

**FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT**

HAZELWOOD SCHOOL DISTRICT

June 30, 2016

HAZELWOOD SCHOOL DISTRICT

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Independent Auditors' Report

Board of Education
Hazelwood School District

We have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of Hazelwood School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Hazelwood 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 the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Auditors' 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 from 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 auditors' 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 modified cash basis financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities and each major fund of Hazelwood School District as of June 30, 2016, and the respective changes in modified cash basis financial position, thereof for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to that matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hazelwood School District's basic financial statements. The management's discussion and analysis on pages 5 through 15 and budgetary comparison information on pages 39 through 43, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016, on our consideration of Hazelwood School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hazelwood School District's internal control over financial reporting and compliance.

Kuhner, Eck & Braeckel LLP

St. Louis, Missouri
November 3, 2016

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

The management's discussion and analysis (MD&A) of Hazelwood School District's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2016. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the District's financial performance.

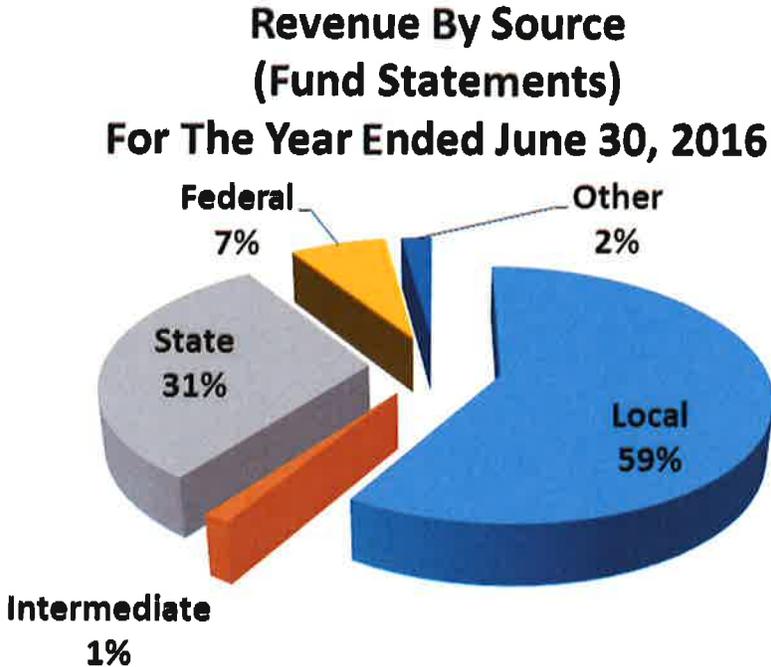
Financial Highlights

- ❖ Total revenues for the fiscal year amounted to \$211.1 million. General revenues accounted for \$173.8 million or eighty-two percent of total revenues. Charges for services, operating grants and contributions, and capital grants and contributions accounted for \$37.3 million or eighteen percent of total revenues.
- ❖ Net assets decreased for the fiscal year 2016 from 2015 by \$18.2 million. This twenty-six percent decrease is due to a decrease in the debt service fund balance (\$3.8 million) and an operating deficit.
- ❖ The primary resources available to the District were:
 - Local revenues, primarily tax receipts, which totaled \$123.7 million or fifty-nine percent of total revenue,
 - State revenues, primarily basic formula, entitlements and special grants, which totaled \$65 million or thirty-one percent of total revenue,
 - Intermediate revenue, primarily state assessed utilities, totaling \$3.0 million or one percent of total revenue,
 - Federal revenues, primarily special grants, totaling \$14.6 million or seven percent of total revenues.
 - Other revenues, primarily certificate of participation refunding proceeds, totaling \$4.7 million or two percent of total revenues.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Financial Highlights (continued)



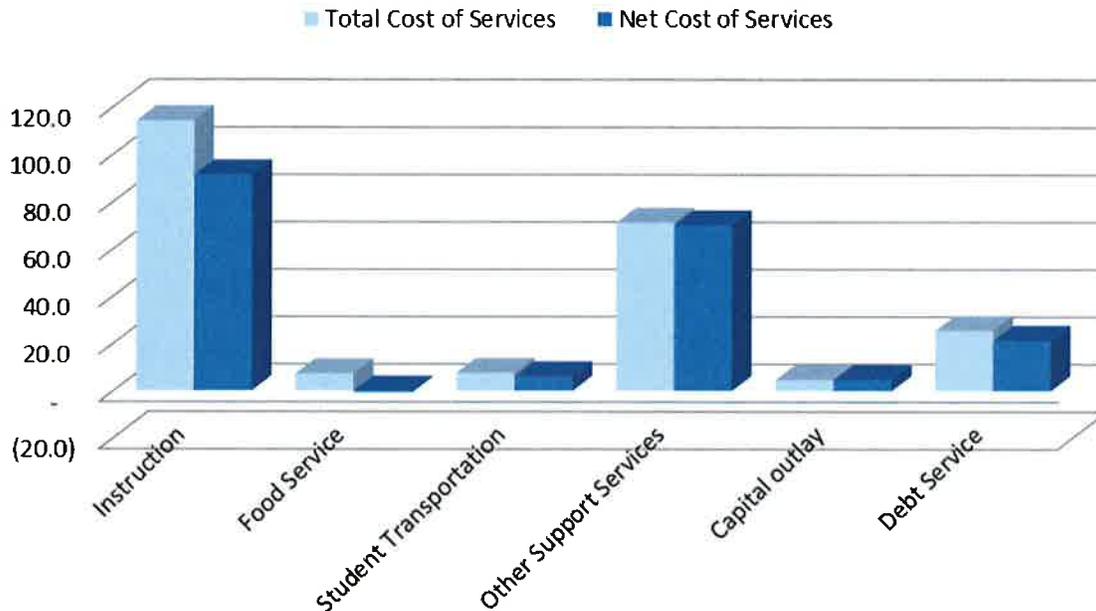
- ❖ District expenses totaled \$229.3 million, of which \$37.3 million were offset by program specific charges for services, grants or contributions. General revenues were not adequate to provide for these programs. The District used reserves to provide for the remainder.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Financial Highlights (continued)

Comparison of Total Cost to Net Cost of Services
June 30, 2016



The District's Basic Financial Statements consist of a series of financial statements and the associated notes to those statements. These statements are organized so the reader can understand the operations of the District as a whole, i.e., an entire operating entity. The "Basic Financial Statements" section, consisting of the Statement of Net Position, and the Statement of Activities, provide highly consolidated financial information, and render a government-wide perspective of the District's financial condition. They present an aggregate view of the District's finances. These statements seek to answer the question, "How did the District do financially during the 2015-2016 fiscal year?" These statements include all *assets and liabilities* using the *modified cash basis* of accounting. The cash basis takes into account the District's current year revenues when received and expenses when paid.

By showing the change in net assets for the year, the reader may ascertain whether the District's financial condition has improved or deteriorated. The changes, which are discussed in the MD&A, may be financial or non-financial in nature. Non-financial factors which may have an impact on the District's financial condition include increases in or erosion of the property tax base within the District, facilities maintenance and condition, mandated educational programs for which little or no funding is provided, or other external factors.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

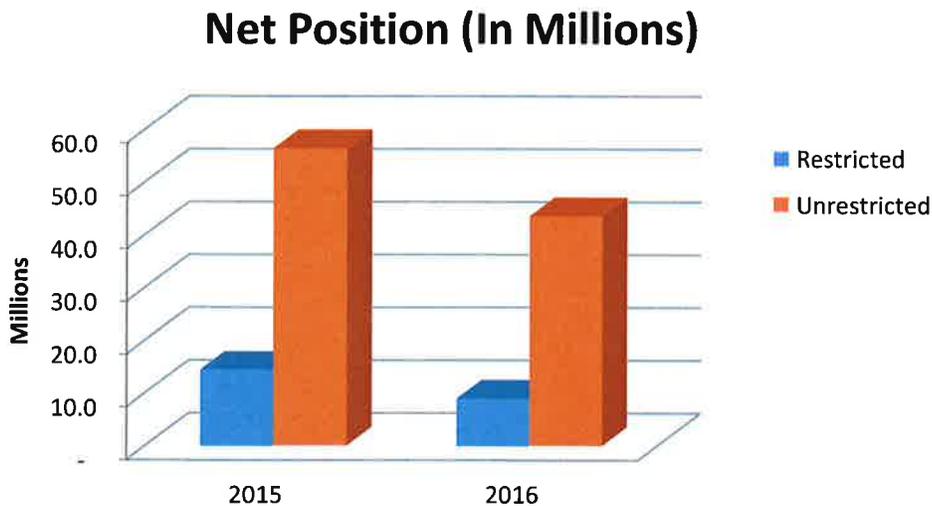
Financial Highlights (continued)

To provide more in-depth reporting of the District's financial position and the results of operations, fund basis financial information is presented in the "Fund Financial Statements" Section. These Fund Financial Statements, which should be familiar to those who have read previous governmental financial statements, report governmental activities on more of a current rather than long-term basis, indicating sources and uses of funding, as well as resources available for spending in future periods.

