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GULFPORT SCHOOL DISTRICT
FINANCIAL AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2005

GULFPORT SCHOOL DISTRICT
 FINANCIAL AUDIT REPORT
 FOR THE YEAR ENDED JUNE 30, 2005

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

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INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

December 10, 2005

Superintendent and School Board
Gulfport School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Gulfport School District as of and for the year ended June 30, 2005, which collectively comprise the Gulfport School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Gulfport School District's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Gulfport School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2005, on our consideration of the Gulfport School District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 8 and the Budgetary Comparison Schedules and corresponding notes on pages 30 through 35 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Gulfport School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures -- Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wynne Ward White & Reef

GULFPORT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Gulfport School District's financial performance provides an overall narrative review of the Gulfport School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the Gulfport School District's 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 Gulfport School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

Total net assets decreased \$167,473, which represents less than 1% decrease from fiscal year 2004.

General revenues account for \$42,353,054 in revenue, or 81% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$9,685,165 or 19% of total revenues.

The District had \$52,205,692 in expenses; and \$9,685,165 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$42,353,054 were adequate to provide for these programs.

Among major funds, the General Fund had \$41,012,298 in revenues and \$40,764,530 expenditures. The General Fund's fund balance decreased \$345,029 over the prior year, which was the result of nominal increases in expenditures during 2005.

The School Food Service Fund showed a nominal increase in fund balance. The Debt Service Fund had an increase in fund balance due to ad valorem taxes being more than sufficient to cover principal retirement for the year 2005.

Capital assets experienced a net decrease of \$836,398. The decrease was due to current year depreciation expense of \$1,086,337 retirements of \$63,447*. However, these decreases were partially offset by additional purchases of \$256,283.

*(of which accumulated depreciation of \$57,103 was removed)

Long-term debt experienced a net decrease of \$690,784. The decrease was due to \$709,450 in principal reductions. The decrease was partially offset by an \$18,666 increase in compensated absences payable.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets 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 years.

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 and interest on long-term liabilities.

The government-wide financial statements can be found on pages 9 - 10 of this report.

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. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the Gulfport School District's operations.

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, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 12 and 14, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 11 and 13, respectively.

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 on pages 16 - 29 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 30 through 35 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 36-37 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$24,274,248 as of June 30, 2005.

By far the largest portion of the District's net assets (78%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and leased property under capital leases, less any related debt used to acquire those assets that are still outstanding. The

District used these capital assets to provide services to its students; consequently these assets are not available for future spending.

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.

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2005 and June 30, 2004.

	2005 Amount	2004 Amount
Current assets	\$ 7,430,866	9,843,578
Capital assets, net	41,261,296	42,097,694
Total assets	<u>48,692,162</u>	<u>51,941,272</u>
Current liabilities	1,649,803	4,040,656
Long-term liabilities	22,768,111	23,458,895
Total liabilities	<u>24,417,914</u>	<u>27,499,551</u>
Net assets:		
Invested in capital assets, net of related debt	18,848,169	18,975,117
Restricted	3,216,367	2,911,863
Unrestricted	2,209,712	2,554,741
Total net assets	<u>\$24,274,248</u>	<u>24,441,721</u>

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

The principal retirement of \$690,784 of long-term debt and the decrease in capital assets in the amount of \$836,398.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$52,038,219. The total cost of all programs and services was \$52,205,692. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and June 30, 2004.

	2005 Amount	2004 Amount
Revenues:		
Program revenues	\$ 9,685,165	26,012,605
General revenues	42,353,054	24,734,953
Total revenues	<u>52,038,219</u>	<u>50,747,558</u>
Expenses:		
Instruction	29,463,899	27,906,677
Support services	18,767,315	18,457,666
Non-instructional	3,003,723	3,016,220
Interest on long-term debt	970,755	999,852
Total expenses	<u>52,205,692</u>	<u>50,380,415</u>
Increase in net assets	<u>\$ (167,473)</u>	<u>367,143</u>

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

	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$ 29,463,899	\$ (25,204,403)
Support services	18,767,315	(17,337,696)
Non-instructional	3,003,723	992,327
Interest on long-term liabilities	970,755	(970,755)
Total expenses	<u>\$ 52,205,692</u>	<u>\$ (42,520,527)</u>

Net cost of governmental activities (\$42,352,527) was financed by general revenue, which is made up of primarily property taxes \$17,944,910.

