



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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2006

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Table of Contents

INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS	
<u>Government-wide financial statements</u>	
Statement of Net Assets.....	13
Statement of Activities.....	14
<u>Governmental Fund Financial Statements</u>	
Balance Sheet.....	15
Reconciliation of Government Funds Balance Sheet to the Statement of Net Assets.....	16
Statement of Revenues, Expenditures and Changes in Fund Balance.....	17
Reconciliation of the Government Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	18
Statement of Fiduciary Net Assets.....	19
Notes to Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund.....	34
Notes to the Required Supplementary Information.....	37
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards.....	38
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	39
REPORTS ON COMPLIANCE AND INTERNAL CONTROL	
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.....	40
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.....	42
Independent Auditor's Report On Compliance with State Laws and Regulations.....	44
Schedule of Findings and Questioned Costs.....	45
Auditee's Corrective Action Plan.....	48

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

December 18, 2007

Superintendent and School Board
Bay St. Louis / Waveland School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bay St. Louis / Waveland School District as of and for the year ended June 30, 2006, which collectively comprise the Bay St. Louis / Waveland School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Bay St. Louis / Waveland School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

We were unable to verify the cash book balances at June 30, 2006, due to the district having not prepared bank reconciliations at June 30, 2006, for various bank accounts.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves about the completeness of cash book balances, 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 Bay St. Louis / Waveland School District, as of June 30, 2006, 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 18, 2007, on our consideration of the Bay St. Louis / Waveland 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 (12) and the Budgetary Comparison Schedule and corresponding notes on pages (34) through (37) 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 Bay St. Louis/Waveland 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.

McDaniel CPA Firm

MANAGEMENT'S DISCUSSION AND ANALYSIS

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of the Bay St. Louis - Waveland School District’s financial performance provides an overall narrative review of the School District’s financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District’s performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the 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.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$7,768,294, which represents an increase of 88% from fiscal year 2005. This increase is due primarily to the entitlement of approximately \$7,750,000 in federal funds under the Displaced Student Grants and Restart School Grant which resulted from Hurricane Katrina.
- General revenues accounted for \$20,228,904 in revenue, or 42% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$27,623,175, or 58% of total revenues.
- The District had \$39,582,879 in expenses; only \$27,623,175 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$20,228,904 were adequate to provide for these programs.
- Among major funds, the General Fund had \$16,231,247 in revenues and \$8,318,221 in expenditures. This resulted in an excess of revenues over expenditures in the amount of \$7,913,026. This excess is due primarily to the entitlement of approximately \$7,750,000 in federal funds under the Displaced Student Grants and Restart School Grant which resulted from Hurricane Katrina. A portion of expenditures related to instruction, support services and noninstructional services normally incurred in the General Fund were reported in the Displaced Student Grant Funds and the Restart School Grant Fund and federal sources were recognized to cover those expenditures. After net other financing sources of \$11,371,302, including proceeds of \$11,500,000 from a Hurricane Katrina Loan, the net change in fund balance for the General Fund was an increase of \$19,284,328 from the previous fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$1,680,342.
- Long-term debt increased by \$12,462,583.

OVERVIEW OF FINANCIAL STATEMENTS

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

This discussion and analysis is intended to serve as an introduction to the District’s basic financial statements. The District’s basic financial statements are comprised of 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 services and interest and other expenses on long-term liabilities.

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

Governmental funds. 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 school district’s operations.

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

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.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental 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.

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

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

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 special revenue fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is also included in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$16,550,518 as of June 30, 2006.

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

The district’s net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$6,205,851 of the District’s net assets (37%) reflects its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$2,074,595 of the District’s net assets (13%) reflects its restricted net assets. The restricted net assets are expendable for school based activities, debt service and unemployment benefits. \$ 8,270,072 of the District’s net assets (50%) reflects its unrestricted net assets.

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 year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	Net Assets		Percentage
	June 30, 2006	June 30, 2005	Change
Current assets	\$ 25,787,688	\$ 5,309,088	387.2 %
Capital assets, net	<u>14,060,851</u>	<u>12,380,509</u>	13.6 %
Total assets	<u>39,848,539</u>	<u>17,689,597</u>	125.7 %
Current liabilities	2,074,795	146,730	1314.0 %
Long-term debt outstanding	<u>21,223,226</u>	<u>8,760,643</u>	122.3 %
Total liabilities	<u>23,298,021</u>	<u>8,907,373</u>	161.6 %
Net assets:			
Invested in capital assets, net of related debt	6,205,851	3,760,509	65.1 %
Restricted	2,074,595	732,134	183.4 %
Unrestricted	<u>8,270,072</u>	<u>4,289,581</u>	92.8 %
Total net assets	<u>\$ 16,550,518</u>	<u>8,782,224</u>	109.3 %

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

- Current assets increased from the previous fiscal year due primarily to an increase in amounts due from other governments. At fiscal year end, the District reported large amounts due from the federal government in the Displaced Student Grant Funds, Restart School Grant Fund and the FEMA/MEMA Grant Fund as a result of Hurricane Katrina.
- Capital assets increased from the previous fiscal year due primarily to the recording of FEMA trailers received from the federal government to be used for school facilities and

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

the purchase of computer equipment, food service equipment and mobile equipment during the fiscal year.