Fund Financial Statements also provide more in-depth data on the District's most significant funds, specifically its General Fund, Special Revenue (Teachers') Fund, Debt Service Fund, Capital Projects Fund and Bond Issue Funds. These funds are considered "major funds" by the District.

Governmental Activities

The District's net position was \$52.5 million as of June 30, 2016 and \$70.7 million as of June 30, 2015. Of these amounts, the District had a restricted net position of \$9.0 million and \$14.4 million at June 30, 2016, and 2015, respectively. Restricted net positions are reported separately to show legal restraints from debt covenants and enabling legislation that limit the District's ability to use these net position for day-to-day operations.



Our following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Governmental Activities (continued)

Table 1
Net Position
(in millions)
June 30,

	<u>2016</u>	<u>2015</u>
Current and other assets.....	\$ 57.5	\$ 70.7
Total assets.....	<u>\$ 57.5</u>	<u>\$ 70.7</u>
Liabilities.....	\$ 5.0	\$ -
Net Position:		
Restricted.....	9.0	14.4
Unrestricted.....	<u>43.5</u>	<u>56.3</u>
Total net position.....	<u>52.5</u>	<u>70.7</u>
Total liabilities and net position.....	<u>\$ 57.5</u>	<u>\$ 70.7</u>

The \$43.5 million in unrestricted net position of governmental activities represents the *accumulated* results of all past years' operations.

The results of this year's operations for the District as a whole are reported in the Statement of Activities. Table 2 takes the rounded information from that Statement, and rearranges them slightly to present our total revenues versus our total expenses for the year.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Governmental Activities (continued)

Table 2
Changes in Net Position
(in millions)
For the Year Ended June 30,

	2016	2015
Revenues:		
Program revenues:		
Charges for services.....	\$ 4.6	\$ 4.3
Federal grants.....	14.6	14.3
State grants.....	15.0	13.6
Refunding proceeds.....	3.1	-
General revenues:		
Taxes.....	122.8	125.7
State aid.....	50.2	48.3
Grants and other.....	0.8	1.1
Investment earnings.....	-	0.3
Total revenues.....	<u>211.1</u>	<u>207.6</u>
Program/Function Expenses:		
Instruction.....	113.9	111.3
Food service.....	7.1	7.1
Student transportation.....	7.4	7.3
Other support services.....	70.9	72.4
Capital outlay.....	4.6	8.0
Debt service.....	25.4	21.5
Total expenses.....	<u>229.3</u>	<u>227.6</u>
Increase (decrease) in net position.....	<u>\$ (18.2)</u>	<u>\$ (20.0)</u>

As reported in the *Statement of Activities*, the cost of the District's activities for the year ended June 30, 2016, was \$229.3 million. However, not all of this cost was borne by the taxpayers of Hazelwood School District. Of this amount, \$4.6 million was paid by those who used or benefited from the services rendered (e.g. charges for school lunches), and \$32.7 million was paid through various federal and state grants. Consequently, the net cost of \$192 million, after taking into consideration these fees, and subsidies, was paid by the taxpayers of the District and the State of Missouri.

Table 3 shows the total cost of services and the net cost of these services (after charges for services and grants received) for the largest categories of expense of the District for the year ended June 30, 2016. The "net cost" presentation allows District taxpayers to determine the remaining cost of the various categories which were borne by them, and allows them the opportunity to assess the cost of each of these functions in comparison to the perceived benefits received. Costs associated with building operations are not allocated to the various functions and are included in "Other Support Services".

HAZELWOOD SCHOOL DISTRICT

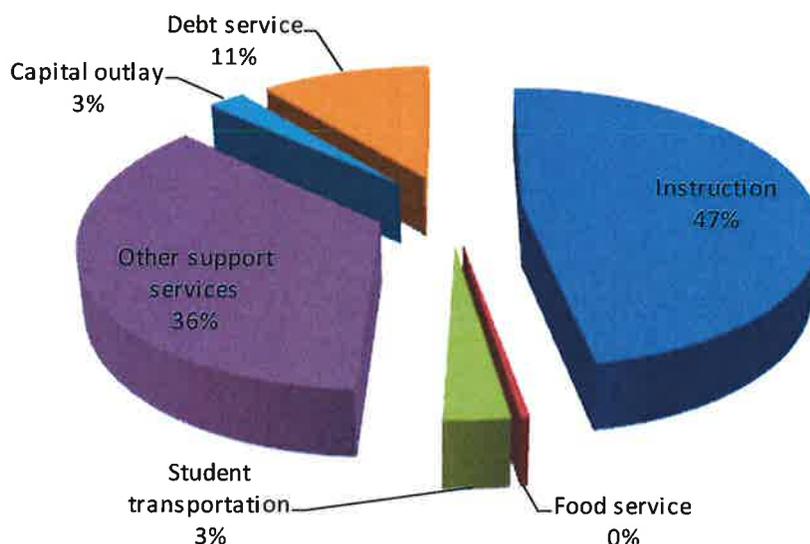
MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Governmental Activities (continued)

Table 3
Total and Net Cost of Activities
(in millions)
For The Year Ended June 30,

	2016		2015	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instruction.....	113.9	\$ 91.1	111.3	\$ 90.0
Food service.....	7.1	(0.7)	7.1	0.3
Student transportation.....	7.4	6.0	7.3	5.6
Other support services.....	70.9	69.8	72.4	71.2
Capital outlay.....	4.6	4.6	8.0	8.0
Debt service.....	25.4	21.2	21.5	20.3
	<u>\$ 229.3</u>	<u>\$ 192.0</u>	<u>\$ 227.6</u>	<u>\$ 195.4</u>

Net Cost of Services
For The Year Ended June 30, 2016



The District's Funds

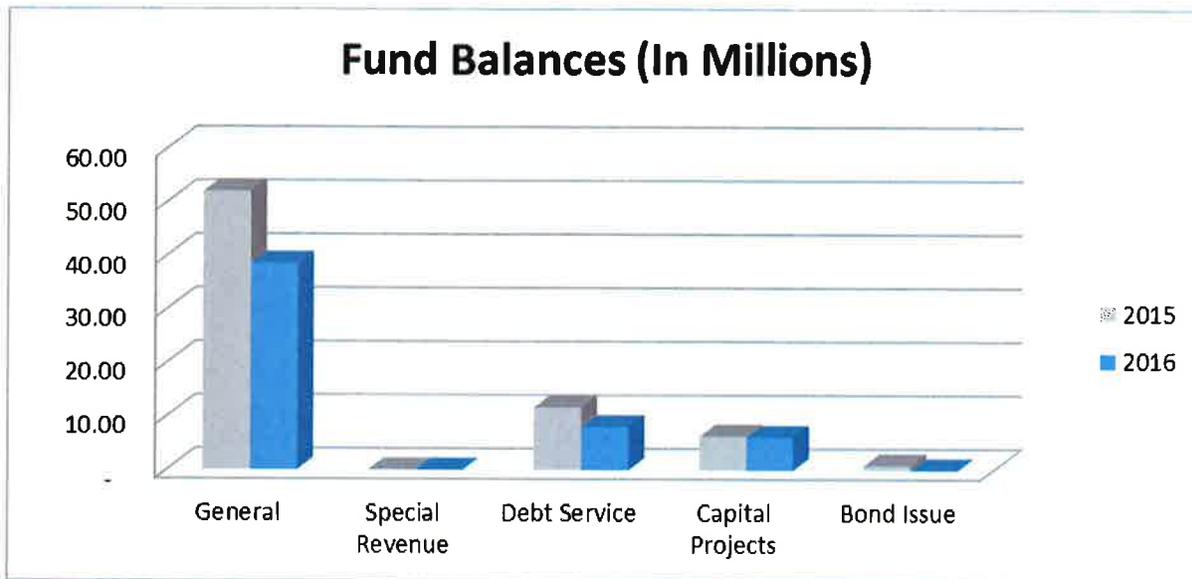
The District uses funds to control and manage money for particular purposes. Some funds are required to be established by state law or by bond covenants. The fund basis financial statements allow the District to demonstrate its stewardship over and accountability for resources provided by taxpayers and other entities. These statements also allow the reader to obtain more insight into the financial workings of the District, and assess further the District's overall financial health.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

The District's Funds (continued)

The District's fund balances decreased from total fund balances of \$70.7 million at June 30, 2015 to \$52.5 million at June 30, 2016. This decrease is due primarily to an operating deficit.



