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**OCEAN SPRINGS SCHOOL DISTRICT**

Audited Financial Statements  
For the Year Ended June 30, 2007

**OCEAN SPRINGS SCHOOL DISTRICT**  
**Table of Contents**

<b>INDEPENDENT AUDITOR'S REPORT</b> .....	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b> .....	3
<b>BASIC FINANCIAL STATEMENTS</b>	
<u>Government-wide financial statements</u>	
Statement of Net Assets .....	10
Statement of Activities.....	11
<u>Governmental Fund Financial Statements</u>	
Balance Sheet.....	12
Reconciliation of Government Funds Balance Sheet to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures and Changes in Fund Balance.....	14
Reconciliation of the Government Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities.....	15
Statement of Fiduciary Net Assets.....	16
<u>Notes to Financial Statements</u> .....	17
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Budgetary Comparison Schedules .....	30
Notes to the Required Supplementary Information.....	32
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Expenditures of Federal Awards.....	33
Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds.....	34
<b>REPORTS ON COMPLIANCE AND INTERNAL CONTROL</b>	
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.....	35
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.....	37
Independent Auditor's Report On Compliance with State Laws and Regulations.....	39
Schedule of Findings and Questioned Costs.....	41

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Accountants

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

December 13, 2007

Superintendent and School Board  
Ocean Springs School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Ocean Springs School District as of and for the year ended June 30, 2007, which collectively comprise the Ocean Springs School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Ocean Springs School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Ocean Springs School District, as of June 30, 2007, 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 13, 2007, on our consideration of the Ocean Springs 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 (9) and the Budgetary Comparison Schedules and corresponding notes on pages (30) through (31) 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 Ocean Springs 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***

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

The discussion and analysis of Ocean Springs School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. 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 for the school district at June 30, 2007 and 2006 were \$ 55,285,781 and \$ 46,138,020, respectively.
- Total net assets increased \$ 9,147,761.
- General revenues accounted for \$ 37,308,484 in revenue. Program specific revenues in the form of charges for services and grants and contributions accounted for \$ 11,713,572.
- The District had \$ 39,895,271 in expenses; only \$ 11,713,572 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$ 37,308,484 were adequate to provide for these programs.
- Among major funds, the General Fund had \$ 35,003,213 in revenues and \$ 25,068,520 in expenditures. The General Fund's fund balance increased \$ 8,303,041 over the prior year.
- Capital assets, net of accumulated depreciation, decreased by \$ 378,820.
- Long-term debt increased by \$ 451,289. The debt increased due to new debt incurred.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term liabilities.

The government-wide financial statements can be found on pages 10 - 11 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 13 and 15, respectively.

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.

The basic governmental fund financial statements can be found on pages 12 – 15 of this report.

**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. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 16.

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 -29 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund (if applicable). This required supplementary information can be found on pages 30 - 32 of this report.

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 can be found on pages 33 and 34, respectively, of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$ 55,285,781 as of June 30, 2007.

By far the largest portion of the District's net assets (35%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress) 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.

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 as of June 30, 2007 and 2006, respectively.

	<b>Net Assets</b>		<b>Percentage Change</b>
	<b>June 30, 2007</b>	<b>June 30, 2006</b>	
Current Assets	36,219,443	26,622,413	36.05%
Capital Assets, Net	23,472,300	23,851,120	-1.59%
<b>Total Assets</b>	<b>59,691,743</b>	<b>50,473,533</b>	<b>18.26%</b>
Current Liabilities	69,898	450,738	-84.49%
Long-term debt outstanding	4,336,064	3,884,775	11.62%
<b>Total Liabilities</b>	<b>4,405,962</b>	<b>4,335,513</b>	<b>1.62%</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	19,452,300	20,267,620	-4.02%
Restricted	13,520,218	13,290,066	1.73%
Unrestricted	22,313,263	12,580,334	77.37%
<b>Total Net Assets</b>	<b>55,285,781</b>	<b>46,138,020</b>	<b>19.83%</b>

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

- The principal retirement of \$1,063,500 of long-term debt.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 20, 2007 were \$ 49,022,056. The total cost of all programs and services was \$ 39,895,271. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2007 and June 30, 2006, respectively.

