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OCEAN SPRINGS SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously 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, 2011, 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, 2011, on our consideration of the Ocean Springs School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


Cunningham CPAs, PLLC

December 13, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

OCEAN SPRINGS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

The following discussion and analysis of Ocean Springs School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$1,729,000, which represents a 3% increase from fiscal year 2010. Total net assets for 2010 increased \$2,173,967, including a prior period adjustment of \$307,044, which represents a 4% increase from fiscal year 2009.
- General revenues amounted to \$40,127,726 and \$40,294,903, or 86% and 85% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,434,398, or 14% of total revenues for 2011, and \$7,151,254, or 15% of total revenues for 2010.
- The District had \$44,833,124 and \$45,579,234 in expenses for fiscal years 2011 and 2010; only \$6,434,398 for 2011 and \$7,151,254 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$40,127,726 for 2011 and \$40,294,903 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$35,246,078 in revenues and \$34,540,066 in expenditures for 2011, and \$36,003,637 in revenues and \$34,583,787 in expenditures in 2010. The General Fund's fund balance decreased by \$251,052, including an increase in reserve for inventory of \$7,116, from 2010 to 2011, and increased by \$578,967, net of a prior period adjustment of \$274,468, from 2009 to 2010.
- Capital assets, net of accumulated depreciation, increased by \$15,024,307 for 2011 and increased by \$4,227,624 for 2010. The increase for 2011 was due to construction in progress, coupled with the increase in accumulated depreciation.
- Long-term debt increased by \$3,000,000 for 2011 and increased by \$1,027,091 for 2010. This increase for 2011 was due primarily to the issuance of general obligation bonds. The liability for compensated absences increased by \$37,544 for 2011 and increased by \$27,542 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

OCEAN SPRINGS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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

The Statement of Activities presents information showing how the District's net 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 periods.

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

OCEAN SPRINGS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2011

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

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board.

Supplemental Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$60,566,584 as of June 30, 2011.

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.

OCEAN SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 29,345,459	\$ 57,607,568	(49.06) %
Restricted assets	21,376,959	595,306	3,491 %
Capital assets, net	50,657,054	35,632,747	42.16 %
Total assets	<u>101,379,472</u>	<u>93,835,621</u>	8.04 %
Current liabilities	3,567,891	790,584	351.30 %
Long-term debt outstanding	37,244,997	34,207,453	8.88 %
Total liabilities	<u>40,812,888</u>	<u>34,998,037</u>	16.61 %
Net assets:			
Invested in capital assets, net of related debt	31,356,073	31,163,923	0.62 %
Restricted	6,020,323	2,366,094	154.44 %
Unrestricted	23,190,188	25,307,567	(8.37) %
Total net assets	<u>\$ 60,566,584</u>	<u>\$ 58,837,584</u>	2.94 %

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

- Increase in net capital assets in the amount of \$15,024,307.
- The principal retirement of \$1,000,000 of long-term debt.
- Issuance of \$4,000,000 in general obligation bonds.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$46,562,124 and \$47,446,157, respectively. The total cost of all programs and services was \$44,833,124 for 2011 and \$45,579,234 for 2010.

OCEAN SPRINGS SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

Table 2
Changes in Net Assets

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 1,422,805	\$ 1,612,838	(11.78) %
Operating grants and contributions	5,011,593	5,538,416	(9.51) %
General revenues:			
Property taxes	17,006,946	15,412,091	10.35 %
Grants and contributions not restricted	21,713,720	23,304,453	(6.83) %
Investment earnings	1,194,569	1,429,126	(16.41) %
Sixteenth section sources	4,229	3,939	7.36 %
Other	208,262	145,294	43.34 %
Total revenues	<u>46,562,124</u>	<u>47,446,157</u>	(1.86) %
Expenses:			
Instruction	26,372,005	26,585,840	(0.80) %
Support services	15,231,171	15,676,396	(2.84) %
Non-instructional	2,059,418	2,041,008	0.90 %
Interest and other expenses on long-term liabilities	1,170,530	1,275,990	(8.26) %
Total expenses	<u>44,833,124</u>	<u>45,579,234</u>	(1.64) %
Increase (Decrease) in net assets	<u>1,729,000</u>	<u>1,866,923</u>	(7.39) %
Net Assets, July 1, as originally reported	<u>58,837,584</u>	<u>56,663,617</u>	3.84 %
Prior Period Adjustment	<u>-</u>	<u>307,044</u>	(100.00) %
Net Assets, July 1, as restated	<u>58,837,584</u>	<u>56,970,661</u>	3.28 %
Net Assets, June 30	<u>\$ 60,566,584</u>	<u>\$ 58,837,584</u>	2.94 %