- Current liabilities increased from the previous fiscal year due primarily to an increase in accounts payable and accrued liabilities.
- Long-term debt outstanding increased from the previous fiscal year due primarily to proceeds received from a Community Disaster Loan as a result of Hurricane Katrina.
- Net assets invested in capital assets, net of related debt, decreased from the previous fiscal year due primarily to a portion of the Community Disaster Loan being recorded as capital related debt.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in the amount restricted for debt service purposes.
- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in the fund balance of the General Fund.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$49,602,079. The total cost of all programs and services was \$39,582,879. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 91,879	\$ 922,824	(90.0) %
Operating grants and contributions	27,531,296	2,976,907	824.9 %
General revenues:			
Property taxes	5,003,476	6,447,743	(22.4) %
Grants and contributions not restricted	8,837,646	8,128,860	8.7 %
Other	<u>6,387,782</u>	<u>91,662</u>	6868.8 %
Total revenues	<u>47,852,079</u>	<u>18,567,996</u>	157.8 %
Expenses:			
Instruction	12,705,766	9,438,251	34.6 %
Support services	23,976,636	7,209,593	232.6 %
Non-instructional	2,321,740	1,148,519	102.2 %
Sixteenth section	0	888	(100.0) %
Interest and other expenses on long-term liabilities	<u>578,737</u>	<u>414,832</u>	39.5 %
Total expenses	<u>39,582,879</u>	<u>18,212,083</u>	117.3 %
Increase (Decrease) in net assets	8,269,200	355,913	

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

Net Assets, July 1	8,782,224	8,557,401	2.6 %
Prior Period Adjustments	<u>(500,906)</u>	<u>(131,090)</u>	
Net Assets, Restated, July 1	<u>8,281,318</u>	<u>8,426,311</u>	(1.7) %
 Net Assets, June 30	 \$16,550,518	 \$ 8,782,224	 88.5 %

The following are significant current year transactions that have had an impact on the Statement of Activities:

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions. As a result of Hurricane Katrina, the District was entitled to approximately \$24,500,000 of federal funds under the Displaced Student Grants, Restart School Grant and FEMA/MEMA Grant.
- General revenues increased from the previous fiscal year due primarily to an increase in other general revenues which included \$5,234,698 of insurance loss recoveries resulting from damages caused by Hurricane Katrina.
- Instruction and support services expenses increased from the previous fiscal year due primarily to expenses incurred for the clean up and repair of school facilities related to damages caused by Hurricane Katrina.
- Non-instructional expenses increased from the previous fiscal year due primarily to the purchase of numerous items of food service equipment to replace the equipment damaged by Hurricane Katrina.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses 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>2006</u>		<u>2005</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 12,705,766	\$ (5,584,744)	\$ 9,438,251	\$ (6,961,119)
Support services	23,976,636	(5,807,596)	7,209,593	(6,932,535)
Non-instructional	2,321,740	11,373	1,148,519	(2,978)
Sixteenth section	0	0	888	(888)
Interest and other expenses on long-term liabilities	<u>578,737</u>	<u>(578,737)</u>	<u>414,832</u>	<u>(414,832)</u>
Total expenses	<u>\$39,582,879</u>	<u>\$(11,959,704)</u>	<u>\$ 18,212,083</u>	<u>\$(14,312,352)</u>

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

- The net cost of governmental activities for fiscal year 2006 in the amount of \$11,959,704 was financed by general revenue, which is made up of primarily property taxes of \$5,003,476, state revenue of \$8,807,003 and other general revenues of \$6,169,872.
- Investment earnings accounted for \$213,793 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 fiscal year June 30, 2006, its governmental funds reported a combined fund balance of \$24,041,919. The net change in fund balance for the fiscal year was an increase of \$18,862,730 due primarily to proceeds of loans from a Community Disaster Loan obtained by the District, federal revenue entitled to the District under the Displaced Student Grants, Restart School Grant and FEMA/MEMA Grant, and insurance loss recoveries resulting from damages caused by Hurricane Katrina. \$22,106,202, or 92%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District’s discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$1,935,717, or 8%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, prepaid items, unemployment benefits and debt service purposes.