To eliminate the deficit balance in the Special Revenue Fund, the District transferred \$59.6 million from the General Fund. The District completed the fiscal year ended June 30, 2016, with combined operating fund balances of \$38.5 million, as compared to combined operating fund balances of \$52 million as of June 30, 2015. Operating fund balances equal approximately fifteen and twenty-six percent of annual operating expenses for the fiscal years ended June 30, 2016 and 2015, respectively.

General Fund and Special Revenue Fund Budgetary Highlights

Over the course of the year, the District revises its budget to take into consideration significant changes in revenues or expenditures. The original budget for the District was adopted on June 16, 2015 and the final budget amendment was adopted on June 21, 2016.

Schedules showing the District's original and final budget compared with actual operating results for the general and special revenue funds are provided in the Supplementary Information.

Significant revisions to the general fund were made to add revenues and expenditures for grants received during the year.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Debt Administration

At June 30, 2016, the District had outstanding general obligation bonded indebtedness of \$238,249,121, as compared to \$246,704,121 at June 30, 2015. During the upcoming 2016-2017 fiscal year, \$8,930,000 of the outstanding bonds will be retired, leaving a long-term balance outstanding of \$229,319,121. Article VI, Section 26(b), Constitution of Missouri, limits the outstanding amount of authorized general obligation bonds of a District to fifteen (15%) percent of the assessed valuation of the District (including State assessed railroad and utility), plus amounts available in the Debt Service Fund for repayment of this debt. The District's net debt, which is the total bonds outstanding less the amount available in the Debt Service Fund, is in compliance with the debt limit.

Constitutional debt limit.....	\$ 238,674,807
General obligation bonds payable..	(238,249,121)
Amount available in Debt Service Fund.....	<u>7,865,908</u>
Legal Debt Margin.....	<u>\$ 8,291,594</u>

Also at June 30, 2016 the District had outstanding Certificates of Participation totaling \$4,445,000. During the upcoming 2016-2017 fiscal year, \$1,430,000 of the outstanding certificates will be retired by lease payments from the District, leaving a long-term balance outstanding of \$3,015,000.

Economic Factors and Next Year's Budget

The Hazelwood School District is financially solid, however, the district's fund balances have declined in each of the last three fiscal years due primarily to the impact of lower property tax revenues. The District's Board of Education's adopted policy is to maintain a minimum of fifteen percent of annual operating expenditures in its unrestricted operating fund balances. Historically, the District has only used excess operating balances for one-time capital purchases and infrastructure repairs and improvements. The District anticipates an operating budget shortfall due to a cumulative decline of twenty-two percent in property tax revenue caused by decreases in the District's assessed valuation. Given the balances in excess of fifteen percent, the District will use some balances to cover operating deficits for the next year. This will allow the District to protect classroom instruction and other services provided to students.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED JUNE 30, 2016

Economic Factors and Next Year's Budget (continued)

St. Louis County levies taxes against real and tangible personal property, other than inventory of merchants and manufacturers and household goods of individuals. The county undergoes reassessment every odd numbered year. The most recent reassessment during 2015 resulted in decreased assessed valuations in the District. Personal property assessed value increased, however, total assessed valuation decreased compared to 2014. The 2016-17 budget reflects an overall increase in total assessed valuation of \$13 million, equaling a .8% increase. Tax revenue for the fiscal year ended June 30, 2016 is projected to be approximately \$3.7 million more than the district received during the year ended June 30, 2016. The District's operating tax rates are at the maximum approved by taxpayers, so they cannot be increased to offset the decrease in assessed values without voter approval. The District still expects more stable or slightly increasing revenues from local property taxes for the following 2-3 years based on stabilizing residential and commercial values.

The majority of state funding from the State of Missouri is received through the basic formula apportionment. The 2016-17 budget reflects approximately \$971,000 more in total state revenue compared to the amount the District received in the 2015-16 fiscal year.

The State of Missouri has experienced budget deficits in the past, which required cuts to state programs and expenditures in order to balance its budget as required by the state constitution, similar to most states across the nation. Nonetheless, the appropriations for K-12 education funding have remained at the same level over the past several years, and increased in each of the last three years.

In response to decreasing revenue in general due to the nation's economic downturn, the District has continued to review all personnel positions and eliminated some positions through attrition. In recent years, the District had been preparing for decreasing revenue. During the 2013-14 fiscal year, the District began extensive community engagement programs for both a strategic plan and instructional programs ("Hazelwood Next"), and to review the budget, operations and make recommendations in order to improve the fiscal stability of the District ("Budget Advisory Committee"). The Board approved cuts of approximately \$6 million in expenditures for 2016-17. Again in 2016-17, the District budget reflects the use of some of its operating fund balances to protect its instructional programs.

Enrollment has remained stable or decreased slightly over the past few years and is projected to remain relatively stable or decrease slightly.

HAZELWOOD SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - UNAUDITED
JUNE 30, 2016

Economic Factors and Next Year's Budget (continued)

The District continues to review bond issues and Certificates of Participation (COPS) for refunding opportunities at lower interest rates for debt service savings. On December 20, 2015 the District issued \$2,990,000 in Refunding Certificates of Participation with interest rates ranging from 2% to 3%. The District used the net proceeds plus \$831,063 available in an escrow fund to purchase U.S. government securities to advance refund \$3,740,000 of outstanding 2006 Certificates of Participation with interest rates ranging from 4.4% to 4.625%. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2006 certificates. As a result, that portion of the 2006 certificates is considered defeased, and the District has removed the liability from its accounts. The advance refunding reduced total debt service payments by \$205,566 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$162,220. The District anticipates a general obligation bond refunding in December, 2016.

The largest increase in expenditures is expected to be for salaries and related benefits in order to remain competitive among other districts in the St. Louis metropolitan area. The District is committed to keeping and recruiting the best employees.

Contacting The District's Financial Management

While these Basic Financial Statements are designed to provide full and complete disclosure of the financial condition and operations of the District, citizens groups, taxpayers, students, other District officials, investors or creditors may need further details. To obtain such details, please contact Richard Carver, Interim CFO, at the Hazelwood School District, 15955 New Halls Ferry Road, Florissant, Missouri 63031, or by calling (314) 953-5015 during regular office hours, Monday – Friday, 7:30 a.m. to 4:30 p.m. Mr. Carver's e-mail address is rcarver@hazelwoodschoools.org.

HAZELWOOD SCHOOL DISTRICT

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2016

ASSETS	<u>Governmental Activities</u>
Cash and investments.....	\$ 48,693,995
Restricted cash and investments.....	<u>8,816,103</u>
TOTAL ASSETS.....	<u>\$ 57,510,098</u>
 LIABILITIES	
Payroll withholdings.....	\$ 5,010,725
 NET POSITION	
Restricted for:	
Capital projects.....	787,979
Debt service.....	7,865,908
Child Nutrition Program.....	341,209
Unrestricted.....	<u>43,504,277</u>
TOTAL NET POSITION.....	<u>52,499,373</u>
TOTAL LIABILITIES AND NET POSITION.....	<u>\$ 57,510,098</u>

The accompanying notes are an integral part of this statement.