Governmental activities

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

OCEAN SPRINGS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 26,372,005	\$ 26,585,840	(0.80) %
Support services	15,231,171	15,676,396	(2.84) %
Non-instructional	2,059,418	2,041,008	0.90 %
Interest on long-term liabilities	1,170,530	1,275,990	(8.26) %
Total expenses	\$ 44,833,124	\$ 45,579,234	(1.64) %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (22,982,374)	\$ (22,885,905)	0.42 %
Support services	(14,285,964)	(14,396,317)	(0.77) %
Non-instructional	40,142	130,232	(69.18) %
Interest on long-term liabilities	(1,170,530)	(1,275,990)	(8.26) %
Total net (expense) revenue	\$ (38,398,726)	\$ (38,427,980)	(0.08) %

- Net cost of governmental activities (\$38,398,726 for 2011 and \$38,427,980 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$17,006,946 for 2011 and \$15,412,091 for 2010) and state and federal revenues (\$21,713,720 for 2011 and \$23,304,453 for 2010). In addition, there was \$4,229 and \$3,939 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$1,194,569 for 2011 and \$1,429,126 for 2010.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$47,487,859, a decrease of \$10,220,637, which includes an increase in inventory of \$24,916. \$5,753,661 or 12% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$41,734,198 or 88% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

OCEAN SPRINGS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$251,052, including an increase in reserve for inventory of \$7,116. The fund balance of Other Governmental Funds showed an increase in the amount of \$1,442,502, which includes an increase in reserve for inventory of \$17,800, due primarily to normal operations. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Future Building Fund	\$ 342,959
2009 Bond Series A Fund	\$ (11,755,046)

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$76,586,083, including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$15,931,589 from 2010. Total accumulated depreciation as of June 30, 2011, was \$25,929,029, and total depreciation expense for the year was \$967,913, resulting in total net capital assets of \$50,657,054.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 2,405,775	\$ 2,405,775	0.00 %
Construction in progress	17,997,283	5,273,689	241.27 %
Buildings	22,002,304	19,209,697	14.54 %
Building improvements	6,247,367	6,406,985	(2.49) %
Improvements other than buildings	409,807	430,871	(4.89) %
Mobile equipment	1,301,955	1,531,838	(15.01) %
Furniture and equipment	292,563	373,892	(21.75) %
Total	\$ 50,657,054	\$ 35,632,747	42.16 %

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

OCEAN SPRINGS SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Debt Administration. At June 30, 2011, the District had \$37,244,997 in outstanding long-term debt, of which \$1,275,000 is due within one year. The liability for compensated absences increased \$37,544 from the prior year.

The District maintains an A+ bond rating.

Table 5
Outstanding Long-Term Debt

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
General obligation bonds payable	\$ 32,400,000	\$ 29,400,000	10.20 %
Other loans payable	1,471,440	1,471,440	0.00 %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	373,557	336,013	11.17 %
Total	\$ 37,244,997	\$ 34,207,453	8.88 %

Additional information on the District's long-term debt can be found in Note 6 included in 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. The District's 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.

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for 2010-2011 year increased by .1% to 5,353 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

OCEAN SPRINGS SCHOOL DISTRICT

**Statement of Net Assets
June 30, 2011**

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 28,420,983
Due from other governments	858,815
Inventories	65,661
Restricted assets	21,376,959
Capital assets, non-depreciable:	
Land	2,405,775
Construction in progress	17,997,283
Capital assets, net of accumulated depreciation:	
Buildings	22,002,304
Building improvements	6,247,367
Improvements other than buildings	409,807
Mobile equipment	1,301,955
Furniture and equipment	292,563
Total Assets	101,379,472
Liabilities	
Accounts payable and accrued liabilities	3,234,559
Interest payable on long-term liabilities	333,332
Long-term liabilities, due within one year:	
Capital related liabilities	1,275,000
Long-term liabilities, due beyond one year:	
Capital related liabilities	34,125,000
Non-capital related liabilities	1,844,997
Total Liabilities	40,812,888
Net Assets	
Invested in capital assets, net of related debt	31,356,073
Restricted for:	
Expendable:	
School-based activities	4,088,989
Debt service	1,781,344
Unemployment benefits	94,146
Non-expendable:	
Other	55,844
Unrestricted	23,190,188
Total Net Assets	\$ 60,566,584