The General Fund is the principal operating fund of the District. The General Fund had \$16,231,247 in revenues and \$8,318,221 in expenditures. This resulted in an excess of revenues over expenditures in the amount of \$7,913,026. This excess is due primarily to the entitlement of approximately \$7,750,000 in federal funds under the Displaced Student Grants and Restart School Grant which resulted from Hurricane Katrina. A portion of expenditures related to instruction, support services and noninstructional services normally incurred in the General Fund were reported in the Displaced Student Grant Funds and the Restart School Grant Fund and federal sources were recognized to cover those expenditures. After net other financing sources of \$11,371,302, including proceeds of \$11,500,000 from a Hurricane Katrina Loan, the net change in fund balance for the General Fund was an increase of \$19,284,328 from the previous fiscal year. The net change in fund balance for the FEMA/MEMA Grant Fund for the fiscal year was an increase of \$129,487. The net change in fund balance for the Other Governmental Funds for

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

the fiscal year was a decrease of \$551,085 due primarily to the deficiency of revenues over expenditures in various governmental funds.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were decreased to more accurately reflect the local revenue received during the fiscal year. The original budgeted amounts were overstated.
- Budgeted amounts for revenue from federal sources in the General Fund were increased to more accurately reflect the federal revenue received during the fiscal year. The original budgeted amounts were understated.
- Budgeted amounts for instruction and support services expenditures were decreased during the fiscal year. The District was entitled to approximately \$7,750,000 of federal funds under the Displaced Student Grants and the Restart School Grant. The District was allowed to reclassify a portion of instruction and support services expenditures from the General Fund to the Displaced Student Grant Funds and Restart School Grant Fund in order to reimburse the District for salary related expenditures incurred. Therefore, budgeted amounts in the General Fund were decreased to reflect the reclassification of these expenditures.
- The budget of the General Fund was amended during the fiscal year to reflect proceeds of loans related to the Community Disaster Loan obtained by the District.
- The budget was amended during the fiscal year to reflect revenue from federal sources and instruction, support services and noninstructional services expenditures in the Displaced Student Grant Funds and Restart School Grant Fund. Revenue and expenditures related to these grants were a result of Hurricane Katrina and were not included in the original budget.
- The budget was amended during the fiscal year to reflect revenue from local and federal sources, insurance loss recoveries, and instruction, support services, noninstructional services and facilities acquisition and construction expenditures in the FEMA/MEMA Grant Fund. Revenue and expenditures related to this grant were a result of Hurricane Katrina and were not included in the original budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

Capital Assets. As of June 30, 2006, the District’s total capital assets, before depreciation, were \$17,383,996, including land, buildings, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$869,191 from the previous year. During the fiscal year, the District received FEMA trailers to be used for instructional purposes and the District purchased various items of mobile equipment and furniture and equipment, including computer equipment and food service equipment to replace equipment damaged by Hurricane Katrina. Total depreciation expense for the year was \$428,819. Total accumulated depreciation as of June 30, 2006 was \$3,323,145, resulting in total net capital assets of \$14,060,851.

	<u>Capital Assets, Net of Depreciation</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
Land	\$ 217,851	\$ 217,851	0.0 %
Buildings	13,167,620	11,590,406	13.6 %
Improvements other than buildings	141,736	232,784	(39.1) %
Mobile equipment	152,288	(142,353)	207.0 %
Furniture and equipment	<u>381,356</u>	<u>481,821</u>	(20.9) %
Total	<u>\$ 14,060,851</u>	<u>\$ 12,380,509</u>	13.6 %

Debt Administration. At June 30, 2006, the District had \$19,473,226 in general obligation bonds and other long-term debt outstanding, of which \$799,729 is due within one year. During the fiscal year, the District obtained a Hurricane Katrina Loan in the amount of \$11,500,000 and a Community Disaster Loan of \$ 1,750,000 as a result of Hurricane Katrina. The District made principal payments on long-term debt in the amount of \$765,000 during the fiscal year.

	<u>Outstanding Debt</u>		<u>Percentage Change</u>
	<u>2006</u>	<u>2005</u>	
General obligation bonds payable	\$ 7,435,000	\$ 8,095,000	(8.2) %
Three mill notes payable	420,000	525,000	(20.0) %
Shortfall notes payable	1,750,000	0	
Other loans payable	11,500,000	0	
Compensated absences payable	<u>118,226</u>	<u>140,643</u>	(15.9) %
Total	<u>\$ 21,223,226</u>	<u>\$ 8,760,643</u>	142.3 %

CURRENT ISSUES

The Bay St. Louis – Waveland School District had an enrollment of 2,350 students prior to Hurricane Katrina and provided educational services through six campuses. Currently, the student enrollment is approximately 70% of the enrollment prior to Hurricane Katrina. All buildings incurred extensive damage and portable classrooms are being used for instructional purposes until school facilities are repaired or rebuilt. Rebuilding has been a slow process due to federal funds and insurance claims not yet completely settled. Material delays also slow down many phases of construction as the delivery time extends to 8 weeks in most cases. Recovery from Hurricane Katrina will take years, but with a helping hand, the district may be able to better meet the needs of students and continue the quest for excellence in education.

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2006

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Bay St. Louis - Waveland School District, 201 Carrol Avenue, Bay St. Louis, MS 39520.