	<b>Change in Net Assets</b>		Percentage Change
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
<b>Revenues:</b>			
Program Revenues:			
Charges for Services	\$ 1,514,497	\$ 1,055,679	43.46%
Operating grants and contributions	10,199,075	7,524,424	35.55%
Capital grants and contributions	-	734,846	-100.00%
General revenues:			
Property taxes	12,446,142	10,525,114	18.25%
Grants and contributions not restricted	22,746,033	21,854,172	4.08%
Other	2,116,309	5,445,253	-61.13%
<b>Total revenues</b>	<u>49,022,056</u>	<u>47,139,488</u>	<u>3.99%</u>
<b>Expenses:</b>			
Instruction	22,850,706	21,782,459	4.90%
Support Services	15,318,591	13,845,690	10.64%
Non-instructional	1,590,647	1,468,551	8.31%
Interest and other expense on long-term liabilities	135,327	171,813	-21.24%
<b>Total expenses</b>	<u>39,895,271</u>	<u>37,268,513</u>	<u>7.05%</u>
<b>Increase (Decrease) in net assets</b>	<u>9,126,785</u>	<u>9,870,975</u>	<u>-7.54%</u>
<b>Net Assets, July1</b>	<u>46,138,020</u>	<u>36,267,045</u>	<u>27.22%</u>
<b>Prior period adjustment</b>	20,976	-	
<b>Net Assets, July 1 - Restated</b>	<u>46,158,996</u>	<u>36,267,045</u>	<u>27.28%</u>
<b>Net Assets, June 30</b>	<u>\$ 55,285,781</u>	<u>\$ 46,138,020</u>	<u>19.83%</u>

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

- Support services expenses increased from the previous year fiscal year due primarily to expenditures incurred related to the repair of school facilities.

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt for fiscal years ending June 30, 2007 and 2006, respectively. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

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.

	2007		2006	
	Total Expenses	Net(Expense) Revenue	Total Expenses	Net(Expense) Revenue
Instruction	\$ 22,850,706	\$ (15,438,667)	\$ 21,782,459	\$ (16,055,669)
Support Services	15,318,591	(12,807,057)	13,845,690	(11,823,398)
Non-instructional	1,590,647	199,352	1,468,551	97,316
Interest and other expenses on long-term liabilities	135,327	(135,327)	171,813	(171,813)
<b>Total expenses</b>	<b>\$ 39,895,271</b>	<b>\$ (28,181,699)</b>	<b>\$ 37,268,513</b>	<b>\$ (27,953,564)</b>

- Net cost of governmental activities (\$ 28,181,699) was financed by general revenue, which is made up of primarily property taxes \$ 12,446,142 and state revenue \$ 22,627,431.
- Investment earnings accounted for \$ 812,883 of funding.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$ 36,194,582, an increase of \$ 9,973,251 due primarily to conservative spending during the fiscal year and an increase in federal revenue.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$ 8,303,041 a result of more federal funding being received than anticipated. The fund balance of Other Governmental Funds showed an increase due primarily to proceeds of loans and insurance loss recoveries.

**BUDGETARY HIGHLIGHTS**

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

- Budgeted amounts for instruction and support services expenditures in the General Fund were decreased during the fiscal year.
-

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

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**

**Capital Assets.** As of June 30, 2007, the District's total capital assets, before depreciation, were \$ 45,876,987, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$ 247,415 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$ 22,404,687 and total depreciation expense for the year was \$ 779,572, resulting in total net assets of \$ 23,472,300.