Investment earnings accounted for \$170,559 of funding.

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, unreserved 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 \$6,003,449, a decrease of \$54,898, due primarily to the net change in fund balances. \$2,546,030 or 42% of the fund balance constitutes General Fund unreserved and undesignated fund balance, which is available at the District's discretion. The remaining fund balance of \$3,457,419 or 58% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$345,029. The fund balance of Other Governmental Funds showed a decrease of \$418,569.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

Budget amounts for revenues from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$56,474,638, including land, construction in progress, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$192,836 from the previous year. Total accumulated depreciation as of June 30, 2005 was \$15,213,342 and total depreciation expense for the year was \$1,086,337, resulting in total net assets of \$41,261,296.

Additional information of the District's capital assets can be found in Note 4 on page 23 of this report.

Debt Administration. At June 30, 2005, the District had \$22,768,111 in general obligation bonds and other long-term debt outstanding, of which \$1,718,304 is due within one year.

Additional information of the District's long-term debt can be found in Note 5 on pages 25-28 of this report.

CURRENT ISSUES

On August 29, 2005, hurricane Katrina hit the Mississippi Gulf Coast causing considerable damage to the Gulfport School District. One of the District's schools was so severely damaged that it will not be reopened during the 2005-2006 school year. Insurance, Federal Emergency Management Agency (FEMA), and Mississippi Emergency Management Agency (MEMA) is expected to be sufficient to build another school to service the citizens in the destroyed school area.

Damage to the infrastructure and property along the Gulf Coast is expected to impact ad valorem taxes for the next few years with estimates as low as 10% and as high as 55%. The casino industry was completely shut down for a four month period resulting in a loss of gaming revenue. Although the determination of the actual loss in income to the School District is speculative at best, management has estimated that the 2005-2006 school year will have a reduction in income of approximately \$4,000,000. Management of the District has made necessary budget revisions to compensate for some of the loss in revenues and grant/loan applications with the FEMA and MEMA have been submitted for the remainder of the loss for the 2005-2006 school year. As of the date of this report, United States Congress has passed a bill for approval to send aid monies to the affected School Districts to help in the loss of revenues and maintenance and repair of damaged properties.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Gulfport School District, P.O. Box 220, Gulfport, MS 39502.

FINANCIAL STATEMENTS

Gulfport School District
Statement of Net Assets
June 30, 2005

Exhibit A

		Primary Government Governmental Activities
Assets		
Cash and cash equivalents	\$	6,230,329
Due from other governments		1,155,949
Inventories and prepaid items		44,588
Capital assets, net		41,261,296
Total Assets	\$	48,692,162
Liabilities		
Accounts payable and accrued liabilities	\$	631,137
Due to other governments		129,831
Deferred revenue		666,449
Interest payable on long-term liabilities		222,386
Long-term liabilities, due within one year		
Capital related liabilities		1,718,304
Long-term liabilities, due beyond one year		
Capital related liabilities		20,694,823
Non-capital related liabilities		354,984
Total Liabilities	\$	24,417,914
Net Assets		
Investment in capital assets, net of related debt	\$	18,848,169
Restricted net assets:		
Expendable:		
School based activities		1,080,392
Debt service		1,998,580
Unemployment benefits		137,395
Unrestricted		2,209,712
Total Net Assets	\$	24,274,248

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

Gulfport School District
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ (29,463,899)	789,281	3,469,215	1,000	(25,204,403)
Support Services	(18,767,315)		1,429,619		(17,337,696)
Non-instructional	(3,003,723)	738,260	2,677,700	580,090	992,327
Interest on long-term liabilities	(970,755)				(970,755)
Total governmental activities	\$ (52,205,692)	1,527,541	7,576,534	581,090	(42,520,527)
General Revenues:					
Taxes:					
					17,944,910
					2,174,717
Unrestricted grants and contributions:					
					26,610
					21,563,548
					35,158
					170,599
					292,997
					144,515
					<u>42,353,054</u>
					(167,473)
					<u>24,441,721</u>
					<u>\$ 24,274,248</u>