BASIC FINANCIAL STATEMENTS

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

Exhibit A

	<u>Governmental Activities</u>
Assets:	
Cash and cash equivalents	\$ 6,807,779
Due from other governments	18,940,652
Inventories and prepaid items	39,257
Capital assets, not being depreciated:	
Land	217,851
Capital assets, net of accumulated depreciation:	
Buildings	13,167,820
Improvements other than buildings	141,736
Mobile equipment	152,288
Furniture and equipment	381,356
Total Assets	<u>39,848,539</u>
Liabilities:	
Accounts payable and accrued liabilities	1,745,769
Interest payable on long-term liabilities	329,026
Long-term liabilities, due within one year:	
Capital related liabilities	795,000
Non-capital related liabilities	4,729
Long-term liabilities, due beyond one year:	
Capital related liabilities	7,060,000
Non-capital related liabilities	13,363,497
Total Liabilities	<u>23,298,021</u>
Net Assets:	
Investments in capital assets, net of related debt	6,205,851
Restricted net assets:	
Expendable:	
School-based activities	507,161
Debt service	1,514,823
Unemployment benefits	52,611
Unrestricted	8,270,072
Total Net Assets	<u>\$ 16,550,518</u>

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Balance Sheet - Governmental Funds
 June 30, 2006

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Restart School Grant Fund	FEMA / MEMA Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 4,434,921		129,487	2,243,371	\$ 6,807,779
Due from other governments	2,247,800	2,654,361	10,243,896	3,794,595	18,940,652
Due from other funds	15,993,412			20,069	16,013,481
Inventories and prepaid items				39,257	39,257
Total assets	22,676,133	2,654,361	10,373,383	6,097,292	41,801,169
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	37,835	154,208	199,651	1,354,075	1,745,769
Due to other funds	1,000,000	2,500,153	10,044,245	2,469,083	16,013,481
Total liabilities	1,037,835	2,654,361	10,243,896	3,823,158	17,759,250
Fund Balances:					
Reserved for:					
inventory				39,257	39,257
Debt Service Funds				1,843,849	1,843,849
Unemployment benefits				52,611	52,611
Unreserved:					
Undesignated, reported in:					
General Fund	21,638,298				21,638,298
Special Revenue funds			129,487	338,417	467,904
Total fund balances	21,638,298	-	129,487	2,274,134	24,041,919
Total liabilities and fund balances	\$ 22,676,133	2,654,361	10,373,383	6,097,292	\$ 41,801,169

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 24,041,919
Amount reported for governmental activities inn the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ (3,323,145).	14,060,851
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(19,473,226)
Community Disaster Loans are not due and payable in the current period and therefore are not reported in the funds.	(1,750,000)
3. Accrued Interest	(329,026)
Total net assets - governmental activities	<u><u>\$ 16,550,518</u></u>

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

Exhibit D

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Restart School Grant Fund	FEMA / MEMA Fund		
Revenues:					
Local sources	\$ 5,485,896		41,803	716,823	\$ 6,244,322
State sources	8,768,350			612,494	9,380,844
Federal sources	1,977,001	3,701,073	16,820,433	6,239,591	28,738,098
Sixteenth section sources				4,117	4,117
Total revenues	16,231,247	3,701,073	16,862,036	7,573,025	44,367,381
Expenditures:					
Instruction	4,458,164	1,886,121	1,506,453	3,952,365	11,803,103
Support services	3,775,316	1,743,583	17,131,700	1,321,847	23,972,426
Noninstructional services	4,302	16,049	541,753	1,916,492	2,478,596
Facilities acquisition and construction			2,760,000		2,760,000
Debt service:					
Principal				765,000	765,000
Interest				379,785	379,785
Other	80,439				80,439
Total expenditures	8,318,221	3,645,733	21,939,906	8,335,489	42,239,349
Excess (deficiency) of revenues over expenditures	7,913,026	55,340	(5,077,870)	(762,464)	2,128,032
Other Financing Sources (Uses)					
Proceeds of loans	11,500,000				11,500,000
Insurance loss recoveries	27,341		5,207,357		5,234,698
Operating transfers in	353,713			224,341	578,054
Operating transfers out	(509,752)	(55,340)		(12,962)	(578,054)
Total other financing sources (uses)	11,371,302	(55,340)	5,207,357	211,379	16,734,698
Net change in fund balances	19,284,328	-	129,487	(551,065)	18,862,730
Fund Balances:					
July 1, 2005	2,353,970	-		2,808,388	5,162,358
Increase(Decrease) Reserve for Inventory	-			16,831	16,831
June 30, 2006	\$ 21,638,298	-	129,487	2,274,134	\$ 24,041,919

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Reconciliation of Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2006

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 18,862,730
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while the governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 3,382,137 and the depreciation expense amounted to \$ 428,819.	2,953,318
2. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following item:	
Losses on sales of capital assets (-)	(902,144)
3. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activity.	(11,500,000)
4. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity.	765,000
5. Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources.	
Compensated Absences Decreases	22,417
Accrued interest on debt increases	(198,952)
6. An increase(+)/decrease(-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	
Increase in Reserve for Inventory (-)	16,831
7. Proceeds of community disaster loans is reported in the governmental funds, but not in the statement of activities.	(1,750,000)
Change in net assets of governmental activities	<u><u>\$ 8,269,200</u></u>

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Statement of Net Assets - Fiduciary Funds
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 620,525
<i>Total assets</i>	<u>620,525</u>
Liabilities	
Accounts payable and accrued liabilities	540,730
Due to student clubs	79,795
<i>Total liabilities</i>	<u>\$ 620,525</u>

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

NOTES TO FINANCIAL STATEMENTS

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(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 a "other stand-alone government." The school district is a related organization of, but not a component unit of, the cities of Bay St. Louis and Waveland 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.