	Capital Assets, Net of Depreciation		Percentage Change
	2007	2006	
Land	1,056,895	1,056,895	0%
Construction in progress	-	1,341,638	-100%
Buildings	18,894,317	19,330,750	-2%
Building improvements	1,709,973	535,058	220%
Improvements other than buildings	453,203	350,801	29%
Mobile equipment	1,070,031	1,037,219	3%
Furniture and equipment	287,881	198,759	45%
<b>Total</b>	<b>23,472,300</b>	<b>23,851,120</b>	<b>-2%</b>

Additional information of the District's capital assets can be found in Note 4 on page 25 of this report.

**Debt Administration.** At June 30, 2007, the District had \$ 4,336,064 in general obligation bonds and other long-term debt outstanding, of which \$ 1,302,343 is due within one year.

	Outstanding Debt		Percentage Change
	2007	2006	
General obligation bonds payable	2,520,000	3,300,000	-24%
Three mill notes payable	1,500,000	283,500	429%
Compensated absences payable	316,064	301,275	5%
<b>Total</b>	<b>4,336,064</b>	<b>3,884,775</b>	<b>12%</b>

Additional information of the District's long-term debt can be found in Note 5 on page 26 of this report.

**CURRENT ISSUES**

The Ocean Springs School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

**OCEAN SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Ocean Springs School District, 2300 Government Street, Ocean Springs, Mississippi 39564.

***BASIC FINANCIAL STATEMENTS***

**OCEAN SPRINGS SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2007**

Exhibit A

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and cash equivalents	\$ 33,116,396
Due from other governments	3,004,506
Other receivables, net	44,676
Inventories and prepaid items	53,865
Capital assets, not being depreciated:	
Land	1,056,895
Capital assets, net of accumulated depreciation:	
Buildings	18,894,317
Building improvements	1,709,973
Improvements other than buildings	453,203
Mobile equipment	1,070,031
Furniture and equipment	287,881
 <b>Total assets</b>	 <u><u>59,691,743</u></u>
<b>Liabilities:</b>	
Accounts payable and accrued liabilities	24,861
Interest payable on long-term liabilities	45,037
Long-term liabilities (due within one year):	
Capital related liabilities	1,302,343
Non-capital related liabilities	12,643
Long-term liabilities (due beyond one year):	
Capital related liabilities	2,717,657
Non-capital related liabilities	303,421
 <b>Total liabilities</b>	 <u><u>4,405,962</u></u>
<b>Net Assets:</b>	
Investments in capital assets (net of related debt)	19,452,300
Restricted net assets:	
Expendable:	
School-based activities	2,254,565
Debt service	1,700,493
Capital Improvements	9,396,117
Unemployment benefits	117,753
Non-expendable:	
Other	51,290
Unrestricted	22,313,263
 <b>Total net assets</b>	 <u><u>\$ 55,285,781</u></u>

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



OCEAN SPRINGS SCHOOL DISTRICT  
Balance Sheet - Governmental Funds  
June 30, 2007

Exhibit C

ASSETS

	Major Funds				Total Governmental Funds
	General Fund	Restart School Grant Fund	Future Building Fund	Other Governmental Funds	
Cash and cash equivalents	\$ 18,213,753		9,396,117	5,506,526	\$ 33,116,396
Due from other government	541,747	2,141,386		321,373	3,004,506
Other receivables, net	1,625			43,051	44,676
Due from other funds	2,433,946			53,865	2,433,946
Inventories					53,865
<b>Total assets</b>	<b>21,191,071</b>	<b>2,141,386</b>	<b>9,396,117</b>	<b>5,924,815</b>	<b>38,653,389</b>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable and accrued liabilities	14,828			10,033	24,861
Due to other funds		2,141,386		292,560	2,433,946
<b>Total liabilities</b>	<b>14,828</b>	<b>2,141,386</b>	<b>-</b>	<b>302,593</b>	<b>2,458,807</b>

Fund Balances:

Reserved for:				53,865	53,865
Inventory				1,453,084	1,453,084
Capital projects				1,745,530	1,745,530
Debt service				117,753	117,753
Unemployment benefits				51,290	51,290
Endowments					
Unreserved:					
Undesignated, reported in:					
General Fund	21,176,243				21,176,243
Special Revenue Funds			9,396,117	2,200,700	2,200,700
Capital Projects Funds					9,396,117
<b>Total fund balances</b>	<b>21,176,243</b>	<b>-</b>	<b>9,396,117</b>	<b>5,622,222</b>	<b>36,194,582</b>
<b>Total liabilities and fund balances</b>	<b>\$ 21,191,071</b>	<b>\$ 2,141,386</b>	<b>\$ 9,396,117</b>	<b>\$ 5,924,815</b>	<b>\$ 38,653,389</b>

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

OCEAN SPRINGS SCHOOL DISTRICT  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2007

Exhibit C-1

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	<u>Amount</u>
Total fund balance - governmental funds	\$ 36,194,582
Amount reported for governmental activities in 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 \$ 22,404,687.	23,472,300
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(4,336,064)
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Net Assets recognizes interest as it accrues.	(45,037)
<b>Total net assets - governmental activities</b>	<u><u>\$ 55,285,781</u></u>

OCEAN SPRINGS SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2007

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	School Grant Fund	Future Building Fund	Other Governmental Funds	
<b>Revenues:</b>					
Local sources	\$ 11,920,911		214,926	3,089,413	\$ 15,225,250
State sources	22,898,689			872,061	23,770,750
Federal sources	183,613	6,304,729		2,686,016	9,174,358
<b>Total revenues</b>	<b>35,003,213</b>	<b>6,304,729</b>	<b>214,926</b>	<b>6,647,490</b>	<b>48,170,358</b>
<b>Expenditures:</b>					
Instruction	14,792,418	4,587,761	36,583	3,005,999	22,422,761
Support services	10,273,741	1,716,968	83,933	3,186,091	15,260,733
Noninstructional services				1,726,104	1,726,104
Facilities acquisition and construction	2,361			2,361	2,361
Debt service:					
Principal				1,063,500	1,063,500
Interest				139,196	139,196
Other				750	750
<b>Total expenditures</b>	<b>25,068,520</b>	<b>6,304,729</b>	<b>120,516</b>	<b>9,121,640</b>	<b>40,815,405</b>
Excess (deficiency) of revenues over expenditures	9,934,693	-	94,410	(2,474,150)	7,554,953
<b>Other Financing Sources (Uses)</b>					
Proceeds of loans				1,500,000	1,500,000
Insurance loss recoveries				836,381	836,381
Operating transfers in	3,144,830		1,000,000	956,011	5,100,841
Other financing sources	5,000			10,317	15,317
Operating transfers out	(4,781,482)			(319,359)	(5,100,841)
<b>Total other financing sources (uses)</b>	<b>(1,631,652)</b>	<b>-</b>	<b>1,000,000</b>	<b>2,983,350</b>	<b>2,351,698</b>
<b>Net change in fund balances</b>	<b>8,303,041</b>	<b>-</b>	<b>1,094,410</b>	<b>509,200</b>	<b>9,906,651</b>
<b>Fund Balances:</b>					
July 1, 2006	12,881,609	-	8,301,707	5,038,015	26,221,331
Prior period adjustments	(8,407)			34,492	26,085
July 1, 2006, as restated	12,873,202		8,301,707	5,072,507	26,247,416
Increase(Decrease) Reserve for Inventory				40,515	40,515
<b>June 30, 2007</b>	<b>\$ 21,176,243</b>	<b>-</b>	<b>9,396,117</b>	<b>5,672,222</b>	<b>\$ 36,194,582</b>

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

OCEAN SPRINGS 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, 2007

Exhibit D-1

	<u>Amount</u>
Net change in fund balances - governmental funds	\$ 9,906,651
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchase amounted to \$ 419,303 and the depreciation expense amounted to (\$ 779,572).	(360,269)
2. The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities for governmental activities.	(1,500,000)
3. 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.	1,063,500
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.	4,619
5. Gains and losses on the sale or disposals of assets not reported in the governmental funds, but are reported in the statement of activities, net of proceeds.	(13,442)
6. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the statement of activities.	40,515
7. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(14,789)
 Change in net assets of governmental activities	 <u>\$ 9,126,785</u>