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

Gulfport School District
Balance Sheet - Governmental Funds
June 30, 2005

Exhibit C

	Major Funds							Total Governmental Funds
	General Fund	Food Service Fund	Debt Service Fund	Chapter 1 - Title I - A Fund	Special Education Fund	Other Governmental Funds		
ASSETS								
Cash and cash equivalents	\$ 1,657,873	665,426	2,602,384	201,597	439,495	663,554	6,230,329	
Due from other governments	804,234		63,593	28,294	12,132	97,696	1,005,949	
Due from other funds	359,210				3,000	5,376	367,586	
Inventories and prepaid items		39,387				5,201	44,588	
Total Assets	\$ 2,821,317	704,813	2,665,977	229,891	454,627	771,827	7,648,452	
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable and accrued liabilities	\$ 170,358	2,662	445,011	1,408		11,698	631,137	
Due to other funds	104,929	105,805		59,593	30,838	46,252	347,417	
Deferred revenue				168,890	423,789	73,770	666,449	
Total Liabilities	275,287	108,467	445,011	229,891	454,627	131,720	1,645,003	
Fund Balances:								
Reserved for:								
Inventory		39,387				5,201	44,588	
Unreserved:								
Undesignated, reported in:								
General Fund	2,546,030						2,546,030	
Special revenue		556,959				628,105	1,185,064	
Capital projects fund						6,801	6,801	
Debt Service			2,220,966				2,220,966	
Total Fund Balances	2,546,030	596,346	2,220,966			640,107	6,003,449	
Total Liabilities and Fund Balances	\$ 2,821,317	704,813	2,665,977	229,891	454,627	771,827	7,648,452	

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

Gulfport School District
Reconciliation of Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 6,003,449
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this funds financial statement, but are reported in the governmental activities of the Statement of Net Assets.	41,261,296
Interest accrued on long term debt is not paid or due in the current period and are therefore not reported as a liability in the fund financial statements, but are reported in the government activities of the Statement of Net Assets.	(222,386)
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, Long-term Compensated Absences, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statements, but are included in the governmental activities of the Statement of Net Assets.	<u>(22,768,111)</u>
Net Assets of Governmental Activities	\$ <u>24,274,248</u>

Gulfport School District
Statement of Revenues, Expenditures and
Changes in Fund Balances Governmental Funds
For the Year Ended June 30, 2005

	Major Funds						
	General Fund	Food Service Fund	Debt Service Fund	Chapter 1 - Title I - A Funds	Special Education Funds	Other Governmental Funds	Total Governmental Funds
Revenues:							
Local sources	\$ 19,021,582	776,416	1,979,021			115,845	21,892,864
Intermediate sources						12,500	12,500
State sources	21,538,256	14,771			3,000	1,293,533	22,849,560
Federal sources	452,460	2,084,691		1,897,554	1,165,143	1,283,492	6,883,340
Sixteenth section						292,997	292,997
Total Revenues	41,012,298	2,875,878	1,979,021	1,897,554	1,168,143	2,998,367	51,931,261
Expenditures:							
Instruction	24,028,365			1,176,080	508,795	2,787,910	28,501,150
Support services	16,317,427	239,086		513,457	590,596	1,234,730	18,895,296
Noninstructional services	50,461	2,595,474		157,726		48,512	2,852,173
Facilities acquisition and construction	7,419					78,388	85,807
Debt service:							
Principal	264,450		445,000				709,450
Interest	96,408		907,387				1,003,795
Total Expenditures	40,764,530	2,834,560	1,352,387	1,847,263	1,099,391	4,149,540	52,047,671
Excess (Deficiency) of Revenues Over Expenditures	247,768	41,318	626,634	50,291	68,752	(1,151,173)	(116,410)
Other Financing Sources (Uses):							
Operating transfers in	817,507	49,000	37,500			1,075,697	1,979,704
Operating transfers out	(1,413,640)	(104,379)		(50,291)	(68,975)	(342,419)	(1,979,704)
Other financing sources	6,688	69,960			223	30,084	106,955
Other financing uses	(3,352)	(6,657)				(29,315)	(39,324)
Total Other Financing Sources (Uses)	(592,797)	7,924	37,500	(50,291)	(68,752)	734,047	67,631
Net changes in fund balances	(345,029)	49,242	664,134	0	0	(417,126)	(48,779)
Fund Balance:							
July 1, 2004	2,891,059	551,780	1,556,832			1,058,676	6,058,347
Increase (decrease) in reserve for inventory	(4,676)					(1,443)	(6,119)
June 30, 2005	2,546,030	596,346	2,220,966	0	0	640,107	6,003,449