HAZELWOOD SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Total Governmental Activities
GOVERNMENTAL ACTIVITIES:					
Instruction.....	\$ 113,941,104	\$ 3,244,441	\$ 19,520,396	\$ 20,694	\$ (91,155,573)
Attendance.....	348,408	-	-	-	(348,408)
Guidance.....	6,298,844	-	-	-	(6,298,844)
Health services.....	2,558,615	-	-	-	(2,558,615)
Improvement of instruction.....	6,755,743	-	358,458	-	(6,397,285)
Professional development.....	419,444	-	506,775	-	87,331
Media services.....	3,389,529	-	-	-	(3,389,529)
Board of Education services.....	1,826,216	-	-	-	(1,826,216)
Executive administration.....	2,276,562	-	-	-	(2,276,562)
Building level administration.....	11,748,558	-	-	-	(11,748,558)
Business, fiscal and internal services.....	2,411,448	-	-	-	(2,411,448)
Operation of plant.....	22,442,507	-	-	-	(22,442,507)
Security services.....	3,011,407	-	-	-	(3,011,407)
Pupil transportation.....	7,367,633	46,111	1,266,440	-	(6,055,082)
Food service.....	7,114,049	1,279,745	6,552,831	-	718,527
Central office support services.....	5,379,140	-	-	-	(5,379,140)
Adult continuing education.....	1,337	-	-	-	(1,337)
Community services.....	2,034,578	26,175	236,792	-	(1,771,611)
Capital outlay.....	4,558,122	-	-	-	(4,558,122)
Debt service:					
Principal retirements.....	9,865,000	-	-	-	(9,865,000)
Interest.....	11,681,762	-	1,256,126	-	(10,425,636)
Other expenses.....	3,912,057	-	2,988,721	-	(923,336)
TOTAL GOVERNMENTAL ACTIVITIES.....	\$ 229,342,063	\$ 4,596,472	\$ 32,686,539	\$ 20,694	(192,038,358)
General revenues					
Taxes					
Property taxes.....					97,328,268
Sales taxes.....					16,833,476
M&M surtax.....					5,642,346
Other taxes.....					2,988,739
State aid.....					50,170,720
Grants and contributions not restricted to specific programs.....					781,769
Sale of property.....					675
Investment earnings.....					56,425
TOTAL GENERAL REVENUES.....					173,802,418
CHANGE IN NET POSITION.....					(18,235,940)
NET POSITION - BEGINNING OF YEAR.....					70,735,313
NET POSITION - END OF YEAR.....					\$ 52,499,373

The accompanying notes are an integral part of this statement.

HAZELWOOD SCHOOL DISTRICT

BALANCE SHEET - MODIFIED CASH BASIS -
GOVERNMENTAL FUNDS

June 30, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	2013 Bond Issue Fund	Total Governmental Funds
ASSETS						
Cash and investments.....	\$ 43,359,556	\$ -	\$ -	\$ 5,334,439	\$ -	\$ 48,693,995
Restricted cash and investments.....	-	-	8,028,124	787,846	133	8,816,103
Due from Debt Service Fund.....	162,216	-	-	-	-	162,216
TOTAL ASSETS.....	\$ 43,521,772	\$ -	\$ 8,028,124	\$ 6,122,285	\$ 133	\$ 57,672,314
LIABILITIES						
Payroll withholdings	\$ 5,010,725	\$ -	\$ -	\$ -	\$ -	\$ 5,010,725
Due to General Fund	-	-	162,216	-	-	162,216
TOTAL LIABILITIES.....	5,010,725	-	162,216	-	-	5,172,941
FUND BALANCES						
Restricted for:						
Capital projects.....	-	-	-	787,846	133	787,979
Child Nutrition Program.....	341,209	-	-	-	-	341,209
Retirement of long-term debt.....	-	-	7,865,908	-	-	7,865,908
Assigned for:						
Professional development.....	283,208	-	-	-	-	283,208
Student activities.....	513,897	-	-	-	-	513,897
Capital projects.....	-	-	-	5,334,439	-	5,334,439
Next year's budget.....	7,482,647	-	-	-	-	7,482,647
Unassigned.....	29,890,086	-	-	-	-	29,890,086
TOTAL FUND BALANCES.....	38,511,047	-	7,865,908	6,122,285	133	52,499,373
TOTAL LIABILITIES AND FUND BALANCE.....	\$ 43,521,772	\$ -	\$ 8,028,124	\$ 6,122,285	\$ 133	\$ 57,672,314

The accompanying notes are an integral part of this statement.

HAZELWOOD SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	2013 Bond Issue Fund	Total Governmental Funds
REVENUES:						
Local sources:						
Property taxes.....	\$ 81,077,597	\$ -	\$ 14,285,465	\$ -	\$ -	\$ 95,363,062
Sales taxes.....	-	16,833,477	-	-	-	16,833,477
Investment income.....	46,486	3,694	5,048	845	352	56,425
Student activities.....	1,607,515	-	-	-	-	1,607,515
Food service.....	1,279,744	-	-	-	-	1,279,744
M&M surtax.....	2,313,362	-	-	3,328,984	-	5,642,346
Other local.....	2,633,274	-	313,776	6,250	-	2,953,300
Total local.....	88,957,978	16,837,171	14,604,289	3,336,079	352	123,735,869
County sources:						
State assessed utilities.....	2,485,496	-	376,610	-	-	2,862,106
Other county.....	-	175,560	-	-	-	175,560
Total county.....	2,485,496	175,560	376,610	-	-	3,037,666
State sources:						
Basic formula.....	12,669,374	38,008,121	-	-	-	50,677,495
State grants and contributions.....	4,192,845	7,810,203	-	2,304,349	-	14,307,397
Total state.....	16,862,219	45,818,324	-	2,304,349	-	64,984,892
Federal sources.....	9,649,245	3,467,377	1,170,849	356,602	-	14,644,073
Other.....	1,629,520	-	-	-	-	1,629,520
Total Revenues.....	119,584,458	66,298,432	16,151,748	5,997,030	352	208,032,020
EXPENDITURES:						
Current:						
Instruction.....	11,049,988	102,891,116	-	-	-	113,941,104
Attendance.....	348,408	-	-	-	-	348,408
Guidance.....	1,374,766	4,924,078	-	-	-	6,298,844
Health services.....	2,558,615	-	-	-	-	2,558,615
Improvement of instruction.....	3,102,086	3,653,657	-	-	-	6,755,743
Professional development.....	262,832	156,612	-	-	-	419,444
Media services.....	474,172	2,915,357	-	-	-	3,389,529
Board of Education services.....	1,826,216	-	-	-	-	1,826,216
Executive administration.....	690,619	1,585,943	-	-	-	2,276,562
Building level administration.....	3,753,725	7,994,833	-	-	-	11,748,558
Business, fiscal and internal services.....	2,411,448	-	-	-	-	2,411,448
Operation of plant.....	22,442,507	-	-	-	-	22,442,507
Security services.....	3,007,357	4,050	-	-	-	3,011,407
Pupil transportation.....	7,367,633	-	-	-	-	7,367,633
Food services.....	7,114,049	-	-	-	-	7,114,049
Central office support services.....	4,727,766	651,374	-	-	-	5,379,140
Adult continuing education.....	1,337	-	-	-	-	1,337
Community services.....	899,109	1,135,469	-	-	-	2,034,578
Capital outlay.....	-	-	-	3,709,534	848,588	4,558,122
Debt service:						
Principal retirements.....	-	-	8,455,000	1,410,000	-	9,865,000
Interest.....	-	-	11,489,975	191,787	-	11,681,762
Other charges.....	-	-	5,380	81,970	-	87,350
Total Expenditures.....	73,412,633	125,912,489	19,950,355	5,393,291	848,588	225,517,356
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	46,171,825	(59,614,057)	(3,798,607)	603,739	(848,236)	(17,485,336)
OTHER FINANCING SOURCES (USES):						
Transfers (to) from other funds.....	(59,614,057)	59,614,057	-	-	-	-
Refunding bonds.....	-	-	-	2,990,000	-	2,990,000
Premium on sale of bonds.....	-	-	-	83,428	-	83,428
Payments to refunded bond escrow agent.....	-	-	-	(3,824,707)	-	(3,824,707)
Sale of other property.....	-	-	-	675	-	675
Total Other Financing Sources (Uses).....	(59,614,057)	59,614,057	-	(750,604)	-	(750,604)
NET CHANGES IN FUND BALANCES.....	(13,442,232)	-	(3,798,607)	(146,865)	(848,236)	(18,235,940)
FUND BALANCES, BEGINNING OF YEAR.....	51,953,279	-	11,664,515	6,269,150	848,369	70,735,313
FUND BALANCES, END OF YEAR.....	\$ 38,511,047	\$ -	\$ 7,865,908	\$ 6,122,285	\$ 133	\$ 52,499,373

The accompanying notes are an integral part of this statement.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hazelwood School District (the "District") operates under the regulations pursuant to Section 162.092 RSMo of the Public School Laws of Missouri, which designates a Board of Education to act as the governing authority. The District provides educational services.

