,293
Excess (Deficiency) of Revenues over (under) Expenditures	5,318,533	5,582,045	553,729	(2,696,018)
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued			129,979	
Insurance loss recoveries	10,636	5,947		
Sale of transportation equipment				
Sale of other property		2,000		
Operating transfers in	403,151	120,000	293,211	552,759
Operating transfers out	(1,160,695)	(694,683)	(736,076)	(1,215,925)
Total Other Financing Sources (Uses)	(746,908)	(566,736)	(312,886)	(663,166)
Net Change in Fund Balances	4,571,625	5,015,309	240,843	(3,359,184)
<b>Fund Balances:</b>				
Beginning of period, as previously reported	6,063,341	1,026,836	768,796	4,145,782
Prior period adjustments	5,959	(26,012)	83,128	
Beginning of period, as restated	6,069,300	1,000,824	851,924	4,145,782
Increase (Decrease) in inventory	(81,494)	47,208	(65,931)	(17,802)
End of Period	\$ 10,559,431	6,063,341	1,026,836	768,796

\*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**

	2018	2017*	2016*	2015*
<b>Revenues:</b>				
Local sources	\$ 20,032,955	19,774,417	19,754,799	19,408,270
Intermediate sources			25,000	
State sources	20,724,675	20,626,459	21,496,239	20,970,117
Federal sources	8,672,992	8,840,620	8,577,182	9,500,138
Sixteenth section sources	113,238	120,162	141,850	102,666
Total Revenues	49,543,860	49,361,658	49,995,070	49,981,191
<b>Expenditures:</b>				
Instruction	22,451,374	22,827,514	25,477,740	26,556,016
Support services	16,561,592	14,961,907	16,698,524	19,371,418
Noninstructional services	3,043,880	3,449,181	3,632,060	4,182,225
Sixteenth section	16,282	10,649	21,325	13,499
Facilities acquisition and construction			119,042	3,601,935
Debt service:				
Principal	2,950,293	2,395,416	2,413,116	2,358,429
Interest	558,707	493,829	501,472	532,381
Other	2,250	7,550	12,336	12,317
Total Expenditures	45,584,378	44,146,046	48,875,615	56,628,220
Excess (Deficiency) of Revenues over (under) Expenditures	3,959,482	5,215,612	1,119,455	(6,647,029)
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued			129,979	
Insurance loss recoveries	864,047	5,947	1,986	1,584,962
Subsidy payments on QSCB				139,884
Sale of other property		2,000		
Transfer in to escrow agent	566,539	584,094	373,005	400,000
Operating transfers in	1,563,846	814,683	1,029,287	1,768,684
Transfer to QSCB Escrow Agent	(566,539)	(584,094)	(373,005)	(400,000)
Operating transfers out	(1,563,846)	(814,683)	(1,029,287)	(1,768,684)
Total Other Financing Sources (Uses)	864,047	7,947	131,965	1,724,846
Net Change in Fund Balances	4,823,529	5,223,559	1,251,420	(4,922,183)
<b>Fund Balances:</b>				
Beginning of period, as previously reported	14,431,721	9,286,906	8,011,292	12,944,431
Prior period adjustments	5,959	(162,965)	83,128	
Beginning of period, as restated	14,437,680	9,123,941	8,094,420	12,944,431
Increase (Decrease) in inventory	(104,617)	84,221	(58,934)	(10,956)
End of Period	\$ 19,156,592	14,431,721	9,286,906	8,011,292

\*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, 2018, 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 3, 2018.

**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.

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

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

**Compliance and Other Matters**

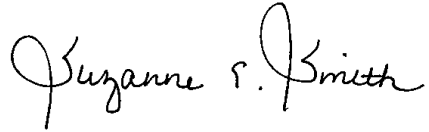
As part of obtaining reasonable assurance about whether Hattiesburg Public School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

**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

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

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 style with a large, looped initial "S".

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
December 3, 2018

**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, 2018. 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, 2018.

**Report on Internal Control Over Compliance**

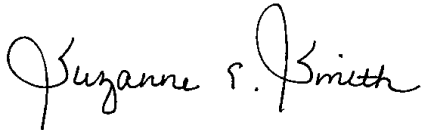
Management of Hattiesburg Public School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hattiesburg Public School District's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

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

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

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

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

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi  
December 3, 2018

## 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, 2018, which collectively comprise Hattiesburg Public School District's basic financial statements and have issued our report thereon dated December 3, 2018. 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 immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

---

**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 fifteen (15) rental payments revealed four (4) payments that were received more than sixty (60) days late and two (2) payments that had not been paid as of balance sheet date June 30, 2018. No lease termination proceedings were documented.

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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.

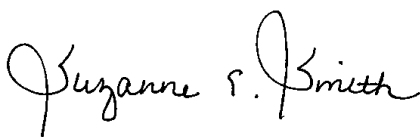
District Response: A review of all 16<sup>th</sup> section lease agreements will start immediately to identify any lease rentals that are past due in payment. Any leases determined to be over 60 days late in payment will be presented to the school board with a recommendation to terminate the lease.

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

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

Suzanne E. Smith, CPA, PLLC  
Brandon, Mississippi

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HATTIESBURG PUBLIC SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2018

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)                     | No            |
| b. Significant deficiency(ies) identified? (Yes/None reported)    | None reported |
| 3. Noncompliance material to financial statements noted? (Yes/No) | No            |

Federal Awards:

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

- |                                                                      |            |
|----------------------------------------------------------------------|------------|
| 5. Type of auditor's report issued on compliance for major programs: | Unmodified |
|----------------------------------------------------------------------|------------|

- |                                                                                                                |    |
|----------------------------------------------------------------------------------------------------------------|----|
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? (Yes/No) | No |
|----------------------------------------------------------------------------------------------------------------|----|

- |                                      |  |
|--------------------------------------|--|
| 7. Identification of major programs: |  |
|--------------------------------------|--|

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.424	Student Support and Academic Enrichment Program

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

- |                                                                                                                                                                                                                            |    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|
| 10. Prior fiscal year audit findings(s) and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings in accordance with 2CFR 200.511(b). (Yes/No) | No |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|

Section II: Financial Statement Findings

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

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.

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