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

Gulfport School District
 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, 2005

Exhibit D-1

	Amount
Net Change in Fund Balances - Governmental Funds	\$ (48,779)
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$256,283 and the depreciation expense amounted to \$1,086,337.	(830,054)
Payment of principal on long-term debt liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	709,450
Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	33,039
Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(6,344)
Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	(6,119)
Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(18,666)
Change in net assets of governmental activities	\$ (167,473)

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

Gulfport School District
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 2,348,588
Due from other funds	<u>129,831</u>
Total Assets	<u>\$ 2,478,419</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 2,328,419
Due to other funds	<u>150,000</u>
Total Liabilities	<u>\$ 2,478,419</u>

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

NOTES TO THE FINANCIAL STATEMENTS

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(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.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. 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 Gulfport 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.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. 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 school district.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Food Service Fund - This fund accounts for all of the school's financial resources related to child nutrition and food service programs.

Debt Service Fund - This fund accounts for the receipt and disbursement of funds related to debt that is legally required to be separated from the general fund. Also, the school district may choose to use this fund to account for debts that are not legally required to be separated from the general fund.

Chapter 1 - Title I - A Fund - This fund is used to account for receipt of funds and expenditures related to federal funds received.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Special Education – This fund is used to account for receipt and expenditures related to the federal funds received in relation to special education.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Exhibit C.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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 a measure of results of operations.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

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. Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

G. 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 a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those 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 4 for details.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

M. Property Taxes.

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.

N. Mississippi Adequate Education Program Revenues.

Revenues from the 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.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. 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 long-term liabilities 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 only the compensated absence liability payable from expendable available financial resources.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(2) Cash and Cash Equivalents.

The collateral for public entities' 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 Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,330,329 and \$370,123, respectively. The carrying amounts of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents \$6,330,329. The Restricted Assets represent the cash balance of the sixteenth section principal fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$7,707,703.

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 formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by that pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the school district.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Major funds:		
General Fund	\$ 359,210	2,083,394
Food Service Fund		105,805
Chapter 1 – Title I - A Fund		59,593
Special Education	3,000	30,838
Other Governmental Funds	5,376	46,252
Fiduciary Funds	2,108,296	150,000
Total Funds	\$ 2,475,882	2,475,882

Due From/Due To Other Funds represent short term loans made between major funds and nonmajor, and agency funds to cover federal funds not received prior to year end for teacher payroll, for amounts due to Payroll Clearing account for teacher payroll, and for interest earned on Clearing accounts which are due to the District Maintenance account.

B. Transfers In/Out:

	Transfers In	Transfers Out
Major funds:		
General Fund	\$ 817,507	1,413,640
Food Service Fund	49,000	104,379
Debt Service Fund	37,500	
Chapter 1 – Title I - A Fund		50,291
Special Education		68,975
Other Governmental Funds	1,075,697	342,419
Total Funds	\$ 1,979,704	1,979,704

Transfers were made from the Sixteenth Section Interest Fund to the District Maintenance Fund for proceeds from a timber sale, from the Unemployment Compensation Fund to maintain the balance of two percent (2%) of taxable wages, and to transfer indirect costs from the Title and Special Education Funds to the District Maintenance Fund.

(4) Capital Assets.

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

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

	Balance 7-1-2004	Additions	Retirements	Balance 6-30-2005
<u>Non-depreciable capital assets:</u>				
Land	\$ 1,020,525			1,020,525
Construction in Progress	111,406	85,807		197,213
Total non-depreciable capital assets	<u>1,131,931</u>	<u>85,807</u>		<u>1,217,738</u>
<u>Depreciable capital assets:</u>				
Buildings	52,842,318			52,842,318
Mobile equipment	558,286	32,189	(7,445)	583,030
Furniture and equipment	1,496,403	138,287	(56,002)	1,578,688
Leased property under capital leases	252,864			252,864
Total depreciable capital assets	<u>55,149,871</u>	<u>170,476</u>	<u>(63,447)</u>	<u>55,256,900</u>
<u>Depreciation:</u>				
Buildings	12,501,432	928,855		13,430,287
Mobile equipment	381,551	86,779	(6,701)	461,629
Furniture and equipment	1,228,702	34,941	(50,402)	1,213,241
Leased property under capital leases	72,423	35,762		108,185
Total accumulated depreciation	<u>14,184,108</u>	<u>1,086,337</u>	<u>(57,103)</u>	<u>15,213,342</u>
Total depreciable capital assets, net	<u>40,965,763</u>	<u>(915,861)</u>	<u>6,344</u>	<u>40,043,558</u>
Governmental activities capital assets, net	<u>\$ 42,097,694</u>	<u>(830,054)</u>	<u>6,344</u>	<u>41,261,296</u>