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

OCEAN SPRINGS SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2011**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
Governmental Activities:					
Instruction	\$ 26,372,005	470,210	2,919,421	-	(22,982,374)
Support services	15,231,171	-	945,207	-	(14,285,964)
Non-instructional	2,059,418	952,595	1,146,965	-	40,142
Interest on long-term liabilities	1,170,530	-	-	-	(1,170,530)
Total Governmental Activities	\$ 44,833,124	1,422,805	5,011,593	-	(38,398,726)
 General Revenues:					
Taxes:					
General purpose levies					
Debt purpose levies					
Unrestricted grants and contributions:					
State					
Federal					
Unrestricted investment earnings					
Sixteenth section sources					
Other					
Total General Revenues					
					14,090,774
					2,916,172
					20,222,453
					1,491,267
					1,194,569
					4,229
					208,262
					<u>40,127,726</u>
Change in Net Assets					<u>1,729,000</u>
Net Assets - Beginning					<u>58,837,584</u>
Net Assets - Ending					<u>\$ 60,566,584</u>

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

OCEAN SPRINGS SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2011

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Future Building Fund	2009 Bond Series A Fund	Other Governmental Funds	
Assets					
Cash and cash equivalents	\$ 13,612,340	\$ 12,849,875	\$ 4,015,697	\$ 7,089,902	\$ 37,567,814
Investments	-	-	12,230,128	-	12,230,128
Due from other governments	493,551	-	-	365,264	858,815
Due from other funds	287,293	-	-	-	287,293
Inventories	7,116	-	-	58,545	65,661
Total assets	\$ 14,400,300	\$ 12,849,875	\$ 16,245,825	\$ 7,513,711	\$ 51,009,711
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 3,098	\$ -	\$ 3,230,261	\$ 1,200	\$ 3,234,559
Due to other funds	-	-	-	287,293	287,293
Total Liabilities	3,098	-	3,230,261	288,493	3,521,852
Fund Balances:					
Nonspendable:					
Inventory	7,116	-	-	58,545	65,661
Permanent fund principal	-	-	-	55,844	55,844
Restricted:					
Debt service	-	-	-	2,114,676	2,114,676
Capital projects	-	-	13,015,564	3,083,455	16,099,019
Unemployment benefits	-	-	-	94,146	94,146
Other restricted items	-	-	-	1,068,131	1,068,131
Committed:					
Textbooks	113,106	-	-	-	113,106
Working capital	5,568,123	-	-	-	5,568,123
Capital projects	-	12,849,875	-	719,704	13,569,579
Permanent fund purposes	-	-	-	19,562	19,562
Vocational activity	-	-	-	11,155	11,155
Assigned:					
General fund	2,955,196	-	-	-	2,955,196
Unassigned	5,753,661	-	-	-	5,753,661
Total Fund Balances	14,397,202	12,849,875	13,015,564	7,225,218	47,487,859
Total Liabilities and Fund Balances	\$ 14,400,300	\$ 12,849,875	\$ 16,245,825	\$ 7,513,711	\$ 51,009,711

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

OCEAN SPRINGS SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2011**

Exhibit C-1

Total fund balances for governmental funds \$ 47,487,859

Amounts reported for governmental activities in the statement of net assets are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 2,405,775	
Construction in progress	17,997,283	
Buildings	43,794,331	
Building improvements	6,879,354	
Improvements other than buildings	526,601	
Mobile equipment	3,079,523	
Furniture and equipment	1,903,216	
Accumulated depreciation	<u>(25,929,029)</u>	50,657,054

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds	(32,400,000)	
Other loans payable	(1,471,440)	
Qualified school construction bonds	(3,000,000)	
Compensated absences	(373,557)	
Accrued interest payable	<u>(333,332)</u>	<u>(37,578,329)</u>

Net assets of governmental activities \$ 60,566,584

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

OCEAN SPRINGS SCHOOL DISTRICT

Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2011**

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Future Building Fund	2009 Bond Series A Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 14,475,702	\$ 415,293	\$ 198,411	\$ 4,737,227	\$ 19,826,633
State sources	20,530,740	-	-	936,682	21,467,422
Federal sources	239,636	-	-	5,018,246	5,257,882
Sixteenth section sources	-	-	-	4,230	4,230
Total Revenues	35,246,078	415,293	198,411	10,696,385	46,556,167
Expenditures:					
Instruction	21,185,263	-	-	4,589,846	25,775,109
Support services	13,354,803	-	54,057	1,543,495	14,952,355
Noninstructional services	-	-	-	2,038,572	2,038,572
Facilities acquisition and construction	-	-	11,900,275	4,007,962	15,908,237
Debt service:					
Principal	-	-	-	1,000,000	1,000,000
Interest	-	-	-	1,085,425	1,085,425
Other	-	-	-	47,979	47,979
Total Expenditures	34,540,066	-	11,954,332	14,313,279	60,807,677
Excess (Deficiency) of Revenues over (under) Expenditures	706,012	415,293	(11,755,921)	(3,616,894)	(14,251,510)
Other Financing Sources (Uses):					
Bonds and notes issued	-	-	-	4,000,000	4,000,000
Operating transfers in	41,656	-	875	1,412,907	1,455,438
Other financing sources	5,957	-	-	-	5,957
Transfer from QSCB debt service agent	-	-	-	286,748	286,748
Operating transfers out	(1,011,793)	(72,334)	-	(371,311)	(1,455,438)
Payment to QSCB escrow agent	-	-	-	(286,748)	(286,748)
Total Other Financing Sources (Uses)	(964,180)	(72,334)	875	5,041,596	4,005,957
Net Change in Fund Balances	(258,168)	342,959	(11,755,046)	1,424,702	(10,245,553)
Fund Balances:					
July 1, 2010, as originally reported	14,648,254	12,466,766	27,335,870	3,257,606	57,708,496
Prior period adjustments	-	40,150	(2,565,260)	2,525,110	-
July 1, 2010, as restated	14,648,254	12,506,916	24,770,610	5,782,716	57,708,496
Increase in reserve for inventory	7,116	-	-	17,800	24,916
June 30, 2011	\$ 14,397,202	\$ 12,849,875	\$ 13,015,564	\$ 7,225,218	\$ 47,487,859