Fund Financial Statements:

Fund financial statements of the reporting entity 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. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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 as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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 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. This fund accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Restart School Grant Fund – This fund is used to account for the expendable portion of sixteenth section revenues received.

FEMA / MEMA Fund – This fund is used to account for the proceeds from the issue of bonds for construction of new schools and the related construction project costs.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of fund financial statements.

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.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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 cost.

Permanent Funds - Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications prescribed in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

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 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 original maturities of three months or less. Cash and cash equivalents are valued at cost.

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 three months when acquired.

Investments are reported at fair value.

H. Inventories and Prepaid Items.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

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

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.

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	-	-
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. (See Note (6) for details).

K. Interfund Transactions and Balances.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

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."

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:

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2006

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.

Reserved for debt service – An account that represents that portion of fund balance in the debt service fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits – An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authorities 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 insured 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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standards.

As required, the Bay St. Louis / Waveland School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents.

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

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds \$ 6,807,779, and \$ 620,525, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$ 6,807,779. The bank balance was \$ 8,796,342.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages the risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$ 8,796,342 was exposed to custodial credit risk.

(4) Interfund Transactions and Balances:

The following is a summary of interfund transactions and balances:

A. Due from / To Other Funds.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 15,993,412	1,000,000
Restart school grant fund		2,500,153
FEMA/MEMA fund		10,044,245
Other governmental funds	<u>20,069</u>	<u>2,469,083</u>
Total Funds	<u><u>16,013,481</u></u>	<u><u>16,013,481</u></u>

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2006.

C. Transfers In / Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 353,713	509,752
Restart school grant fund		55,340
Other governmental funds	224,341	12,962
Total Funds	<u><u>578,054</u></u>	<u><u>578,054</u></u>

Transfers are made monthly from the General Fund to other funds for operations as federal and state funding for those funds is not sufficient to sustain those funds.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

(5) Capital Assets.

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6/30/2006</u>
<u>Non-depreciable capital</u>						
Land	\$ 217,851					\$ 217,851
Total non-depreciable	<u>217,851</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>217,851</u>
<u>Depreciable capital assets</u>						
Buildings	14,729,517	2,760,000	1,217,200			16,272,317
Improvements other than buildings	394,089		140,989			253,100
Mobile equipment	-	168,715	371,773		371,773	168,715
Furniture and equipment	1,173,348	453,422	412,152		(742,605)	472,013
Total depreciable capital assets	<u>16,296,954</u>	<u>3,382,137</u>	<u>2,142,114</u>	<u>-</u>	<u>(370,832)</u>	<u>17,166,145</u>
<u>Less accumulated depreciation for:</u>						
Buildings	3,139,111	323,328	638,300		280,558	3,104,697
Improvements other than buildings	161,305	10,124	91,592		31,527	111,364
Mobile equipment	142,353	16,427	176,012		33,659	16,427
Furniture and equipment	691,527	78,940	334,066		(345,744)	90,657
Total accumulated depreciation	<u>4,134,296</u>	<u>428,819</u>	<u>1,239,970</u>	<u>-</u>	<u>-</u>	<u>3,323,145</u>
Total depreciable capital assets, net	<u>12,162,658</u>	<u>2,953,318</u>	<u>902,144</u>	<u>-</u>	<u>(370,832)</u>	<u>13,843,000</u>
Governmental activities capital assets, net	<u>\$ 12,380,509</u>	<u>2,953,318</u>	<u>902,144</u>	<u>-</u>	<u>(370,832)</u>	<u>\$ 14,060,851</u>

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 334,852
Support Services	46,586
Non-instructional	47,381
Total depreciation expense	<u>\$ 428,819</u>

(6) Long-term liabilities.

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

	<u>Balance 7/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2006</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 8,095,000		(660,000)	7,435,000	690,000
B. Three mill notes payable	525,000		(105,000)	420,000	105,000
C. Shortfall notes payable	-	1,750,000		1,750,000	-
D. Other loans payable	-	11,500,000		11,500,000	-
E. Compensated absences payable	140,643		(22,417)	118,226	4,729
Total	<u>\$ 8,760,643</u>	<u>13,250,000</u>	<u>(787,417)</u>	<u>21,223,226</u>	<u>799,729</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 2002	variable	6/1/2002	11/1/2009	1,805,000	935,000
General obligation bonds, Series 1997	variable	9/1/1997	09/01/2017	9,000,000	6,500,000
Total				<u>\$ 10,805,000</u>	<u>\$ 7,435,000</u>

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	690,000	328,570	1,018,570
2008	725,000	298,659	1,023,659
2009	770,000	266,260	1,036,260
2010	465,000	238,331	703,331
2011	490,000	215,650	705,650
2012-2016	2,890,000	692,312	3,582,312
2017-2021	1,405,000	67,569	1,472,569
Total	\$ 7,435,000	\$ 2,107,351	\$ 9,542,351

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 last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2006, the amount of outstanding bonded indebtedness was equal to 4.60 % of property assessments as of October 1, 2005. This debt will be retired from the Bond Sinking Fund # 4031.