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 909,516
Support Services	60,108
Noninstructional	116,713
 Total depreciation expense	 \$ 1,086,337

(5) Long-term liabilities.

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

		Balance 7-1-2004	Additions	Reductions	Balance 6-30-2005	Amounts due within one Year
A. General obligation bonds payable	\$	20,755,000		(445,000)	20,310,000	1,450,000
B. Obligations under capital leases		168,297		(55,181)	113,116	51,021
C. Obligations under energy efficiency lease		2,199,280		(209,269)	1,990,011	217,283
D. Compensated absences payable		336,318	18,666		354,984	
Total	\$	23,458,895	18,666	(709,450)	22,768,111	1,718,304

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:

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

Description	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1998 General Obligation bonds (refunding series)	varies	12-30-98	1 0-1-05	\$ 9,000,000	8,690,000
1999 General Obligation bonds (refunding series)	varies	3-10-99	4-1-16	10,865,000	10,675,000
2001 General Obligation bonds (refunding series)	varies	9-11-01	10-1-08	<u>945,000</u>	<u>945,000</u>
Total				<u>\$ 20,810,000</u>	<u>20,310,000</u>

General Obligation Bonds FYE June 30	Principal	Interest	Total
2006	\$ 1,450,000	861,545	2,311,545
2007	1,490,000	802,795	2,292,795
2008	2,480,000	741,600	3,221,600
2009	1,595,000	658,708	2,253,708
2010	1,665,000	591,998	2,256,998
2011 - 2015	9,465,000	1,800,507	11,265,507
2016 - 2019	<u>2,165,000</u>	<u>90,946</u>	<u>2,255,946</u>
Total	<u>\$ 20,310,000</u>	<u>5,548,099</u>	<u>25,858,099</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. 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 state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 6% of property assessments as of October 1, 2004. This debt will be retired from the debt service fund.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

B. Obligations under capital leases

The school district has one lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of a RISO digital duplicator and stand.

The various options available to the lessee for these leases are as follows:

1. Standard purchase option

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2006	51,021	3,338	54,359
2007	53,052	1,307	54,359
2008	9,043	15	9,058
Total	<u>\$ 113,116</u>	<u>4,660</u>	<u>117,776</u>

This debt will be retired from the General Fund.

C. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2006	217,283	76,217	293,500
2007	225,605	67,895	293,500
2008	234,246	59,254	293,500
2009	243,218	50,282	293,500
2010	252,533	40,967	293,500
2011- 2013	817,126	63,374	880,500
Total	<u>\$ 1,990,011</u>	<u>354,989</u>	<u>2,348,000</u>

An energy efficiency lease agreement dated March 28, 2003, was executed by and between the district, the lessee, and Hancock Bank, the lessor.

The agreement authorized the borrowing of \$2,466,383 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

saving items. Payments of the lease shall be made from the district maintenance fund and the food service fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the General Fund.

D. Compensated absences payable.

As more fully explained in Note 1(O), 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.

(6) Defined Benefit 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. Benefit provisions are established by state law and may be amended only by the State of 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.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$2,377,610, \$2,847,190, and \$2,648,057, respectively, which equaled the required contributions for each year.

(7) 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.

GULFPORT SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2005

(8) Subsequent Event

On August 29, 2005, hurricane Katrina hit the Mississippi Gulf Coast causing considerable damage to the Gulfport School District. One of the District's schools was so severely damaged that it will not be reopened during the 2005-2006 school year. Insurance, Federal Emergency Management Agency (FEMA), and Mississippi Emergency Management Agency (MEMA) is expected to be sufficient to build another school to service the citizens in the destroyed school area.