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

OCEAN SPRINGS SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2011**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (10,245,553)

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 15,994,039	
Depreciation expense	<u>(967,913)</u>	15,026,126

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.

(1,819)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	(4,000,000)	
Payments of debt principal	1,000,000	
Accrued interest payable	<u>(37,126)</u>	(3,037,126)

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(37,544)	
Change in inventory reserve	<u>24,916</u>	<u>(12,628)</u>

Change in net assets of governmental activities \$ 1,729,000

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

OCEAN SPRINGS SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2011

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 2,117,820
Total Assets	<u>\$ 2,117,820</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 2,022,565
Due to student clubs	<u>95,255</u>
Total Liabilities	<u>\$ 2,117,820</u>

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

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

Note 1 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of 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.

For financial reporting purposes, Ocean Springs School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Future Building Fund - This fund is used to account for the construction of a new high school.

2009 Bond Series A Fund - This fund is used to account for the proceeds of the 2009 bond issue.

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

The District's fiduciary funds include the following:

Accounts Payable Clearing Fund - This fund is used to report the accounts payable resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Payroll Clearing Fund - This fund is used to report the payroll resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Student Club Fund Agency Funds - are used to report student club resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

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. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

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. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the State of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds"(i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

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.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

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

The following schedule details the capitalization thresholds:

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

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

7. Compensated Absences

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

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

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

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

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

9. Fund Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the fund balance commitments being approved by the School Board during a School Board meeting and being documented in the minutes of the meetings of the School Board.

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

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

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements For Year Ended June 30, 2011

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

Note 2 – Cash and Cash Equivalents and Investments

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$37,567,814 and \$2,117,820, respectively. The carrying amount of deposits reported in the government-wide financial statements was \$37,567,814, which includes \$9,146,831 that is reported as restricted assets.

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 that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2011, none of the district's bank balance of \$38,699,488 was exposed to custodial credit risk.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Investments

As of June 30, 2011, the district had the following investments.

<u>Investment Type</u>	<u>Rating</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>
U.S. Government securities		1 to 5	\$ 6,375,089
Federal Home Loan Bank		1 to 5	2,015,060
Federal Home Loan Mortgage Corporation		1 to 5	1,519,695
Federal National Mortgage Association		1 to 5	<u>2,320,284</u>
Total			\$ <u>12,230,128</u>

Interest Rate Risk. The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2011, the district did not have any investments to which this would apply.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2011, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
U.S. Government securities	\$ 6,375,089	52%
Federal Home Loan Bank	2,015,060	17%
Federal Home Loan Mortgage Corporation	1,519,695	12%
Federal National Mortgage Association	<u>2,320,284</u>	<u>19%</u>
Total	\$ <u>12,230,128</u>	<u>100%</u>

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Other governmental funds	\$ 287,293
Total		<u>\$ 287,293</u>

The primary purpose of the interfund receivables and payables are to close out the federal programs at year end.

B. Inter-fund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	2009 bond series A fund	\$ 875
	Other governmental funds	1,010,918
Future building fund	Other governmental funds	72,334
Other governmental funds	General Fund	41,656
	Other governmental funds	<u>329,655</u>
Total		<u>\$ 1,455,438</u>

The primary purpose of the interfund transfers out of the general fund and into the other governmental funds was to finance basic operations of the district that are not directly funded. The primary reason for the transfer out of the other governmental funds is the indirect cost allocation from the general fund.

Note 4 – Restricted Assets

The restricted assets represent the cash and investment balance, totaling \$4,015,697 and \$12,230,128, respectively, of the unspent 2009 general obligation bond proceeds.

In addition, the restricted assets represent the cash balance, totaling \$3,083,455, of the unspent Qualified School Construction Bond proceeds.