OCEAN SPRINGS SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2007

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,570,227
<i>Total assets</i>	<u>1,570,227</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	1,426,247
Due to student clubs	143,980
<i>Total liabilities</i>	<u>\$ 1,570,227</u>

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

**NOTES TO FINANCIAL STATEMENTS**

# OCEAN SPRINGS SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2007

### (1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

#### A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the City of Ocean Springs 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 statements 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 school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into two major categories:

# OCEAN SPRINGS SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2007

governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

### C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting 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. It 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 federal funds related to Hurricane Katrina.

Future Building Fund – This fund accounts for financial resources to be used for the acquisition and construction of major capital facilities.

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

# OCEAN SPRINGS SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2007

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

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

### FIDUCIARY FUNDS

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

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended 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 maintained to account for commitments resulting from approved purchase orders, work orders and contracts. Encumbrances outstanding at year-end are reported as designation of fund balances since they do not constitute expenditures or liabilities.

#### 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 deposits 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.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

Capital 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 (4) 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.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

**K. Interfund Transactions and Balances.**

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

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

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

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

**L. Equity Classifications.**

***Government-wide Financial Statements:***

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

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

***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:

# OCEAN SPRINGS SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2007

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 capital projects – An account that represents that portion of fund balance in the Capital Projects Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

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.

Reserved for endowments – An account that represents the portion of the fund balance of scholarship and similar Nonexpendable Trust Funds which is legally restricted for endowment purposes.

### **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 unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

### **(2) Cash and Cash Equivalents.**

# OCEAN SPRINGS SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2007

The district follows the practice of aggregating that cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds \$ 33,116,396, and \$ 1,570,227, respectively. The carrying amount of deposits reported in the government-wide statements was: cash and cash equivalents \$ 33,116,396. The bank balance was \$ 35,994,085.

### 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, 2007, none of the district's bank balance of \$ 35,994,085 was exposed to custodial credit risk.

### (3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

#### A. Due from / To Other Funds.

**OCEAN SPRINGS SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 2,433,946	-
Restart School Grant fund		2,141,386
Other governmental funds		<u>292,560</u>
<b>Total Funds</b>	<u><u>2,433,946</u></u>	<u><u>2,433,946</u></u>

The purpose of interfund loans was to account for federal funds that were not received until after the year ending 6/30/2007.

**B. Transfers In / Out.**

	<u>In</u>	<u>Out</u>
Governmental Funds:		
General fund	\$ 3,144,830	4,781,482
Future Building fund	1,000,000	
Other governmental funds	956,011	319,359
<b>Total Funds</b>	<u><u>5,100,841</u></u>	<u><u>5,100,841</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.

**(4) Capital Assets.**

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

OCEAN SPRINGS SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

	Balance 7/1/2006	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2007
<b>Non-depreciable capital assets:</b>						
Land	\$ 1,056,895					\$ 1,056,895
Construction in progress	1,341,638	2,361		(1,343,999)		-
<b>Total non-depreciable capital assets</b>	<b>2,398,533</b>	<b>2,361</b>	<b>-</b>	<b>(1,343,999)</b>	<b>-</b>	<b>1,056,895</b>
<b>Depreciable capital assets:</b>						
Buildings	39,093,937					39,093,937
Building improvements	568,658			1,222,104		1,790,762
Improvements other than buildings	365,418			121,895		487,313
Mobile equipment	2,196,847	216,912	(114,415)			2,299,344
Furniture and equipment	1,006,179	200,030	(51,523)		(5,950)	1,148,736
<b>Total depreciable capital assets</b>	<b>43,231,039</b>	<b>416,942</b>	<b>(165,938)</b>	<b>1,343,999</b>	<b>(5,950)</b>	<b>44,820,092</b>
<b>Less accumulated depreciation for:</b>						
Buildings	19,763,187	436,433				20,199,620
Building improvements	33,600	47,189				80,789
Improvements other than buildings	14,617	19,493				34,110
Mobile equipment	1,159,628	172,659	(102,974)			1,229,313
Furniture and equipment	807,420	103,798	(49,522)		(841)	860,855
<b>Total accumulated depreciation</b>	<b>21,778,452</b>	<b>779,572</b>	<b>(152,496)</b>	<b>-</b>	<b>(841)</b>	<b>22,404,687</b>
<b>Total depreciable capital assets, net</b>	<b>21,452,587</b>	<b>(362,630)</b>	<b>(13,442)</b>	<b>1,343,999</b>	<b>(5,109)</b>	<b>22,415,405</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 23,851,120</b>	<b>(360,269)</b>	<b>(13,442)</b>	<b>-</b>	<b>(5,109)</b>	<b>\$ 23,472,300</b>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 92,668
Support Services	228,753
Non-instructional	458,151
<b>Total depreciation expense</b>	<b>\$ 779,572</b>