B. Three mill note payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited tax note	5.23%	1/25/2000	1/25/2010	\$ 1,000,000	200,000
Limited tax note	2.99%	1/5/2005	1/5/2010	2,750,000	220,000
Total				\$ 3,750,000	420,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	105,000	17,038	122,038
2008	105,000	12,778	117,778
2009	105,000	8,519	113,519
2010	105,000	4,259	109,259
Total	\$ 420,000	\$ 42,594	\$ 462,594

This debt will be retired from the Short-term Debt Fund.

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

C. Shortfall notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Community Disaster Loan	3.12%	6/2006	6/2011	<u>\$ 1,750,000</u>	<u>\$ 1,750,000</u>
Total				<u><u>\$ 1,750,000</u></u>	<u><u>\$ 1,750,000</u></u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	-	54,600	54,600
2008	-	54,600	54,600
2009	-	54,600	54,600
2010	-	54,600	54,600
2011	<u>1,750,000</u>	<u>54,600</u>	<u>1,804,600</u>
Total	<u><u>\$ 1,750,000</u></u>	<u><u>\$ 273,000</u></u>	<u><u>\$ 2,023,000</u></u>

Community Disaster Loan will be retired from the District Maintenance Fund 1120.

Pursuant to HR 2206 – Public Law 110-28, FEMA may allow forgiveness of Community Disaster Loans, in Presidentially declared disaster areas on a case by case basis.

In addition, the Community Disaster Loan was recorded as federal revenue on the statement of revenues, expenditures and changes in fund balances, Exhibit D.

D. Other loans payable.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Special obligation notes payable Hurricane Katrina Mississippi Development Bank	variable	9/1/2005	8/1/2010	11,500,000	11,500,000
Total				<u><u>\$ 11,500,000</u></u>	<u><u>\$ 11,500,000</u></u>

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

Year Ending June 30	Principal	Interest	Total
2007	-	-	-
2008	-	-	-
2009	-	776,250	776,250
2010	-	517,500	517,500
2011	11,500,000	258,750	11,758,750
Total	<u>\$ 11,500,000</u>	<u>\$ 1,552,500</u>	<u>\$ 13,052,500</u>

This debt will be retired from the debt service fund # 4031.

E. 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), Mississippi Code Annotated (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) 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 Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 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 10.75% 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, 2006, 2005, and 2004 were \$ 1,057,145, \$ 1,022,838 and \$ 929,853, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2006**

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 2,400
2008	2,400
2009	2,400
2010	2,400
2011	2,400
2012-2016	12,000
2017-2021	12,000
2022-2026	12,000
2027-2031	9,600
Total	\$ 57,600

(9) Prior Period Adjustments/Exhibits.

Exhibit B – Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
1. Adjustments related to the recording of prior period transactions. In addition, there was a disclaimer of opinion on the financial statements in the prior year.	<u>(500,906)</u>

(10) Subsequent Events.

On September 25, 2007, a former employee of the school district admitted to taking money from the business office deposits that she took to the bank. After reviewing records and various other documents, an estimate of the amount of loss to the district is not determinable at this time.

(11) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$ 25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

REQUIRED SUPPLEMENTARY INFORMATION

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Local sources	6,572,214	5,485,896	5,485,896	(1,086,318)	-
State sources	8,568,866	8,768,350	8,768,350	198,484	-
Federal sources	79,000	1,977,001	1,977,001	1,898,001	-
Total Revenues	15,221,080	16,231,247	16,231,247	1,010,167	-
Expenditures:					
Instruction	9,075,943	4,458,214	4,458,164	4,617,729	50
Support services	6,096,497	3,775,316	3,775,316	2,321,181	-
Noninstructional services	-	4,302	4,302	(4,302)	-
Facilities acquisition and construction	560,000	-	-	560,000	-
Debt service:					
Other	-	80,439	80,439	(80,439)	-
Total Expenditures	15,732,440	8,318,271	8,318,221	7,414,169	50
Excess (deficiency) of revenues over expenditures	(511,360)	7,912,976	7,913,026	8,424,336	50
Other Financing Sources (Uses)					
Proceeds of loans		10,350,000	11,500,000	10,350,000	1,150,000
Insurance loss recoveries		27,341	27,341	27,341	-
Operating transfers in	826,798	353,713	353,713	(473,085)	-
Operating transfers out	(1,107,481)	(509,752)	(509,752)	597,729	-
Total Other Financing Sources (Uses)	(280,683)	10,221,302	11,371,302	10,501,985	1,150,000
Net change in fund balances	(792,043)	18,134,278	19,284,328	18,926,321	1,150,050
Fund Balances:					
July 1, 2005	2,203,548	2,311,518	2,353,970	107,970	42,452
June 30, 2006	1,411,505	20,445,796	21,638,298	19,034,291	1,192,502