As discussed further in Note 1, these financial statements are presented on the modified cash basis of accounting. This modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB).

Principles Determining the Scope of Reporting Entity

The financial statements of the District consist only of the funds of the District. The District has no financial accountability for any other governmental entity, since no other entities are considered to be controlled or dependent on the District. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective Board. In addition, the District is not aware of any entity which would exercise such oversight which would result in the District being considered a component unit of the entity.

In addition, the District is associated with other organizations which may include various Parent Teacher Associations (PTA's), booster clubs, etc. Under governmental standards for defining the financial reporting entity, these organizations may be considered to be part of the reporting entity of the District. However, the balances and activities of such organizations have not been included in these financial statements due to the overall immateriality to the District.

Fund Accounting

The accounts of the District are organized on the basis of legally established funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. District resources are allocated to, and accounted for, in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District's policy is to close all encumbrances at the end of each fiscal year. The following fund types are used by the District:

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Funds

Governmental Funds are those through which most functions of the District are financed. The District's expendable financial resources are accounted for through Governmental Funds. The measurement focus is upon determination of changes in the financial position rather than upon net income determination. The following are the District's governmental funds, each of which the District considers to be a major fund:

General Fund

This fund is the general operating fund of the District and accounts for expenditures for noncertified employees, pupil transportation costs, operation of plant, fringe benefits, student body activities, community services, the food service program, and any expenditures not required or permitted to be accounted for in other funds.

Special Revenue Fund

A special revenue fund accounts for restricted sales tax and revenue sources assigned for the payment of salaries and certain benefits of certified teachers involved in administration and instruction.

Debt Service Fund

This fund is used to account for the accumulation of resources for, and the payment of, principal, interest and fiscal charges on long-term debt.

Capital Projects Fund

This fund is used to account for the proceeds of long-term debt, taxes and other revenues assigned for acquisition or construction of major capital assets.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bond Issue Fund

This fund is used to account for the proceeds of the 2013 general obligation bond issued for facility improvements. The 2013 bond is currently being used to make improvements at high schools, such as libraries, science labs, new STEM (science, technology, engineering and math) studios, and increasing school safety. The bond is also upgrading facilities on a district-wide basis, such as replacing out of date heating and cooling systems, improving handicapped accessibility, improving electric power and technology data infrastructure, and other classroom improvements.

Basis of Presentation

Government-wide Financial Statements:

The statement of net position and the statement of activities present financial information about the District as a whole. These statements include the financial activities of the primary government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of net position presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with and are clearly identifiable to a particular function. Amounts reported as *program revenues* include (a) charges paid by the students for tuition, fees, or goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as *program revenues* are presented as general revenues and include all property taxes. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

The fund financial statements provide information about the District's funds. A balance sheet and statement of revenues, expenditures, and changes in fund balances are presented. The emphasis of fund financial statements is on *major* governmental funds, each displayed in a separate column. The District considers each of its funds to be major.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting

Measurement Focus:

The government-wide financial statements are prepared using the economic resources measurement focus, within the limitations of the modified cash basis of accounting. The accounting objectives under this measurement focus are the determination of changes in net position, financial position and cash flows. All assets and liabilities, whether current or noncurrent, are reported.

The governmental fund financial statements are prepared using the current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included in the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.

Basis of Accounting:

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and fund financial statements are prepared using a modified cash basis of accounting. This basis of accounting recognizes assets, liabilities, net position/fund balances, revenues, and expenditures/expenses when they result from cash transactions except that the purchases of investments are recorded as assets and payroll withholdings are recorded as liabilities. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of this modified cash basis of accounting, certain assets (such as accounts receivable and capital assets), certain revenues (such as revenue for billed or provided services not yet collected), certain liabilities (such as accounts payable, general and leasehold revenue bonds and obligations under capital leases) and certain expenses (such as expenses for goods or services received but not yet paid) are not recorded in these financial statements.

If the District utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and are payable by December 31. The County collects the property tax and remits it to the District.

The assessed valuation of the tangible taxable property for the calendar years 2015 and 2014 for purposes of local taxation was \$1,591,165,380 and \$1,598,735,070, respectively.

The blended tax levy per \$100 of the assessed valuations of tangible taxable property for the calendar year 2015 for purposes of local taxation was:

General Fund	\$ 5.3468
Debt Service Fund.....	<u>0.9400</u>
Total.....	<u>\$ 6.2868</u>

The receipts of current and delinquent property taxes during the fiscal year ended June 30, 2016, aggregated approximately 95% of the current assessment computed on the basis of the levy as shown above.

Pooled Cash and Temporary Investments

Cash resources are combined to form a pool of cash and temporary investments which is managed by the District Treasurer, except resources from the Debt Service Fund, as state law requires these deposits to be separately maintained.

The District may invest in United States Treasury bills, United States Treasury notes, bonds, government agency and instrumentality obligations, repurchase agreements collateralized by government securities, time certificates of deposit, bankers' acceptances issued by domestic commercial banks, and commercial paper issued by domestic corporations.

Interest income earned is allocated to contributing funds based on each funds' proportionate share of funds invested.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Cash and Investments

Restricted cash and investments represent amounts whose use is limited by legal requirements and consist of unexpended bond proceeds, unexpended proceeds from certificates of participation, and amounts escrowed for future general obligation bond principal and interest payments in conjunction with the Missouri School District Direct Deposit Program as discussed in Note 2 and Note 3.

Fund Balance

In the fund financial statements, governmental funds report the following classifications of fund balance:

Nonspendable – includes amounts that cannot be spent because they are either not spendable in form or are legally or contractually required to be maintained intact.

Restricted – includes amounts restricted by external sources or by constitutional provision or enabling legislation.

Committed – includes amounts that can only be used for specific purposes determined by a resolution of the Board of Education. Commitments may be modified or rescinded only through resolutions approved by the Board of Education.

Assigned – includes amounts that the District intends to use for a specific purpose, but do not meet the definition of restricted or committed fund balance. Under the District's adopted policy, amounts may be assigned by the Chief Financial Officer.

Unassigned – includes all amounts not included in other spendable classifications. The District's policy requires a minimum unassigned fund balance of 15% of the prior year General Fund and Special Revenue Fund expenditures in order to cover unexpected expenditures and revenue shortfalls.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance (continued)

The details of the fund balances are included in the Governmental Funds Balance Sheet.

Net Position

Net position represents the difference between assets and liabilities. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. All other net position is reported as unrestricted. The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Interfund Activity

Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. A transfer of \$59,614,057 was made from the General Fund to the Special Revenue Fund to cover the Special Revenue Fund expenditures in excess of revenues.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

2. CASH AND INVESTMENTS

The District is governed by the deposit and investment limitations of state law. The depository bank is to pledge securities in addition to Federal Deposit Insurance Corporation (FDIC) insurance at least equal to the amount on deposit at all times in accordance with sections 110.010 and 110.020 of the Missouri Revised Statutes.

The District may invest the funds in bonds or any instrument permitted by law for the investment of state money's in accordance with section 165.051 of the Missouri Revised Statutes. The District participates in the Missouri School District Direct Deposit Program which is a mechanism for public school bond repayments through the MOHEFA Bond Program. It authorizes the direct deposit of a portion of the school district's state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds. The direct deposits occur monthly and the balance is withdrawn every six months to pay the debt service requirement of the related bond issues. At June 30, 2016, the District had \$8,028,123 in this program, which has been included in investments.

