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PASCAGOULA SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2011

PASCAGOULA SCHOOL DISTRICT

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PASCAGOULA SCHOOL DISTRICT

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PASCAGOULA SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

PASCAGOULA SCHOOL DISTRICT

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

Superintendent and School Board
Pascagoula School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pascagoula School District as of and for the year ended June 30, 2011, which collectively comprise the Pascagoula School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Pascagoula 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 Pascagoula 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 October 25, 2011, on our consideration of the Pascagoula 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.

Membership in:

American Institute of Certified Public Accountants • Mississippi Society of Certified Public Accountants • AICPA Private Companies Practice Section
AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



**Independent Auditor's Report on the Basic Financial Statements
and Supplemental Information**
Page 2

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pascagoula 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 Pascagoula 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.

Walter McDuff & Oppie

Pascagoula, Mississippi
October 25, 2011

PASCAGOULA SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

PASCAGOULA SCHOOL DISTRICT

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

The following discussion and analysis of Pascagoula 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 \$4,596,654, including a prior period adjustment of \$(96,971), which represents 6.0% increase from fiscal year 2010. Total net assets for 2010 increased \$2,212,790, which represents a 3.0% increase from fiscal year 2009. The current year increase is primarily due to debt forgiveness.
- General revenues amounted to \$63,438,201 and \$66,735,071, or 77.9% and 82.0% 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 \$17,963,766, or 22.1% of total revenues for 2011, and \$14,696,779, or 18.0% of total revenues for 2010.
- The District had \$80,630,996 and \$81,571,564 in expenses for fiscal years 2011 and 2010; only \$17,963,766 for 2011 and \$14,696,779 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$63,438,201 for 2011 and \$66,735,071 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$59,048,157 in revenues and \$56,092,406 in expenditures for 2011, and \$60,854,457 in revenues and \$61,135,214 in expenditures in 2010. The General Fund's fund balance decreased by \$1,795,947 from 2010 to 2011, and decreased by \$4,639,504 from 2009 to 2010 including a prior period adjustment of \$169,804.
- Capital assets, net of accumulated depreciation, increased by \$782,893 for 2011 and decreased by \$251,528 for 2010. The increase for 2011 was due to the addition of improvements to buildings and increased construction in progress.
- Long-term debt decreased by \$3,680,893 for 2011 and decreased by \$932,765 for 2010. This decrease was due to the principal payments on outstanding long-term debt and debt forgiveness. The liability for compensated absences increased by \$29,107 for 2011 and increased by \$2,235 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.

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.

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

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.

The District maintains individual governmental funds in accordance with the Financial Accounting Manual for Mississippi Public School Districts. Information is presented separately in the governmental fund's Balance Sheet and in the governmental fund's 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. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

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

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:

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 and each additional major special revenue 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 government's financial position. In the case of the District, assets exceeded liabilities by \$81,155,722 as of June 30, 2011.

The District's financial position is a product of several financial transactions including the net result of activities, the payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

PASCAGOULA 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	\$ 47,192,287	\$ 45,991,880	2.61 %
Restricted assets	1,558,644	1,498,412	4.02 %
Capital assets, net	<u>45,919,931</u>	<u>45,137,038</u>	1.73 %
Total assets	<u>94,670,862</u>	<u>92,627,330</u>	2.21 %
Current liabilities	3,435,150	7,203,229	(52.31)%
Long-term debt outstanding	<u>10,079,990</u>	<u>13,760,883</u>	(26.75)%
Total liabilities	<u>13,515,140</u>	<u>20,964,112</u>	(35.53)%
Net assets:			
Invested in capital assets, net of related debt	36,514,931	34,022,038	7.33 %
Restricted	28,321,387	16,676,066	69.83 %
Unrestricted	<u>16,319,404</u>	<u>25,860,964</u>	(36.90)%
Total net assets	<u>\$ 81,155,722</u>	<u>\$ 76,559,068</u>	6.00 %

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 \$782,893.
- The principal retirement of \$1,710,000 of long-term debt.
- Debt forgiveness of \$3,922,654

Changes in net assets. The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$85,324,621 and \$81,431,850, respectively. The total cost of all programs and services was \$80,630,996 for 2011 and \$81,571,564 for 2010. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