**OCEAN SPRINGS SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

**(5) Long-term Liabilities.**

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

	<u>Balance</u> <u>7/1/2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>6/30/2007</u>	<u>Amounts due</u> <u>within one</u> <u>year</u>
A. General obligation bonds payable	\$ 3,300,000		(780,000)	2,520,000	820,000
B. Three mill notes payable	283,500	1,500,000	(283,500)	1,500,000	482,343
C. Compensated absences payable	301,275	14,789		316,064	-
<b>Total</b>	<b>\$ 3,884,775</b>	<b>14,789</b>	<b>(1,063,500)</b>	<b>4,336,064</b>	<b>1,302,343</b>

**A. General obligation bonds payable.**

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

<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 1994A	5.3%-7.5%	12/1/1994	9/1/2009	9,600,000	2,520,000
<b>Total</b>				<b>\$ 9,600,000</b>	<b>\$ 2,520,000</b>

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

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	820,000	95,173	915,173
2009	845,000	57,915	902,915
2010	855,000	19,451	874,451
<b>Total</b>	<b>\$ 2,520,000</b>	<b>\$ 172,539</b>	<b>\$ 2,692,539</b>

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

**OCEAN SPRINGS SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

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, 2007, the amount of outstanding bonded indebtedness was equal to 2% of property assessments as of October 1, 2006. This debt will be retired from the Debt service fund # 4031.

**B. Three mill 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>
Fiscal year 2007 three mill note payable	3.55%	4/11/2007	5/15/2010	1,500,000	1,500,000
<b>Total</b>				<u>\$ 1,500,000</u>	<u>\$ 1,500,000</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>
2008	482,343	54,125	536,468
2009	499,748	36,720	536,468
2010	517,909	18,688	536,597
<b>Total</b>	<u>\$ 1,500,000</u>	<u>\$ 109,533</u>	<u>\$ 1,609,533</u>

This debt will be retired from the Debt Service Fund # 4021.

**C. Compensated absences payable.**

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employee's salaries were paid.

**(6) Defined Benefit Pension Plan.**

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building,

**OCEAN SPRINGS SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

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 11.3% 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, 2007, 2006, and 2005 were \$ 2,474,263, \$ 2,098,936 and \$ 2,021,361, respectively, which equaled the required contributions for each year.

**(7) Prior Period Adjustments / Exhibits.**

A summary of significant fund equity adjustments is as follows:

Exhibit B – Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
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Exhibit D – Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	Adjustment related to prior year transaction.	\$ (8,407)
Other governmental funds	Adjustment related to prior year transaction.	34,492
	Total	<u>\$ 26,085</u>

**(8) Risk Management.**

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

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 121 school districts and one community college and covers risks of loss arising from injuries to member's employees. The Mississippi Worker's Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of the 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 \$ 700,000. For a claim exceeding \$ 700,000, MSBAWCT has

**OCEAN SPRINGS SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the 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**