The District also participates in the Missouri Securities Investment Program (MOSIP). MOSIP is an external investment pool in which a District's monies are pooled with other Districts' monies to purchase investments that are permitted by state statutes. The District's monies purchase a pro-rata share of the pool. A board of directors comprised of Missouri school administrators, school board members, and school business officials provides governance and oversight of MOSIP's operations. The board seeks to maintain a stable net asset value of \$1 per share.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

2. CASH AND INVESTMENTS (continued)

The deposits and investments held at June 30, 2016 and reported at cost, are as follows:

<u>Type</u>	<u>Maturities</u>	<u>Carrying Value</u>
Deposits:		
Demand deposits	N/A	\$ 18,757,256
Investments:		
Money market mutual funds	N/A	5,790,483
External investment pool		
MOHEFA	N/A	8,028,124
MOSIP	N/A	10,000,000
Commercial paper	< 1 year	<u>14,934,235</u>
Total Deposits and Investments		<u>\$ 57,510,098</u>
<u>Type</u>		<u>Carrying Value</u>
Reconciliation to financial statements:		
Cash and investments		\$ 48,693,995
Cash and investments - restricted		<u>8,816,103</u>
		<u>\$ 57,510,098</u>

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District requires that all deposits with financial institutions be collateralized in an amount at least equal to uninsured deposits. As of June 30, 2016, none of the District's deposits were exposed to custodial credit risk.

Custodial Credit Risk - Investments - Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by the party who sold the security to the district or its agent but not in the government's name. All investments, evidenced by individual securities, are registered in the name of the District or of a type that are not exposed to custodial credit risk.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

2. CASH AND INVESTMENTS (continued)

Investment Interest Rate Risk – The District minimizes the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investments portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by investing operating funds primarily in shorter-term securities. Investments in banker's acceptances and commercial paper shall mature in no more than 180 days from purchase date and all other investments shall mature and become payable in no more than five (5) years from purchase date. Maturities of investments held at June 30, 2016, are provided in the schedule above.

Investment Credit Risk – The District has policies in place to minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by pre-qualifying the institution with which the District will do business and by diversifying the portfolio so that potential losses on individual securities will be minimized. At June 30, 2016, the District's investments were rated as follows:

<u>Rating</u>	<u>Amount</u>
AAA (S&P)	\$ 10,000,000
A-1 (S&P)	14,934,235

Concentration of Investment Credit Risk – As a means of limiting its exposure to losses arising from concentration of investments, the District's investment policy mandates that the portfolio not have a concentration of assets in specific maturity, specific issuer or specific class of securities. At a minimum, diversification standards by security type and issuer are established as: (a) U.S. treasuries and securities having principal and/or interest guaranteed by the U.S. Government, 100%; (b) collateralized time and demand deposits, 100%; (c) U.S. Government agencies, and government sponsored enterprises, no more than 60%; (d) collateralized repurchase agreements, no more than 50%; (e) U.S. Government agency callable securities, no more than 30%; (f) commercial paper and bankers' acceptances, no more than 50%.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

2. CASH AND INVESTMENTS (continued)

Investments in any one issuer representing 5% or more of total investments (excluding investments issued by or explicitly guaranteed by the U.S. Government, investments in mutual funds, investments in external investment pools and investments in other pooled investments) are as follows at June 30, 2016:

<u>Issuer</u>	<u>Investment Type</u>	<u>Percentage</u>
Credit Agricole	Commerical Paper	13%
Societe Generale	Commerical Paper	13%
Bank Tokyo	Commerical Paper	13%

3. LONG-TERM DEBT

The following is a summary of changes occurring in long-term debt for the year ended June 30, 2016.

	<u>Balance</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2016</u>	<u>Amounts Due</u> <u>Within One</u> <u>Year</u>
Governmental Activities:					
Bonds Payable:					
General obligation bonds	\$ 246,704,121	\$ -	\$ (8,455,000)	\$ 238,249,121	\$ 8,930,000
Certificates of Participation:					
Certificates	6,605,000	2,990,000	(5,150,000)	4,445,000	1,430,000
Total governmental activities long-term liabilities	<u>\$ 253,309,121</u>	<u>\$ 2,990,000</u>	<u>\$ (13,605,000)</u>	<u>\$ 242,694,121</u>	<u>\$ 10,360,000</u>

Payments on the general obligation bonds are made by the debt service fund. The certificates of participation are paid by the capital projects fund.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

3. LONG-TERM DEBT (continued)

Bonds Payable

Bonds payable at June 30, 2016, consist of:

\$92,550,000 2007A general obligation refunding and improvement bonds, due in varying installments through 2027, average interest rate of 4.66%	\$37,450,000
\$59,000,000 2010A general obligation bonds, due in varying installments through 2030, average interest rate of 6.10%	59,000,000
\$61,450,000 2012 general obligation bonds, due in varying installments through 2032, average interest rate of 4.08%	59,950,000
\$39,999,121 2013A general obligation bonds, due in varying installments through 2033, average interest rate of 4.85%	39,999,121
\$4,985,000 2013B taxable general obligation refunding bonds, due in varying installments through 2018, average interest rate of 4.00%	2,525,000
\$41,740,000 2014 general obligation refunding bonds, due in varying installments through 2026, average interest rate of 4.74%	<u>39,325,000</u>
	<u>\$238,249,121</u>

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

3. LONG-TERM DEBT (continued)

The annual requirements to amortize bonded debt outstanding as of June 30, 2016, are as follows:

Year Ending June 30,	Principal	Interest	Total
2017	\$ 8,930,000	\$ 11,140,213	\$ 20,070,213
2018	9,415,000	10,748,950	20,163,950
2019	9,810,000	10,366,650	20,176,650
2020	10,475,163	9,977,950	20,453,113
2021	10,939,089	9,530,700	20,469,789
2022 - 2026	65,672,580	39,486,138	105,158,718
2027 - 2031	81,697,289	21,046,687	102,743,976
2032 - 2033	41,310,000	2,892,862	44,202,862
Total	<u>\$ 238,249,121</u>	<u>\$ 115,190,150</u>	<u>\$ 353,439,271</u>

Repayment of the bond issues are made through the Missouri School District Direct Deposit Program which is a mechanism for public school bond payments. It authorizes the direct deposit of a portion of the school district's state aid payment by the State of Missouri to a trustee bank that accumulates these payments and then makes the principal and interest payments to the paying agent on the bonds.

The District has \$8,028,124 on deposit with Wells Fargo in conjunction with this program, as discussed in Note 2.

The 2010A bonds were issued as "Build America Bonds" and as "qualified bonds under the Internal Revenue Code." Accordingly, the District receives a subsidy payment from the federal government up to 35% of the amount of each interest payment on these taxable bonds.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

3. LONG-TERM DEBT (continued)

Legal Debt Margin

Article VI, Section 26(b), Constitution of Missouri, limits the outstanding amount of authorized general obligation bonds of a District to fifteen (15%) percent of the assessed valuation of the District (including State assessed railroad and utility). The legal debt margin, computed excluding the assessed valuation of State assessed railroad and utilities, of the District at June 30, 2016, was:

Constitutional debt limit	\$ 238,674,807
General obligation bonds payable	(238,249,121)
Amount available in Debt Service Fund.....	<u>7,865,908</u>
Legal Debt Margin	<u>\$ 8,291,594</u>

Bond Defeasance

In prior years, the District defeased various bond issues by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in the trust funds. The investments and fixed earnings from investments are sufficient to fully service the defeased debt until it is called or matures. For financial reporting purposes, the debt is considered defeased and, therefore, it has been removed as a liability of the District. The outstanding principal of all defeased bonds is \$40,055,000 at June 30, 2016.

Certificates of Participation

The District has issued certificates of participation (COPS) evidencing interest in the right to receive rental payments to be paid by the District pursuant to an annually renewable lease-purchase agreement (the "Lease"). The proceeds of the certificates were used and will be used for the acquisition and installation of certain equipment in District buildings designed to reduce energy consumption or operating costs and increases in school safety and security ("Leased Property".) Pursuant to the lease, the District is leasing from the trustee the equipment acquired and installed in connection with the project.