PASCAGOULA 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	\$ 1,428,933	\$ 1,501,325	(4.82)%
Operating grants and contributions	16,534,833	13,195,454	25.31 %
General revenues:			
Property taxes	33,751,693	34,737,096	(2.84)%
Grants and contributions not restricted	29,429,276	31,638,041	(6.98)%
Investment earnings	216,128	345,078	(37.37)%
Sixteenth section sources	5,630	7,013	(19.72)%
Other	35,474	7,843	352.30 %
Total revenues	<u>81,401,967</u>	<u>81,431,850</u>	(0.04)%
Expenses:			
Instruction	46,133,866	43,248,720	6.67 %
Support services	30,178,288	34,107,051	(11.52)%
Non-instructional	3,934,467	3,711,851	6.00 %
Interest and other expense on long-term liabilities	384,375	503,942	(23.73)%
Total expenses	<u>80,630,996</u>	<u>81,571,564</u>	(1.15)%
Increase (Decrease) in net assets	<u>770,971</u>	<u>(139,714)</u>	(651.82)%
Special item	3,922,654	-	N/A
Increase (Decrease) in net assets	<u>4,693,625</u>	<u>(139,714)</u>	(651.82)%
Net Assets, July 1, as originally reported	76,559,068	74,346,278	2.98 %
Prior Period Adjustment	<u>(96,971)</u>	<u>2,352,504</u>	(104.12)%
Net Assets, July 1, as restated	<u>76,462,097</u>	<u>76,698,782</u>	(0.31)%
Net Assets, June 30	<u>\$ 81,155,722</u>	<u>\$ 76,559,068</u>	6.00 %

Governmental activities. The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, 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.

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage</u> <u>Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 46,133,866	\$ 43,248,720	6.67 %
Support services	30,178,288	34,107,051	(11.52)%
Non-instructional	3,934,467	3,711,851	6.00 %
Interest on long-term liabilities	384,375	503,942	(23.73)%
Total expenses	<u>\$ 80,630,996</u>	<u>\$ 81,571,564</u>	(1.15)%
	<u>Net (Expense) Revenue</u>		<u>Percentage</u> <u>Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (32,897,005)	\$ (33,107,814)	(0.64)%
Support services	(30,178,288)	(34,107,051)	(11.52)%
Non-instructional	792,438	844,022	(6.11)%
Interest on long-term liabilities	(384,375)	(503,942)	(23.73)%
Total net (expense) revenue	<u>\$ (62,667,230)</u>	<u>\$ (66,874,785)</u>	(6.29)%

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

- Net cost of governmental activities (\$62,667,230 for 2011 and \$66,874,785 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$33,751,693 for 2011 and \$34,737,096 for 2010) and state and federal revenues (\$29,063,837 for 2011 and \$31,053,589 for 2010). In addition, there was \$5,630 and \$7,013 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$216,128 for 2011 and \$345,078 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, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$39,029,637, a decrease of \$1,619,666, which includes a prior period adjustment of \$(96,971) and a decrease in reserve for inventory of \$17,013. \$10,599,058 or 27.2% 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 \$28,430,579 or 72.8% is either nonspendable, restricted or committed to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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 \$1,795,947. The fund balance of Other Governmental Funds showed a decrease in the amount of \$4,024,598, which includes a decrease in reserve for inventory of \$17,013. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
FEMA/MEMA Grant Fund	\$ (1,186,376)
Future Capital Project Fund	\$ 3,947,199
Three Mill Note Ret.	\$ 1,440,056

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 \$71,205,639, including land, school buildings, building improvements, buses, other school vehicles, furniture and equipment, and any intangible assets. This amount represents an increase of \$2,386,206 from 2010. Total accumulated depreciation as of June 30, 2011, was \$25,285,708, and total depreciation expense for the year was \$1,649,164, resulting in total net capital assets of \$45,919,931.

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

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2011	June 30, 2010	Percentage Change
Land	\$ 2,140,042	\$ 2,140,042	-
Construction in Progress	2,714,602	735,085	269.29 %
Buildings	36,746,798	37,763,908	(2.69)%
Improvements other than buildings	1,311,932	1,121,778	16.95 %
Mobile equipment	2,426,764	2,755,937	(11.94)%
Furniture and equipment	579,793	620,288	(6.53)%
Total	\$ 45,919,931	\$ 45,137,038	1.73 %

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

Debt Administration. At June 30, 2011, the District had \$10,079,990 in outstanding long-term debt, of which \$2,449,990 is due within one year. The liability for compensated absences increased \$29,107 from the prior year.