Damage to the infrastructure and property along the Gulf Coast is expected to impact ad valorem taxes for the next few years with estimates as low as 10% and as high as 55%. The casino industry was completely shut down for a four month period resulting in a loss of gaming revenue. Although the determination of the actual loss in income to the School District is speculative at best, management has estimated that the 2005-2006 school year will have a reduction in income of approximately \$4,000,000. Management of the District has made necessary budget revisions to compensate for some of the loss in revenues and grant/loan applications with the FEMA and MEMA have been submitted for the remainder of the loss for the 2005-2006 school year. As of the date of this report, United States Congress has passed a bill in for approval to send aid monies to the affected School Districts to help in the loss of revenues and maintenance and repair of damaged properties.

REQUIRED SUPPLEMENTARY INFORMATION

Gulfport School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 18,184,120	18,903,620	19,021,582	719,500	117,962
State sources	21,303,886	21,503,886	21,538,256	200,000	34,370
Federal sources	369,000	429,000	452,460	60,000	23,460
Total Revenues	<u>39,857,006</u>	<u>40,836,506</u>	<u>41,012,298</u>	<u>979,500</u>	<u>175,792</u>
Expenditures:					
Instruction	24,218,840	24,144,263	24,028,365	74,577	115,898
Support services	15,325,126	16,739,427	16,317,427	(1,414,301)	422,000
Noninstructional services	10,368	59,968	50,461	(49,600)	9,507
Facilities acquisition and construction		7,330	7,419	(7,330)	(89)
Debt service:				0	0
Principal	259,102	259,102	264,450	0	(5,348)
Interest	110,273	95,364	96,408	14,909	(1,044)
Total Expenditures	<u>39,923,709</u>	<u>41,305,454</u>	<u>40,764,530</u>	<u>(1,381,745)</u>	<u>540,924</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(66,703)</u>	<u>(468,948)</u>	<u>247,768</u>	<u>(402,245)</u>	<u>716,716</u>
Other Financing Sources (Uses):					
Operating transfers in	575,800	654,356	817,507	78,556	163,151
Operating transfers out	(942,300)	(1,245,640)	(1,413,640)	(303,340)	(168,000)
Other financing sources			6,688	0	6,688
Other financing uses			(3,352)	0	(3,352)
Total Other Financing Sources (Uses)	<u>(366,500)</u>	<u>(591,284)</u>	<u>(592,797)</u>	<u>(224,784)</u>	<u>(1,513)</u>
Net Change in Fund Balances	<u>(433,203)</u>	<u>(1,060,232)</u>	<u>(345,029)</u>	<u>(627,029)</u>	<u>715,203</u>
Fund Balances:					
July 1, 2004	2,744,263	2,882,346	2,891,059	138,083	8,713
June 30, 2005	<u>\$ 2,311,060</u>	<u>1,822,114</u>	<u>2,546,030</u>	<u>(488,946)</u>	<u>723,916</u>

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

Gulfport School District
 Budgetary Comparison Schedule
 Food Service Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	738,212	764,853	776,416	26,641	11,563
State sources	15,058	15,058	14,771	0	(287)
Federal sources	1,864,695	2,017,718	2,084,691	153,023	66,973
Total Revenues	2,617,965	2,797,629	2,875,878	179,664	78,249
Expenditures:					
Support services	228,391	234,791	239,086	(6,400)	(4,295)
Noninstructional services	2,593,323	2,607,184	2,595,474	(13,861)	11,710
Debt Service - Principal	360	4,320		(3,960)	4,320
Total Expenditures	2,822,074	2,846,295	2,834,560	(24,221)	11,735
Excess (Deficiency) of Revenues Over Expenditures	(204,109)	(48,666)	41,318	155,443	89,984
Other Financing Sources (Uses):					
Operating transfers in	49,000	49,000	49,000	0	0
Operating transfers out	(100,060)	(100,060)	(104,379)	0	(4,319)
Other financing sources			69,960	0	69,960
Other financing uses			(6,657)	0	(6,657)
Total Other Financing Sources (Uses)	(51,060)	(51,060)	7,924	0	58,984
Net Change in Fund Balances	(255,169)	(99,726)	49,242	155,443	148,968
Fund Balances:					
July 1, 2004	551,777	551,777	551,780	0	3
Increase (Decrease) in reserve for inventory			(4,676)	0	(4,676)
June 30, 2005	\$ 296,608	452,051	596,346	155,443	144,295