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

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 Restart School Grant Fund
 For the Year Ended June 30, 2006

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources		3,701,073	3,701,073	3,701,073	-
Total Revenues	-	3,701,073	3,701,073	3,701,073	-
Expenditures:					
Instruction		1,886,121	1,886,121	(1,886,121)	-
Support services		1,743,563	1,743,563	(1,743,563)	-
Noninstructional services		16,049	16,049	(16,049)	-
Total Expenditures	-	3,645,733	3,645,733	(3,645,733)	-
Excess (deficiency) of revenues over expenditures	-	55,340	55,340	55,340	-
Other Financing Sources (Uses)					
Operating transfers out		(55,340)	(55,340)	(55,340)	-
Total Other Financing Sources (Uses)	-	(55,340)	(55,340)	(55,340)	-
Net change in fund balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	-	-	-	-

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
 Budgetary Comparison Schedule
 FEMA / MEMA Grant Fund
 For the Year Ended June 30, 2006

Schedule 3

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources		41,603	41,603	41,603	-
Federal sources		14,060,433	16,820,433	14,060,433	2,760,000
Total Revenues	-	14,102,036	16,862,036	14,102,036	2,760,000
Expenditures:					
Instruction		1,506,453	1,506,453	(1,506,453)	-
Support services		6,071,454	17,131,700	(6,071,454)	(11,060,246)
Noninstructional services		541,753	541,753	(541,753)	-
Facilities acquisition and construction		11,060,246	2,760,000	(11,060,246)	8,300,246
Total Expenditures	-	19,179,906	21,939,906	(19,179,906)	(2,760,000)
Excess (deficiency) of revenues over expenditures	-	(5,077,870)	(5,077,870)	(5,077,870)	-
Other Financing Sources (Uses)					
Insurance loss recoveries		5,207,357	5,207,357	5,207,357	-
Total Other Financing Sources (Uses)	-	5,207,357	5,207,357	5,207,357	-
Net change in fund balances	-	129,487	129,487	129,487	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	-	129,487	129,487	129,487	-

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT

**Notes to the Required Supplemental Information
For the Year Ended June 30, 2006**

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

SUPPLEMENTAL INFORMATION

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2006

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed - through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 74,583
Child Nutrition Cluster:		
School breakfast program	10.553	109,839
National school lunch program	10.555	401,931
Summer food service program for children	10.559	42,430
Total child nutrition cluster		<u>554,200</u>
Total U.S. Department of Agriculture		<u>628,783</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	41,552
Total U.S. Department of Defense		<u>41,552</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	643,660
Vocational education - basic grants to states	84.048	28,100
Safe and drug-free schools and communities - state grants	84.186	14,503
Eisenhower professional development state grants	84.281	181,942
Innovative education program strategies	84.298	76,800
Rural education	84.358	814
Improving teacher quality - state grants	84.367	120,759
Grants for state assessments and related activities	84.369	20,154
Hurricane education recovery	84.938	7,752,923
Total		<u>8,839,655</u>
Special education cluster:		
Special education - grants to states	84.027	521,248
Special education - preschool grants	84.173	20,215
Total		<u>541,463</u>
Total Passed-through Mississippi Department of Education		<u>9,381,118</u>
Total U.S. Department of Education		<u>9,381,118</u>
<u>U.S. Department of Homeland Security</u>		
Passed-through the Mississippi Development Authority		
Community disaster loan	97.030	1,750,000
Passed-through the Mississippi Emergency Management Agency:		
Disaster grants - public assistance (Presidentially Declared Disasters)	97.036	16,915,881
Total		<u>18,665,881</u>
Total U.S. Department of Health and Human Services		<u>18,665,881</u>
Total for All Federal Awards		<u>\$ 28,717,334</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.

Bay St. Louis / Waveland School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures			
		General Administration	School Administration	Other	
Salaries and fringe benefits	\$ 13,815,637	598,135	1,064,119	974,735	
Other	28,423,712	887,507	301,960	23,688,658	
Total	42,239,349	1,485,642	1,366,079	24,663,393	
Total number of students *		1,469			
Cost per student		\$ 28,754			
		10,023			
		1,011			
		930			
		16,789			

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

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

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s)

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

* include the 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

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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 18, 2007

Superintendent and School Board
Bay St. Louis / Waveland School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bay St. Louis / Waveland School District as of and for the year ended June 30, 2006, which collectively comprise Bay St. Louis / Waveland School District's basic financial statements and have issued our report thereon dated December 18, 2007. 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Finding 06-1, 06-2, and 06-3.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Finding 06-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 *Government 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.