OCEAN SPRINGS SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2007

Schedule 1

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	7,534,159	11,920,911	11,920,911	4,386,752	-
State sources	21,720,226	22,898,689	22,898,689	1,178,463	-
Federal sources	192,250	183,613	183,613	(8,637)	-
<b>Total Revenues</b>	<b>29,446,635</b>	<b>35,003,213</b>	<b>35,003,213</b>	<b>5,556,578</b>	<b>-</b>
<b>Expenditures:</b>					
Instruction	17,373,122	14,792,418	14,792,418	2,580,704	-
Support services	12,205,907	10,273,741	10,273,741	1,932,166	-
Facilities acquisition and construction	200,000	2,361	2,361	197,639	-
<b>Total Expenditures</b>	<b>29,779,029</b>	<b>25,068,520</b>	<b>25,068,520</b>	<b>4,710,509</b>	<b>-</b>
Excess (deficiency) of revenues over expenditures	(332,394)	9,934,693	9,934,693	10,267,087	-
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	4,004,874	3,144,830	3,144,830	(860,044)	-
Other financing sources	-	5,000	5,000	(5,000)	-
Operating transfers out	(6,084,796)	(4,781,482)	(4,781,482)	1,303,314	-
<b>Total Other Financing Sources (Uses)</b>	<b>(2,079,922)</b>	<b>(1,631,652)</b>	<b>(1,631,652)</b>	<b>438,270</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(2,412,316)</b>	<b>8,303,041</b>	<b>8,303,041</b>	<b>10,705,357</b>	<b>-</b>
<b>Fund Balances:</b>					
July 1, 2006	2,389,426	12,392,398	12,881,609	10,002,972	489,211
Prior Period Adjustments	-	-	(8,407)	-	(8,407)
July 1, 2006, as restated	2,389,426	12,392,398	12,873,202	10,002,972	480,804
June 30, 2007	(22,890)	20,695,439	21,176,243	20,708,329	480,804

OCEAN SPRINGS SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 Restart School Grant Fund  
 For the Year Ended June 30, 2007

Schedule 2

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	7,000,618	6,304,729	6,304,729	(695,889)	-
Total Revenues	<u>7,000,618</u>	<u>6,304,729</u>	<u>6,304,729</u>	<u>(695,889)</u>	<u>-</u>
<b>Expenditures:</b>					
Instruction	-	4,587,761	4,587,761	(4,587,761)	-
Support services	-	1,716,968	1,716,968	(1,716,968)	-
Total Expenditures	<u>-</u>	<u>6,304,729</u>	<u>6,304,729</u>	<u>(6,304,729)</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>7,000,618</u>	<u>-</u>	<u>-</u>	<u>(7,000,618)</u>	<u>-</u>
<b>Other Financing Sources (Uses)</b>					
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	<u>7,000,618</u>	<u>-</u>	<u>-</u>	<u>(7,000,618)</u>	<u>-</u>
<b>Fund Balances:</b>					
July 1, 2006	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2007	<u>7,000,618</u>	<u>-</u>	<u>-</u>	<u>(7,000,618)</u>	<u>-</u>

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

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Required Supplemental Information  
For the Year Ended June 30, 2007

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 and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