The District maintains an AAA bond rating.

Table 5
Outstanding Long-Term Debt

	June 30, 2011	June 30, 2010	Percentage Change
Limited obligation bonds payable	\$ 2,790,000	3,675,000	(24.08)%
Three mill notes payable	6,615,000	7,440,000	(11.09)%
Shortfall notes payable	-	2,000,000	(100.00)%
Compensated absences payable	674,990	645,883	4.51 %
Total	\$ 10,079,990	\$ 13,760,883	(26.75)%

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

CURRENT ISSUES

The Pascagoula 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 is 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 the 2010-2011 year decreased by 0.004% to 6,939 students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Pascagoula School District, 1006 Community Avenue, Pascagoula, MS 39567.

PASCAGOULA SCHOOL DISTRICT

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PASCAGOULA SCHOOL DISTRICT

FINANCIAL STATEMENTS

PASCAGOULA SCHOOL DISTRICT

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PASCAGOULA SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 37,868,018
Due from other governments	9,003,211
Inventories	99,714
Prepaid items	221,344
Restricted assets	1,558,644
Capital assets, non-depreciable:	
Land	2,140,042
Construction in progress	2,714,602
Capital assets, net of accumulated depreciation:	
Buildings	36,746,798
Improvements other than buildings	1,311,932
Mobile equipment	2,426,764
Furniture and equipment	579,793
Total Assets	<u>94,670,862</u>
Liabilities	
Accounts payable and accrued liabilities	3,325,958
Interest payable on long-term liabilities	109,192
Long-term liabilities, due within one year:	
Capital related liabilities	1,775,000
Non-capital related liabilities	674,990
Long-term liabilities, due beyond one year:	
Capital related liabilities	<u>7,630,000</u>
Total Liabilities	<u>13,515,140</u>
Net Assets	
Invested in capital assets, net of related debt	36,514,931
Restricted net assets:	
Expendable:	
School-based activities	2,827,967
Debt service	10,402,058
Capital improvements	13,286,138
Forestry improvements	434,915
Unemployment benefits	440,255
Non-expendable	
Sixteenth section	608,996
Other	321,058
Unrestricted	<u>16,319,404</u>
Total Net Assets	<u>\$ 81,155,722</u>

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

PASCAGOULA 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	Revenue and Changes in Net Assets
				Governmental Activities
Governmental Activities:				
Instruction	\$ 46,133,866	393,456	12,843,405	(32,897,005)
Support services	30,178,288	-	-	(30,178,288)
Non-instructional	3,934,467	1,035,477	3,691,428	792,438
Interest on long-term liabilities	<u>384,375</u>	<u>-</u>	<u>-</u>	<u>(384,375)</u>
Total Governmental Activities	<u>\$ 80,630,996</u>	<u>1,428,933</u>	<u>16,534,833</u>	<u>(62,667,230)</u>
General Revenues:				
Taxes:				
General purpose levies				31,511,247
Debt purpose levies				2,240,446
Unrestricted grants and contributions:				
Local				365,439
State				27,044,339
Federal				2,019,498
Unrestricted investment earnings				216,128
Sixteenth section sources				5,630
Other				<u>35,474</u>
Total General Revenues				<u>63,438,201</u>
Special items				<u>3,922,654</u>
Total General Revenues and Special Items				<u>67,360,855</u>
Change in Net Assets				<u>4,693,625</u>
Net Assets - Beginning, as originally reported				76,559,068
Prior Period Adjustments				<u>(96,971)</u>
Net Assets - Beginning, as restated				<u>76,462,097</u>
Net Assets - Ending				<u>\$ 81,155,722</u>