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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 18, 2007

Superintendent and School Board
Bay St. Louis / Waveland School District

Compliance

We have audited the compliance of the Bay St. Louis / Waveland School District with the types of compliance requirements described in *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, 2006. 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, Bay St. Louis / Waveland 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, 2006.

Internal Control Over Compliance

The management of the Bay St. Louis / Waveland 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 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 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 a 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.

McDaniel CPA Firm

McDaniel CPA Firm
Certified Public Accountant / Financial Consultant

Scotty McDaniel, CPA

MEMBER

Mississippi Society
of Certified Public
Accountants

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

December 18, 2007

Superintendent and School Board
Bay St. Louis / Waveland School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Bay St. Louis / Waveland School District as of and for the year ended June 30, 2006, which collectively comprise Bay St. Louis / Waveland School District's basic financial statements and have issued our report thereon dated December 18, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), 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 \$ 36,538 of classroom 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 did not disclose any instances of noncompliance with other state laws and regulations.

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 those specified parties. However, this report is a matter of public record and its distribution is not limited.

McDaniel CPA Firm

130 Shadow Lake Drive - Hattiesburg, MS 39402
Tel : 601-296-1007 / 601-408-9378
Fax: 601-296-6477
Email: mccpafirm@gmail.com

BAY ST. LOUIS / WAVELAND SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

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

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. Hurricane Katrina Education Recovery | |
| | CFDA #: 84.938 | |
| | b. Special Education Cluster | |
| | CFDA#: 84.027 | |
| | CFDA#: 84.173 | |
| | c. Disaster grants - public assistance (Presidentially Declared Disasters) | |
| | CFDA#: 97.036 | |
| | d. Community Disaster Loan | |
| | CFDA#: 97.030 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$ 861,520 |
| 9. | Auditee qualified as a low-risk auditee? | no |
| 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? | no |

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be a Material Weakness

06-1 Finding

In our test of receipts and deposits of activity funds and club funds, we noted the following internal control weaknesses:

- a.) Per inquiry and review it was found that there was a lack of segregation of duties in the accounting and depositing of activity and club funds.
- b.) Deposits were not made on a timely basis.
- c.) Some deposits were incomplete.

Recommendation

We recommend having someone independent of the bank reconciliation process, independent of the preparation of the deposit slip and independent of the receipting of funds, take the deposit to the bank.

Also, we recommend making deposits on a daily basis.

Response

Procedures have been implemented to correct the above deficiencies.

06-2 Finding

Per inquiry and review it was determined that the district did not have someone reviewing the bank reconciliations in order to provide assurance that bank reconciliations were being prepared for all bank accounts.

Recommendation

We recommend that the district have an individual within the business office, who does not prepare the bank reconciliations, review the monthly bank reconciliations and bank statements to ensure that bank reconciliations for being prepared for all bank accounts on a monthly basis. Also, this individual needs to check the balance on the bank reconciliation to the cash book balance.

Response

Procedures have been implemented to correct the above deficiency.

Reportable Conditions Considered to be a Material Weakness

06-3 Finding

Per inquiry and review of bank statements and bank reconciliations, it was determined that the individual responsible for the preparation of bank reconciliations failed to reconcile various bank accounts at year-end 6/30/2006.

Recommendation

We recommend that all bank accounts of the district be reconciled on a monthly basis.

Response

Procedures have been implemented to correct the above deficiency.

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.

BAY ST. LOUIS – WAVELAND SCHOOL DISTRICT
201 CARROLL AVENUE
BAY ST. LOUIS, MISSISSIPPI 39520

Kim Stasny, Ph.D.

Superintendent

Telephone (228) 467-6621 Fax (228) 466-4895

Rebecca Ladner, Ph.D.

Assistant Superintendent

Auditee's Corrective Action Plan

Financial Compliance & Audit Division

As required by Section ____315(c) of OMB Circular A-133, the Bay St. Louis / Waveland School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006.

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2006-1	<p>a. Name of Contact Person Responsible for Corrective Action: Kevin Boyce, Business Administrator (228) 467-6621</p> <p>b. Corrective Action Planned: The district has implemented procedures to properly segregate duties in the accounting and depositing of activity and club funds. Also, deposits will be made on a daily basis.</p> <p>c. Anticipated Completion Date: Procedures are presently in place.</p>
2006-2	<p>a. Name of Contact Person Responsible for Corrective Action: Kevin Boyce, Business Administrator (228) 467-6621</p> <p>b. Corrective Action Planned: The district has someone independent of the bank reconciliation process to review monthly bank reconciliations to ensure that this procedure is being performed.</p> <p>c. Anticipated Completion Date: Procedures are presently in place.</p>
2006-3	<p>a. Name of Contact Person Responsible for Corrective Action: Kevin Boyce, Business Administrator (228) 467-6621</p> <p>b. Corrective Action Planned: The district has implemented procedures to ensure that all bank accounts are reconciled on a monthly basis.</p> <p>c. Anticipated Completion Date: Procedures are presently in place.</p>