**SUPPLEMENTAL INFORMATION**

**OCEAN SPRINGS SCHOOL DISTRICT**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2007**

<u>Federal Grantor / Pass-through Grantor / Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<b><u>U.S. Department of Agriculture</u></b>		
Passed - through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 116,291
Child Nutrition Cluster:		
School breakfast program	10.553	119,350
National school lunch program	10.555	611,458
		<hr/>
Total child nutrition cluster		730,808
		<hr/>
<b>Total U.S. Department of Agriculture</b>		<b>847,099</b>
		<hr/>
<b><u>U.S. Department of Defense</u></b>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	64,495
<b>Total U.S. Department of Defense</b>		<b>64,495</b>
		<hr/>
<b><u>Federal Communication Commission</u></b>		
Administered -through Universal Service Administrative Company:		
The schools and libraries program of the Universal Service Fund	32.XXX	2,684
<b>Total Federal Communication Commission</b>		<b>2,684</b>
		<hr/>
<b><u>U.S. Department of Education</u></b>		
Direct program:		
Impact aid	84.041	115,916
Total		115,916
		<hr/>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	371,176
Vocational education - basic grants to states	84.048	33,662
Safe and drug free schools and communities national programs	84.184	33,389
Safe and drug-free schools and communities - state grants	84.186	16,151
Eisenhower professional development state grants	84.281	183,988
State grants for innovative programs	84.298	8,472
Education technology state grants	84.318	3,591
Improving teacher quality - state grants	84.367	163,820
Grants for state assessments and related activities	84.369	26,624
Hurricane education recovery	84.938	6,304,729
		<hr/>
Total		7,145,602
		<hr/>
Special education cluster:		
Special education - grants to states	84.027	904,793
Special education - preschool grants	84.173	73,134
Total special education cluster		977,927
		<hr/>
Total Passed-through Mississippi Department of Education		8,123,529
<b>Total U.S. Department of Education</b>		<b>8,239,445</b>
		<hr/>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed-through the Mississippi Department of Education:		
Cooperative agreements to support comprehensive school health programs to prevent the spread of HIV and other important health problems	93.938	4,927
<b>Total U.S. Department of Health and Human Services</b>		<b>4,927</b>
		<hr/>
<b><u>Corporation for National and Community Service</u></b>		
Passed-through Mississippi Department of Education:		
Learn and serve America - school and community based programs	94.004	13,232
<b>Total Corporation for National and Community Service</b>		<b>13,232</b>
		<hr/>
<b>Total for All Federal Awards</b>		<b>\$ 9,171,862</b>
		<hr/>

**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.

Ocean Springs School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other Student Instructional Expenditures		
		General Administration	School Administration	Other
Salaries and fringe benefits	\$ 27,111,132	914,559	2,085,214	2,185,672
Other	13,504,273	275,489	18,569	10,085,647
Total	40,615,405	1,190,048	2,103,783	12,271,319
Total number of students *		4,798		
Cost per student		\$ 8,465		
		248	438	2,558

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

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

**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 13, 2007

Superintendent and School Board  
Ocean Springs School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ocean Springs School District as of and for the year ended June 30, 2007, which collectively comprise the Ocean Springs School District's basic financial statements and have issued our report thereon dated December 13, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of

this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **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 disclosed no 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 13, 2007

Superintendent and School Board  
Ocean Springs School District

**Compliance**

We have audited the compliance of the Ocean Springs 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, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. 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, Ocean Springs 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, 2007.

### Internal Control Over Compliance

The management of the Ocean Springs 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, 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 13, 2007

Superintendent and School Board  
Ocean Springs School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Ocean Springs School District as of and for the year ended June 30, 2007, which collectively comprise Ocean Springs School District's basic financial statements and have issued our report thereon dated December 13, 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)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instance of noncompliance. The district reported \$ 22,130 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements 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 these specified parties. However, this report is a matter of public record and its distribution is not limited.

*McDaniel CPA Firm*

**OCEAN SPRINGS SCHOOL DISTRICT  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

**Section 1: Summary of Auditor's Results**

**Financial Statements:**

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements:                                  | unqualified   |
| 2. | Material noncompliance relating to the financial statements?                                  | no            |
| 3. | Internal control over financial reporting:  |               |
|    | a. Material weakness(es) identified?  | no            |
|    | b. Significant deficiency (ies) identified that are not considered to be material weaknesses? | none reported |

**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. Significant deficiency (ies) identified that are not considered to be material weaknesses?   | none reported |
| 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. Special Education Cluster  |               |
|     | CFDA#           84.027  |               |
|     | CFDA#           84.173  |               |
|     | b. Hurricane Education Recovery   |               |
|     | CFDA #         84.938   |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$ 300,000    |
| 9.  | Auditee qualified as a low-risk auditee?  | yes           |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133? | no            |

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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