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

Gulfport School District
 Budgetary Comparison Schedule
 Chapter 1 - Title I - A Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 1,948,454	1,844,872	1,897,554	(103,582)	52,682
Total Revenues	<u>1,948,454</u>	<u>1,844,872</u>	<u>1,897,554</u>	<u>(103,582)</u>	<u>52,682</u>
Expenditures:					
Instruction	1,222,727	1,164,727	1,176,080	58,000	(11,353)
Support services	608,291	587,385	513,457	20,906	73,928
Noninstructional services	175,255	163,415	157,726	11,840	5,689
Total Expenditures	<u>2,006,273</u>	<u>1,915,527</u>	<u>1,847,263</u>	<u>90,746</u>	<u>68,264</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(57,819)</u>	<u>(70,655)</u>	<u>50,291</u>	<u>(12,836)</u>	<u>120,946</u>
Other Financing Sources (Uses):					
Operating transfers in	0	0	0	0	0
Operating transfers out	(70,560)	(50,560)	(50,291)	20,000	269
Other financing uses				0	0
Total Other Financing Sources (Uses)	<u>(70,560)</u>	<u>(50,560)</u>	<u>(50,291)</u>	<u>20,000</u>	<u>269</u>
Net Change in Fund Balances	<u>(128,379)</u>	<u>(121,215)</u>	<u>0</u>	<u>7,164</u>	<u>121,215</u>
Fund Balances:					
July 1, 2004	<u>224,010</u>	<u>224,010</u>	<u>0</u>	<u>0</u>	<u>(224,010)</u>
June 30, 2005	<u>\$ 95,631</u>	<u>102,795</u>	<u>0</u>	<u>7,164</u>	<u>(102,795)</u>

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

Gulfport School District
 Budgetary Comparison Schedule
 Special Education Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
State sources	\$ 9,000	9,000	3,000	0	(6,000)
Federal sources	1,013,100	1,396,236	1,165,143	383,136	(231,093)
Total Revenues	<u>1,022,100</u>	<u>1,405,236</u>	<u>1,168,143</u>	<u>383,136</u>	<u>(237,093)</u>
Expenditures:					
Instruction	441,010	721,353	508,795	(280,343)	212,558
Support services	635,049	648,049	590,596	(13,000)	57,453
Total Expenditures	<u>1,076,059</u>	<u>1,369,402</u>	<u>1,099,391</u>	<u>(293,343)</u>	<u>270,011</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(53,959)</u>	<u>35,834</u>	<u>68,752</u>	<u>89,793</u>	<u>32,918</u>
Other Financing Sources (Uses):					
Operating transfers out	(38,140)	(77,240)	(68,975)	(39,100)	8,265
Other financing uses	-	-	223	0	223
Total Other Financing Sources (Uses)	<u>(38,140)</u>	<u>(77,240)</u>	<u>(68,752)</u>	<u>(39,100)</u>	<u>8,488</u>
Net Change in Fund Balances	<u>(92,099)</u>	<u>(41,406)</u>	<u>0</u>	<u>50,693</u>	<u>41,406</u>
Fund Balances:					
July 1, 2004	<u>390,669</u>	<u>390,669</u>	<u>0</u>	<u>0</u>	<u>(390,669)</u>
June 30, 2005	<u>\$ 298,570</u>	<u>349,263</u>	<u>0</u>	<u>50,693</u>	<u>(349,263)</u>

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

GULFPORT SCHOOL DISTRICT
Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

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 the date established by the Mississippi Department of Education. 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.