Also, the restricted assets represent the cash balance, totaling \$556,973, \$1,202,555, and \$288,151, respectively, of the QSCB debt service fund, the 2009 general obligation bond debt service fund, and the 2010 general obligation bond debt service fund.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Note 5 – Capital Assets

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

	Balance 7/1/2010	Increases	Decreases	Completed Construction	Balance 6/30/2011
Governmental Activities:					
<u>Non-depreciable capital assets:</u>					
Land	\$ 2,405,775	\$ -	\$ -	\$ -	\$ 2,405,775
Construction in progress	5,273,689	15,908,237	-	(3,184,643)	17,997,283
Total non-depreciable capital assets	<u>7,679,464</u>	<u>15,908,237</u>	<u>-</u>	<u>(3,184,643)</u>	<u>20,403,058</u>
<u>Depreciable capital assets:</u>					
Buildings	40,609,688	-	-	3,184,643	43,794,331
Building improvements	6,879,354	-	-	-	6,879,354
Improvements other than buildings	526,601	-	-	-	526,601
Mobile equipment	3,079,523	-	-	-	3,079,523
Furniture and equipment	1,879,864	85,802	(62,450)	-	1,903,216
Total depreciable capital assets	<u>52,975,030</u>	<u>85,802</u>	<u>(62,450)</u>	<u>3,184,643</u>	<u>56,183,025</u>
<u>Less accumulated depreciation for:</u>					
Buildings	21,399,991	392,036	-	-	21,792,027
Building improvements	472,369	159,618	-	-	631,987
Improvements other than buildings	95,730	21,064	-	-	116,794
Mobile equipment	1,547,685	229,883	-	-	1,777,568
Furniture and equipment	1,505,972	165,312	(60,631)	-	1,610,653
Total accumulated depreciation	<u>25,021,747</u>	<u>967,913</u>	<u>(60,631)</u>	<u>-</u>	<u>25,929,029</u>
Total depreciable capital assets, net	<u>27,953,283</u>	<u>(882,111)</u>	<u>(1,819)</u>	<u>3,184,643</u>	<u>30,253,996</u>
Governmental activities capital assets, net	<u>\$ 35,632,747</u>	<u>\$ 15,026,126</u>	<u>\$ (1,819)</u>	<u>\$ -</u>	<u>\$ 50,657,054</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 583,541
Support services	338,610
Non-instructional	45,762
Total depreciation expense - Governmental activities	<u>\$ 967,913</u>

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Construction in progress is composed of:

Governmental Activities:	<u>Spent to June 30, 2011</u>	<u>Remaining Commitment</u>
Construction of high school	\$ 17,977,283	\$ 21,649,671
Total	<u>\$ 17,977,283</u>	<u>\$ 21,649,671</u>

Construction projects included in governmental activities are funded from the Bond Series A Fund, the Future Building Fund and the Bond Series B Fund.

Note 6 – Long-term Liabilities

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

	<u>Balance 7/1/2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2011</u>	<u>Amounts due Within one year</u>
A. General obligation bonds payable	\$ 29,400,000	4,000,000	(1,000,000)	32,400,000	1,275,000
B. Other loans payable	1,471,440	-	-	1,471,440	-
C. Qualified school construction bonds	3,000,000	-	-	3,000,000	-
D. Compensated absences payable	336,013	37,544	-	373,557	-
Total	<u>\$ 34,207,453</u>	<u>4,037,544</u>	<u>(1,000,000)</u>	<u>37,244,997</u>	<u>1,275,000</u>

A. General obligations 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 2009	3.0%-4.0%	05-01-2009	05-01-2026	\$ 30,000,000	\$ 28,400,000
General obligation bonds, series 2010	4.0%	09-01-2010	09-01-2021	<u>4,000,000</u>	<u>4,000,000</u>
Total				<u>\$ 34,000,000</u>	<u>\$ 32,400,000</u>

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

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

1. General obligation bond issue of 2009:

Year Ending June 30	Principal	Interest	Total
2012	\$ 1,100,000	\$ 1,045,425	\$ 2,145,425
2013	1,200,000	1,001,425	2,201,425
2014	1,300,000	953,425	2,253,425
2015	1,500,000	901,425	2,401,425
2016	1,550,000	841,425	2,391,425
2017 – 2021	9,450,000	3,351,475	12,801,475
2022 – 2026	12,300,000	1,395,000	13,695,000
Total	<u>\$ 28,400,000</u>	<u>\$ 9,489,600</u>	<u>\$ 37,889,600</u>

This debt will be retired from the 2009 bond debt service fund.