The Lease provides for, among other things, Basic Rental Payments equal to the COPS proceeds. The Certificates are secured by a security interest in the Leased Property.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

3. LONG-TERM DEBT (continued)

Certificates of Participation (continued)

In addition, the Lease provides that the District's obligations are year to year and such obligations do not extend beyond the District's budgeted expenditures for any respective fiscal year. The District has the option to purchase the Trustee's interest in the Leased Property on any date at a purchase price equal to an amount to provide for the Basic Rent Payments on each Basic Rent Payment date through the term of the lease.

Certificates of participation at June 30, 2016, consist of:

\$3,700,000 Series 2011, due in varying installments through 2018, interest rates ranging between 2% to 3%	\$ 2,185,000
\$2,990,000 Series 2015, due in varying installments through 2019, interest rates ranging between 2% to 3%	<u>2,260,000</u>
	<u>\$ 4,445,000</u>

The following is a schedule of Basic Rent Payments under the Lease, assuming the agreement is renewed each year:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,430,000	\$ 124,263	\$ 1,554,263
2018	2,240,000	90,450	2,330,450
2019	<u>775,000</u>	<u>23,250</u>	<u>798,250</u>
	<u>\$ 4,445,000</u>	<u>\$ 237,963</u>	<u>\$ 4,682,963</u>

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

3. LONG-TERM DEBT (continued)

Certificate Defeasance

On December 20, 2015 the District issued \$2,990,000 in Refunding Certificates of Participation with interest rates ranging from 2% to 3%. The District used the net proceeds plus \$831,063 available in an escrow fund to purchase U.S. government securities to advance refund \$3,740,000 of outstanding 2006 Certificates of Participation with interest rates ranging from 4.4% to 4.625%. These securities were deposited in an irrevocable trust to provide for all future debt service on the refunded portion of the 2006 certificates. As a result, that portion of the 2006 certificates is considered defeased, and the District has removed the liability from its accounts. The advance refunding reduced total debt service payments by \$205,566 resulting in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$162,220.

4. RETIREMENT PLAN

The District contributes to the Public School Retirement System of Missouri (PSRS), a cost-sharing multiple-employer defined benefit pension plan. PSRS provides retirement and disability benefits to full-time (and certain part-time) certified employees and death benefits to members and beneficiaries. Positions covered by PSRS are not covered by Social Security. PSRS benefit provisions are set forth in Chapter 169.010-.141 of the Missouri Revised Statutes. The statutes assign responsibility for the administration of the system to a seven member Board of Trustees. PSRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: The Public School Retirement System of Missouri, P.O. Box 268, Jefferson City, Missouri, 65102, or by calling 1-800-392-6848.

PSRS members are required to contribute 14.50% of their annual covered salary and certain benefits and the District is required to contribute a matching amount. The contribution requirements of members and the District are established and may be amended by the PSRS Board of Trustees. The District's contributions to PSRS for the years ended June 30, 2014 through June 30, 2016 were equal to the required contributions as listed in the table below.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

4. RETIREMENT PLAN (continued)

The District also contributes to The Public Education Employee Retirement System of Missouri (PEERS), a cost-sharing multiple-employer defined benefit pension plan. PEERS provides retirement and disability benefits to employees of the district who work 20 or more hours per week and who do not contribute to PSRS. Positions covered by PEERS are also covered by Social Security. Benefit provisions are set forth in Chapter 169.600-.715 of the Missouri Revised Statutes. The statutes assign responsibility for the administration of the system to the Board of Trustees of PSRS. PEERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: The Public Education Employee Retirement System of Missouri, P. O. Box 268, Jefferson City, Missouri, 65102 or by calling 1-800-392-6848.

PEERS members are required to contribute 6.86% of their annual covered salary and certain benefits and the District is required to contribute a matching amount. The contribution requirements of members and the District are established and may be amended by the Board of Trustees. The District's contributions to PEERS for the years ended June 30, 2014 through June 30, 2016 were equal to the required contributions as listed in the table below.

<u>Year Ended June 30,</u>	<u>PSRS</u>	<u>PEERS</u>
2016	\$14,788,218	\$2,404,474
2015	\$14,689,763	\$2,367,801
2014	\$14,516,211	\$2,348,741

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

5. INSURANCE PROGRAM

The District, along with various other local school districts, participates in the Missouri United School Insurance Council (MUSIC), an insurance association for workers' compensation, general liability and property and casualty insurance. The District, along with various other local school districts, also participates in the CSD Insurance Trust, an insurance association for employee medical, dental, life, vision, long term care, and short and long term disability insurance. The purpose of these associations is to distribute the cost of self-insurance over similar entities. These associations require an annual premium payment to cover estimated claims payable and reserves for claims from each entity. The members of these associations have no legal interest in the assets, liabilities or fund balances of the insurance association. However, the District retains a contingent liability to fund its pro rata share of any deficit incurred by these associations should they cease operations at some future date.

6. COMMITMENTS AND CONTINGENCIES

The District is involved in various lawsuits at June 30, 2016. In the District's opinion, based on consultation with legal counsel, these items will be resolved with no material adverse effect on the District.

The District has entered into leases for office equipment, print shop services network upgrades and chromebooks. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2017.....	\$ 3,305,959
2018.....	2,523,590
2019.....	1,188,570
2020.....	<u>1,188,570</u>
Total.....	<u>\$ 8,206,689</u>

The District receives Federal grants and State funding for specific purposes that are subject to review and audit. These reviews and audits could lead to request for reimbursement or to withholding of future funding for disallowed expenditures or other noncompliance with the terms of grants and funding. The District is not aware of any noncompliance with the Federal or State provisions that might require the District to provide reimbursement.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

6. COMMITMENTS AND CONTINGENCIES (continued)

Each year, the County remits certain unresolved tax payments to the District. When County refunds tax payments to those who are successful in their protests, it withholds the refunded amount from future distributions to taxing districts. Normal withholdings by the County are not material in relation to the District's financial position and results of operations.

7. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 4, the District allows employees who retire from the District to participate in the District's health, dental and life insurance plans. Upon meeting the retirement requirements per PSRS or PEERS, the employees can elect to participate in the District's plans. The retirees must pay for 100% of their coverage for each plan in which they elect to participate. The premiums are based on a single blended rate used for both active employees and retirees. The difference between the amount the retiree is required to pay and the actual cost to the district is considered to be a post employment benefit. The District has not established an irrevocable trust fund for the accumulation of resources for the future payment of benefits under the plan; benefits are paid on a pay as you go basis. A stand alone financial report is not available for the plan. During the current year, 880 retirees participated in the District's insurance plans and paid premiums totaling \$2,575,484.

HAZELWOOD SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS - BUDGET AND ACTUAL - GENERAL FUND - UNAUDITED
YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES :				
Local.....	\$ 95,817,943	\$ 91,402,271	\$ 88,957,978	\$ (2,444,293)
County.....	2,551,516	2,478,445	2,485,496	7,051
State.....	16,683,020	16,894,826	16,862,219	(32,607)
Federal.....	8,385,449	9,761,964	9,649,245	(112,719)
Other.....	1,457,000	1,607,000	1,629,520	22,520
Total Revenues	124,894,928	122,144,506	119,584,458	(2,560,048)
EXPENDITURES:				
Instruction.....	12,787,361	12,252,324	11,049,988	1,202,336
Attendance.....	389,758	365,812	348,408	17,404
Guidance.....	1,137,926	1,440,043	1,374,766	65,277
Health services.....	2,609,927	2,599,990	2,558,615	41,375
Improvement of instruction.....	2,684,807	2,647,685	3,102,086	(454,401)
Professional development.....	225,592	264,661	262,832	1,829
Media services.....	508,478	521,169	474,172	46,997
Board of Education services.....	1,641,718	1,958,489	1,826,216	132,273
Executive administration.....	820,853	739,041	690,619	48,422
Building level administration.....	3,895,031	3,914,743	3,753,725	161,018
Business, fiscal and internal services	2,516,438	2,463,889	2,411,448	52,441
Operation of plant.....	22,516,892	22,690,632	22,442,507	248,125
Security services.....	2,946,576	3,076,899	3,007,357	69,542
Pupil transportation.....	7,554,825	7,805,154	7,367,633	437,521
Food services.....	6,998,202	7,179,137	7,114,049	65,088
Central office support services.....	5,432,217	4,859,097	4,727,766	131,331
Adult continuing education.....	3,730	3,730	1,337	2,393
Community services.....	1,097,965	1,141,995	899,109	242,886
Total Expenditures.....	75,768,296	75,924,490	73,412,633	2,511,857
EXCESS OF REVENUES OVER EXPENDITURES.....	49,126,632	46,220,016	46,171,825	(48,191)
OTHER FINANCING USES:				
Transfers out.....	(59,377,788)	(60,454,567)	(59,614,057)	840,510
NET CHANGE IN FUND BALANCE.....	(10,251,156)	(14,234,551)	(13,442,232)	792,319
FUND BALANCE, BEGINNING OF YEAR.....	52,193,676	51,953,279	51,953,279	-
FUND BALANCE, END OF YEAR.....	\$ 41,942,520	\$ 37,718,728	\$ 38,511,047	\$ 792,319