SUPPLEMENTAL INFORMATION

GULFPORT SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food distribution	10.550	\$ 185,465
Child nutrition cluster:		
School breakfast program	10.553	489,153
National school lunch program	10.555	1,382,989
Summer food service program for children	10.559	56,410
Total child nutrition cluster		<u>1,928,552</u>
Total U.S. Department of Agriculture		<u>2,114,017</u>
<u>U.S. Department of Education</u>		
Direct Program:		
Impact Aid	84.041	333,200
Total		<u>333,200</u>
Passed through Mississippi Board for community and junior colleges:		
Adult education – state grant program	84.002	185,263
Total		<u>185,263</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,897,554
Vocational education - basic grants to states	84.048	86,010
Safe and drug-free schools and communities - state grants	84.186	53,613
Eisenhower professional development state grants	84.281	48,162
Foreign language assistance	84.293	188,593
Innovative education program strategies	84.298	32,756
Education technology state grants	84.318	18,007
Comprehensive school reform demonstration	84.332	34,572
Improving teacher quality	84.367	490,199
Total		<u>2,849,466</u>
Special education cluster:		
Special education - grants to states	84.027	1,168,367
Special education - preschool grants	84.173	73,797
Total		<u>1,242,164</u>
Total passed-through Mississippi Department of Education		<u>4,091,630</u>
Total U.S. Department of Education		<u>4,610,093</u>
<u>U.S. Department of Health and Human Services</u>		
Passed through Mississippi Department of Education:		
Cooperative agreements to support comprehensive school health programs to prevent the spread of HIV and other important health problems	93.938	50,000
Total U.S. Department of Health and Human Services		<u>50,000</u>

GULFPORT SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Social Security Administration</u>		
Passed through Mississippi Department of Rehabilitation Services:		
Model youth transition innovations	96.007	49,160
Total U.S. Social Security Administration		<u>49,160</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve officers' training corp	12.XXX	43,670
National Aeronautics and Space Administration	43.001	3,500
Total other federal assistance		<u>47,170</u>
Total for All Federal Awards		<u>\$ 6,870,440</u>

NOTES TO SCHEDULE

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

Gulfport School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 June 30, 2005

Expenditures	Total	Instruction	Administrative	Other
Salaries and fringe benefits	\$ 38,249,175	24,381,065	4,195,949	9,672,161
Other	13,798,496	4,120,085	538,391	9,140,020
Total	\$ 52,047,671	28,501,150	4,734,340	18,812,181
Total number of students	6,166	6,166	6,166	6,166
Cost per student	\$ 8,441	4,622	768	3,051

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

Instruction - 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 - all the 1000 functional codes

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); Support Services - Business (2500s)

Other- includes all expenditure functions not included in Instruction of Administration

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

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

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

December 10, 2005

Superintendent and School Board
Gulfport School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Gulfport School District as of and for the year ended June 30, 2005, which collectively comprise the Gulfport School District's basic financial statements and have issued our report thereon dated December 10, 2005. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Gulfport School District's financial statements are free of 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies 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.

Wayne Woodworth & Sons

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

December 10, 2005

Superintendent and School Board
Gulfport School District

Compliance

We have audited the compliance of the Gulfport School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the 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. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Gulfport School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Gulfport School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies 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.

Wayne Washburn # Seal

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

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

December 10, 2005

Superintendent and School Board
Gulfport School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Gulfport School District as of and for the year ended June 30, 2005, which collectively comprise Gulfport School District's basic financial statements and have issued our report thereon dated December 10, 2005. 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*, used by the Comptroller General of the United States.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$98,232 supply funds carried over from previous years.

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

The district did not advertise for depositories. The district requested sealed proposals from all local financial institutions and the district accepted all financial institutions who submitted a proposal as school district depositories.

Recommendation

The district should comply with Section 37-7-333, Miss. Code Ann. (1972), which requires that the school board advertise for bids for all of its depositories.

School District's Response

The district will comply with Section 37-7-333, Miss. Code Ann. (1972).

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.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies 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.

Wesley Ward Thibault & Son

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

GULFPORT SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child nutrition cluster
CFDA # 10.553
CFDA # 10.555
CFDA # 10.559 | |
| b. | Title I – grants to local educational agencies
CFDA# 84.010 | |
| c. | Special education – grants to state
CFDA# 84.027 | |
| d. | Impact Aid
CFDA# 84.041 | |
| e. | Improving teacher quality
CFDA# 84.367 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | Yes |

GULFPORT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

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

SUMMARY OF PRIOR AUDIT FINDINGS



Gulfport School District
Board of Trustees & Office of the Superintendent

December 10, 2005

Financial and Compliance Audit Division

As required by Section ____315(b) of OMB Circular A-133, the Gulfport School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2004.

<u>Finding</u>	<u>Status</u>
2004-1	A review of required procedures which now includes the two signatures was a topic of in-service at a managers meeting. All cash reports are being checked daily by the Child Nutrition Operational Manager for evidence of two signatures.

Sincerely,


Glen East
Superintendent