2. General obligation bond issue of 2010:

Year Ending June 30	Principal	Interest	Total
2012	\$ 175,000	\$ 236,500	\$ 411,500
2013	225,000	148,500	373,500
2014	250,000	139,000	389,000
2015	275,000	128,500	403,500
2016	250,000	118,000	368,000
2017 – 2021	2,425,000	354,500	2,779,500
2022	400,000	8,000	408,000
Total	<u>\$ 4,000,000</u>	<u>\$ 1,133,000</u>	<u>\$ 5,133,000</u>

This debt will be retired from the 2010 bond debt service fund.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Total general obligation bond payments for all issues:

Year Ending June 30	Principal	Interest	Total
2012	\$ 1,275,000	\$ 1,281,925	\$ 2,556,925
2013	1,425,000	1,149,925	2,574,925
2014	1,550,000	1,092,425	2,642,425
2015	1,775,000	1,029,925	2,804,925
2016	1,800,000	959,425	2,759,425
2017 – 2021	11,875,000	3,705,975	15,580,975
2022 – 2026	12,700,000	1,403,000	14,103,000
Total	\$ 32,400,000	\$ 10,622,600	\$ 43,022,600

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 12% of property assessments as of October 1, 2010.

B. Other loans payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Community Disaster Loan	2.97%	09-27-2006	05-23-2016	\$ 1,471,440	\$ 1,471,440
				\$ 1,471,440	\$ 1,471,440

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

Year Ending June 30	Principal	Interest	Total
2016	\$ 1,471,440	\$ 375,441	\$ 1,846,881
Total	\$ 1,471,440	\$ 375,441	\$ 1,846,881

This debt will be retired from the district maintenance fund.

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

C. Qualified school construction bonds payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bonds payable	0.00%	01-15-2010	09-15-2019	\$ 3,000,000	\$3,000,000
Total				<u>\$ 3,000,000</u>	<u>\$3,000,000</u>

D. Compensated absences payable.

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

Note 7 – Other Commitments

Commitments under construction contracts are described in Note 5.

Note 8 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% 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 ended June 30, 2011, 2010 and 2009 were \$3,131,888, \$3,130,482 and \$2,968,719, respectively, which equaled the required contributions for each year.

Note 9 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

the school district.

Note 10 – 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 72 school districts and covers risks of loss arising from injuries to the members' 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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has 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.

Note 11 – Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2010 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes equal annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit with the escrow agent at June 30, 2011 was \$286,748. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending	
June 30	Amount
2012	\$ 289,615
2013	292,512
2014	295,436
2015	298,391
2016	301,376
2017 – 2020	<u>1,235,922</u>
Total	<u>\$ 2,713,252</u>

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Financial Statements
For Year Ended June 30, 2011

Note 12 – Prior Period Adjustments

A summary of significant fund balance adjustments is as follows:

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

<u>Fund</u>	<u>Explanation</u>	<u>Amount</u>
Future Building Fund	To move prior year construction expenses to the 2009 Bond Series Fund	\$ 40,150
2009 Bond Series A Fund	To move prior year construction expenses to the 2009 Bond Series Fund	(2,565,260)
Other governmental funds	To move prior year construction expenses to the 2009 Bond Series Fund	<u>2,525,110</u>
Total		<u>\$ -</u>

REQUIRED SUPPLEMENTAL INFORMATION

OCEAN SPRINGS SCHOOL DISTRICT

Required Supplemental Information

**Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 13,246,650	\$ 14,475,702	\$ 14,475,702	\$ 1,229,052	\$ -
State sources	21,890,424	20,530,740	20,530,740	(1,359,684)	-
Federal sources	212,500	239,636	239,636	27,136	-
Total Revenues	35,349,574	35,246,078	35,246,078	(103,496)	-
Expenditures:					
Instruction	22,745,925	21,178,145	21,185,263	1,567,780	(7,118)
Support services	14,424,094	13,350,406	13,354,803	1,073,688	(4,397)
Facilities acquisition and construction	-	4,400	-	(4,400)	4,400
Total Expenditures	37,170,019	34,532,951	34,540,066	2,637,068	(7,115)
Excess (Deficiency) of Revenues over (under) Expenditures	(1,820,445)	713,127	706,012	2,533,572	(7,115)
Other Financing Sources (Uses):					
Operating transfers in	4,044,567	4,507,164	41,656	462,597	(4,465,508)
Other financing sources	-	-	5,957	-	5,957
Operating transfers out	(5,051,905)	(5,493,490)	(1,011,793)	(441,585)	4,481,697
Total Other Financing Sources (Uses)	(1,007,338)	(986,326)	(964,180)	21,012	22,146
Net Change in Fund Balances	(2,827,783)	(273,199)	(258,168)	2,554,584	15,031
Fund Balances:					
July 1, 2010	14,648,254	14,648,254	14,648,254	-	-
Increase in reserve for inventory	-	-	7,116	-	7,116
June 30, 2011	\$ 11,820,471	\$ 14,375,055	\$ 14,397,202	\$ 2,554,584	\$ 22,147