The accompanying note is an integral part of this schedule.

HAZELWOOD SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 MODIFIED CASH BASIS - BUDGET AND ACTUAL - SPECIAL REVENUE FUND - UNAUDITED
 YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES :				
Local.....	\$ 16,887,720	\$ 16,824,309	\$ 16,837,171	\$ 12,862
County.....	194,500	175,560	175,560	-
State.....	46,826,767	45,996,878	45,818,324	(178,554)
Federal.....	2,569,754	3,503,648	3,467,377	(36,271)
Total Revenues	66,478,741	66,500,395	66,298,432	(201,963)
EXPENDITURES:				
Instruction.....	102,653,719	103,746,015	102,891,116	854,899
Guidance.....	4,991,439	4,922,714	4,924,078	(1,364)
Improvement of instruction.....	3,490,956	3,646,896	3,653,657	(6,761)
Professional development.....	281,814	257,562	156,612	100,950
Media services.....	2,945,117	2,884,235	2,915,357	(31,122)
Executive administration.....	1,489,672	1,545,510	1,585,943	(40,433)
Building level administration.....	8,022,559	7,972,870	7,994,833	(21,963)
Security services.....	-	5,798	4,050	1,748
Central office support services.....	615,969	642,628	651,374	(8,746)
Community services.....	1,365,284	1,330,734	1,135,469	195,265
Total Expenditures	125,856,529	126,954,962	125,912,489	1,042,473
EXCESS OF REVENUES UNDER EXPENDITURES	(59,377,788)	(60,454,567)	(59,614,057)	840,510
OTHER FINANCING SOURCES:				
Transfers in.....	59,377,788	60,454,567	59,614,057	(840,510)
NET CHANGE IN FUND BALANCE	-	-	-	-
FUND BALANCE, BEGINNING OF YEAR	-	-	-	-
FUND BALANCE, END OF YEAR	\$ -	\$ -	\$ -	\$ -

The accompanying note is an integral part of this schedule.

HAZELWOOD SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 MODIFIED CASH BASIS - BUDGET AND ACTUAL - DEBT SERVICE FUND - UNAUDITED
 YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES :				
Local.....	\$ 15,263,437	\$ 14,805,242	\$ 14,604,289	\$ (200,953)
County.....	448,484	375,542	376,610	1,068
Federal.....	<u>1,168,329</u>	<u>1,170,849</u>	<u>1,170,849</u>	<u>-</u>
Total Revenues	16,880,250	16,351,633	16,151,748	(199,885)
EXPENDITURES:				
Debt service:				
Principal retirements.....	8,455,000	8,455,000	8,455,000	-
Interest.....	11,489,975	11,489,975	11,489,975	-
Other charges.....	<u>10,000</u>	<u>10,000</u>	<u>5,380</u>	<u>4,620</u>
Total Expenditures.....	<u>19,954,975</u>	<u>19,954,975</u>	<u>19,950,355</u>	<u>4,620</u>
NET CHANGE IN FUND BALANCE.....	(3,074,725)	(3,603,342)	(3,798,607)	(195,265)
FUND BALANCE, BEGINNING OF YEAR.....	<u>11,582,619</u>	<u>11,664,515</u>	<u>11,664,515</u>	<u>-</u>
FUND BALANCE, END OF YEAR.....	<u>\$ 8,507,894</u>	<u>\$ 8,061,173</u>	<u>\$ 7,865,908</u>	<u>\$ (195,265)</u>

The accompanying note is an integral part of this schedule.

HAZELWOOD SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 MODIFIED CASH BASIS - BUDGET AND ACTUAL - CAPITAL PROJECTS FUND - UNAUDITED
 YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES :				
Local.....	\$ 1,779,504	\$ 3,700,743	\$ 3,336,079	\$ (364,664)
State.....	746,318	2,269,749	2,304,349	34,600
Federal.....	301,127	356,603	356,602	(1)
Total Revenues	2,826,949	6,327,095	5,997,030	(330,065)
EXPENDITURES:				
Capital outlay.....	2,006,139	3,890,506	3,709,534	180,972
Debt service:				
Principal retirements.....	1,365,000	1,410,000	1,410,000	-
Interest.....	250,227	191,787	191,787	-
Other charges.....	7,500	87,523	81,970	5,553
Total Expenditures.....	3,628,866	5,579,816	5,393,291	186,525
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES.....	(801,917)	747,279	603,739	(143,540)
OTHER FINANCING SOURCES (USES):				
Refunding bonds.....	-	2,990,000	2,990,000	-
Premium on sale of bonds.....	-	83,428	83,428	-
Payment to refunded bond escrow agent.....	-	(3,824,707)	(3,824,707)	-
Sale of other property.....	4,000	4,000	675	(3,325)
NET CHANGE IN FUND BALANCE.....	(797,917)	-	(146,865)	(146,865)
FUND BALANCE, BEGINNING OF YEAR.....	5,980,008	6,269,150	6,269,150	-
FUND BALANCE, END OF YEAR.....	\$ 5,182,091	\$ 6,269,150	\$ 6,122,285	\$ (146,865)

The accompanying note is an integral part of this schedule.

HAZELWOOD SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
 MODIFIED CASH BASIS - BUDGET AND ACTUAL - 2013 BOND ISSUE FUND - UNAUDITED
 YEAR ENDED JUNE 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES :				
Local.....	\$ 500	\$ 350	\$ 352	\$ 2
EXPENDITURES:				
Capital outlay.....	112,984	848,588	848,588	-
NET CHANGE IN FUND BALANCE	(112,484)	(848,238)	(848,236)	2
FUND BALANCE, BEGINNING OF YEAR....	112,484	848,369	848,369	-
FUND BALANCE, END OF YEAR.....	<u>\$ -</u>	<u>\$ 131</u>	<u>\$ 133</u>	<u>\$ 2</u>

The accompanying note is an integral part of this schedule.

HAZELWOOD SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Budgets and Budgetary Accounting

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with Chapter 67 RSMo, the District adopts a budget for each fund.
2. Prior to July, the Superintendent, who serves as the budget officer, submits to the Board of Education a proposed budget for the fiscal year beginning on the following July 1. The proposed budget includes estimated revenues and proposed expenditures for all District funds. Budgeted expenditures cannot exceed beginning available monies plus estimated revenues for the year.
3. A public hearing is conducted to obtain taxpayer comments. Prior to its approval by the Board of Education, the budget document is available for public inspection.
4. Prior to July 1, the budget is legally enacted by a vote of the Board of Education.
5. Subsequent to its formal approval of the budget, the Board of Education has the authority to make necessary adjustments to the budget by formal vote of the Board. Adjustments made during the year are reflected in the final budgeted amounts.

Budgeted amounts are as originally adopted on June 16, 2015, or as amended by the Board of Education on June 21, 2016.

6. Budgets are adopted on the modified cash basis of accounting.
7. Lapsing of Appropriations – At the close of each year, all unspent appropriations revert to the respective funds from which they were appropriated and become subject to future appropriation.