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

OCEAN SPRINGS SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2011

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTAL INFORMATION

OCEAN SPRINGS SCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 206,177
National school lunch program	10.555	1,033,274
Total child nutrition cluster		<u>1,239,451</u>
Total passed-through Mississippi Department of Education		<u>1,239,451</u>
Total U.S. Department of Agriculture		<u>1,239,451</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officer's Training Corps	12.xxx	<u>71,272</u>
Total U.S. Department of Defense		<u>71,272</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	<u>41,118</u>
Total Federal Communications Commission		<u>41,118</u>
<u>U.S. Department of Education</u>		
Direct program:		
Impact Aid	84.041	<u>86,380</u>
Total		<u>86,380</u>
Passed-through Mississippi Department of Rehabilitation Services:		
Rehabilitation services - vocational rehabilitation grants to states	84.126	<u>40,866</u>
Total		<u>40,866</u>
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	56,983
Safe and drug-free schools and communities - state grants	84.186	46
Education technology state grants	84.318	3,798
Improving teacher quality state grants	84.367	207,406
English language acquisition grants	84.365	30,231
ARRA - Education technology state grants, Recovery Act	84.386	9,205
Hurricane Education Assistance	84.938	<u>97,646</u>
Subtotal		<u>405,315</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	497,261
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	<u>12,129</u>
Total Title I cluster		<u>509,390</u>
Special education cluster:		
Special education - grants to states	84.027	1,051,858
Special education - preschool grants	84.173	37,498
ARRA - Special education grants to states, Recovery Act	84.391	439,712
ARRA - Special education - preschool grants, Recovery Act	84.392	<u>27,952</u>
Total special education cluster		<u>1,557,020</u>

OCEAN SPRINGS SCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
State Fiscal Stabilization Fund cluster:		
ARRA - State Fiscal Stabilization Fund - Education state grants, Recovery Act	84.394	<u>1,323,435</u>
Total State Fiscal Stabilization Fund cluster		<u>1,323,435</u>
Total passed-through Mississippi Department of Education		<u>3,795,160</u>
Total U.S. Department of Education		<u>3,922,406</u>
Total for All Federal Awards		<u>\$ 5,274,247</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.

OCEAN SPRINGS SCHOOL DISTRICT

Supplemental Information

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2011**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 33,931,587	27,145,278	1,042,497	2,526,778	3,217,034
Other	26,876,090	3,389,998	397,214	23,091	23,065,787
Total	\$ 60,807,677	30,535,276	1,439,711	2,549,869	26,282,821
Total number of students *	5,028				
Cost per student	\$ 12,094	6,074	286	507	5,227

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

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

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

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

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

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

OTHER INFORMATION

OCEAN SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

**General Fund
Last Four Years
UNAUDITED**

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 14,475,702	\$ 13,988,248	\$ 13,540,189	\$ 12,067,593
State sources	20,530,740	21,787,317	23,412,692	24,893,090
Federal sources	239,636	228,072	220,226	309,765
Total Revenues	35,246,078	36,003,637	37,173,107	37,270,448
Expenditures:				
Instruction	21,185,263	20,733,506	22,151,317	20,822,920
Support services	13,354,803	13,828,084	14,893,459	14,016,203
Noninstructional services	-	-	41,977	16,689
Facilities acquisition and construction	-	22,197	576,420	141,232
Total Expenditures	34,540,066	34,583,787	37,663,173	34,997,044
Excess (Deficiency) of Revenues over (under) Expenditures	706,012	1,419,850	(490,066)	2,273,404
Other Financing Sources (Uses):				
Bonds and notes issued	-	-	855,449	-
Sale of transportation equipment	-	6,957	-	-
Insurance recoveries	-	-	-	667
Operating transfers in	41,656	8,845	4,486,407	4,217,321
Other financing sources	5,957	868	-	-
Operating transfers out	(1,011,793)	(1,132,021)	(7,555,328)	(10,899,073)
Total Other Financing Sources (Uses)	(964,180)	(1,115,351)	(2,213,472)	(6,681,085)
Net Change in Fund Balances	(258,168)	304,499	(2,703,538)	(4,407,681)
Fund Balances:				
Beginning of period, as originally reported	14,648,254	14,069,287	16,768,562	21,176,243
Prior period adjustments	-	274,468	4,263	-
Beginning of period, as restated	14,648,254	14,343,755	16,772,825	21,176,243
Increase in reserve for inventory	7,116	-	-	-
End of Period	\$ 14,397,202	\$ 14,648,254	\$ 14,069,287	\$ 16,768,562

*SOURCE - PRIOR YEAR AUDIT REPORTS

OCEAN SPRINGS SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 19,826,633	\$ 18,589,130	\$ 16,604,266	\$ 15,004,155
State sources	21,467,422	22,603,251	24,294,624	25,823,656
Federal sources	5,257,882	6,239,621	3,989,495	3,800,786
Sixteenth section sources	4,230	3,939	16,561	-
Total Revenues	46,556,167	47,435,941	44,904,946	44,628,597
Expenditures:				
Instruction	25,775,109	26,331,220	25,415,770	24,137,822
Support services	14,952,355	15,435,059	17,236,386	19,548,917
Noninstructional services	2,038,572	2,027,586	2,087,925	1,913,995
Sixteenth section	15,908,237	4,719,408	3,651,734	1,002,588
Facilities acquisition and construction				
Debt service:				
Principal	1,000,000	1,972,909	1,344,760	1,302,331
Interest	1,085,425	1,146,457	94,623	149,310
Other	47,979	105,239	14,750	750
Total Expenditures	60,807,677	51,737,878	49,845,948	48,055,713
Excess (Deficiency) of Revenues over (under) Expenditures	(14,251,510)	(4,301,937)	(4,941,002)	(3,427,116)
Other Financing Sources (Uses):				
Proceeds of general obligation bonds	4,000,000	-	30,000,000	-
Proceeds of loans	-	3,000,000	855,449	-
Sale of transportation equipment	-	6,957	-	-
Insurance loss recoveries	-	-	12,390	667
Transfer from QSCB debt service agent	286,748	-	-	-
Operating transfers in	1,455,438	6,395,300	7,689,571	11,054,894
Other financing sources	5,957	10,216	-	-
Payment to QSCB escrow agent	(286,748)	-	-	-
Other transfers out	(1,455,438)	(6,395,300)	(7,689,571)	(11,054,894)
Total Other Financing Sources (Uses)	4,005,957	3,017,173	30,867,839	667
Net Change in Fund Balances	(10,245,553)	(1,284,764)	25,926,837	(3,426,449)
Fund Balances:				
Beginning of period, as originally reported	57,708,496	58,683,226	32,746,750	36,194,582
Prior period adjustments	-	307,044	4,263	102
Beginning of period, as restated	57,708,496	58,990,270	32,751,013	36,194,684
Increase (Decrease) in reserve for inventory	24,916	2,990	5,376	(21,485)
End of Period	\$ 47,487,859	\$ 57,708,496	\$ 58,683,226	\$ 32,746,750

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

CUNNINGHAM CPAs, PLLC

Certified Public Accountants & Consultants

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

Superintendent and School Board
Ocean Springs School District
Ocean Springs, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Ocean Springs School District as of and for the year ended June 30, 2011, and have issued our report thereon dated December 13, 2011. 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

Management of Ocean Springs School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Ocean Springs 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 Ocean Springs School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Ocean Springs School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Ocean Springs 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, 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.


Cunningham CPAS, PLLC

December 13, 2011

CUNNINGHAM CPAs, PLLC

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
Ocean Springs School District
Ocean Springs, Mississippi

Compliance

We have audited Ocean Springs School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Ocean Springs School District's major federal programs for the year ended June 30, 2011. Ocean Springs 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 Ocean Springs School District's management. Our responsibility is to express an opinion on Ocean Springs 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 Ocean Springs 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 of Ocean Springs School District's compliance with those requirements.

In our opinion, Ocean Springs School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Ocean Springs School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Ocean Springs School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the 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, 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 Ocean Springs School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

A handwritten signature in black ink that reads "Cunningham CPAs". The signature is written in a cursive, flowing style.

Cunningham CPAs, PLLC

December 13, 2011

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

CUNNINGHAM CPAs, PLLC

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

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, 2011, which collectively comprise Ocean Springs School District's basic financial statements and have issued our report thereon dated December 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$385 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.

A handwritten signature in black ink that reads "Cunningham CPAs". The signature is written in a cursive style, with the first name "Cunningham" being larger and more prominent than "CPAs".

Cunningham CPAs, PLLC

December 13, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

OCEAN SPRINGS SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | No |
| 7. | Identification of major programs: | |
| | A. Child Nutrition Cluster: | |
| | CFDA # | 10.553 |
| | CFDA # | 10.555 |
| | B. Title I - Grants to local educational agencies: | |
| | CFDA # | 84.010 |
| | CFDA # | 84.389 |
| | C. ARRA - State Fiscal Stabilization - Education State Grants, Recovery Act | |
| | CFDA # | 84.394 |
| | D. Special Education Cluster: | |
| | CFDA # | 84.027 |
| | CFDA # | 84.173 |
| | CFDA # | 84.391 |
| | CFDA # | 84.392 |
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

OCEAN SPRINGS SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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