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

PASCAGOULA SCHOOL DISTRICT
 Balance Sheet - Government Funds
 June 30, 2011

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	FEMA/ MEMA Fund	Future Capital Projects Fund	Three Mill Note Ret Fund	Other Governmental Funds	
Assets						
Cash and cash equivalents	\$ 16,590,031	760,754	7,401,880	6,808,374	6,915,975	38,477,014
Investments	-	-	-	-	949,648	949,648
Due from other governments	646,735	6,066,050	-	21,833	2,257,346	8,991,964
Due from other funds	1,647,578	-	3,692,846	249,189	231,806	5,821,419
Inventories	-	-	-	-	99,714	99,714
Prepaid items	221,344	-	-	-	-	221,344
Total assets	\$ 19,105,688	6,826,804	11,094,726	7,079,396	10,454,489	54,561,103
Liabilities and Fund Balances						
Liabilities:						
Accounts payable and accrued liabilities	\$ 733,484	773,311	-	-	1,819,163	3,325,958
Due to other funds	2,137,486	-	-	-	3,672,686	5,810,172
Deferred revenue	-	6,053,493	-	-	-	6,053,493
Unearned revenue	-	-	-	-	341,843	341,843
Total Liabilities	2,870,970	6,826,804	-	-	5,833,692	15,531,466
Fund Balances:						
Nonspendable:						
Inventory	-	-	-	-	99,714	99,714
Permanent fund principal	-	-	-	-	608,996	608,996
Prepaid items	221,344	-	-	-	-	221,344
Restricted:						
Debt service	-	-	-	7,079,396	3,431,854	10,511,250
Capital projects	-	-	-	-	2,191,412	2,191,412
Forestry improvement purposes	203,343	-	-	-	231,572	434,915
Unemployment benefits	-	-	-	-	440,255	440,255
Other purposes	-	1,186,376	-	-	1,233,764	2,420,140
Committed:						
Capital improvements	-	-	11,094,726	-	-	11,094,726
Other purposes	-	-	-	-	407,827	407,827
Unassigned	15,810,031	(1,186,376)	-	-	(4,024,597)	10,599,058
Total Fund Balances	16,234,718	-	11,094,726	7,079,396	4,620,797	39,029,637
Total Liabilities and Fund Balances	\$ 19,105,688	6,826,804	11,094,726	7,079,396	10,454,489	54,561,103

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

PASCAGOULA SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2011

Exhibit C-1

	<u>Amount</u>
Total Fund Balances - Governmental Funds	\$ 39,029,637
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$25,285,708	45,919,931
2. Certain other long-term assets are not available to pay current period expenditures and therefore are not reported in the fund financial statements, but are reported in the Statement of Net Assets.	6,395,336
3. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(10,079,990)
4. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	<u>(109,192)</u>
Total net assets - governmental activities	\$ <u>81,155,722</u>

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

PASCAGOULA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	FEMA/ MEMA Fund	Future Capital Projects Fund	Three Mill Note Ret. Fund		
Revenues:						
Local sources	\$ 32,325,997	2,121	53,604	2,283,834	1,112,514	35,778,070
State source	26,271,147	-	-	-	2,329,440	28,600,587
Federal sources	451,013	113,652	-	-	14,920,499	15,485,164
Sixteenth section source	-	-	-	-	3,186	3,186
Total Revenues	<u>59,048,157</u>	<u>115,773</u>	<u>53,604</u>	<u>2,283,834</u>	<u>18,365,639</u>	<u>79,867,007</u>
Expenditures:						
Instruction	31,436,205	-	-	-	13,825,710	45,261,915
Support services	24,656,201	1,259,715	-	-	3,784,836	29,700,752
Noninstructional services	-	-	-	-	3,792,444	3,792,444
Facilities acquisition and construction	-	-	-	-	2,230,273	2,230,273
Debt service:						
Principal	-	-	-	825,000	885,000	1,710,000
Interest	-	-	-	266,131	139,649	405,780
Other	-	-	-	1,835	-	1,835
Total Expenditures	<u>56,092,406</u>	<u>1,259,715</u>	<u>-</u>	<u>1,092,966</u>	<u>24,657,912</u>	<u>83,102,999</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>2,955,751</u>	<u>(1,143,942)</u>	<u>53,604</u>	<u>1,190,868</u>	<u>(6,292,273)</u>	<u>(3,235,992)</u>
Other Financing Sources (Uses):						
Insurance loss recoveries	-	36,273	-	-	-	36,273
Proceeds of loans	-	-	1,692,846	-	-	1,692,846
Sale of other property	1,191	-	-	-	-	1,191
Operating transfers in	8,642,445	-	2,210,742	249,188	5,324,382	16,426,757
Operating transfers out	(13,395,334)	-	(9,993)	-	(3,021,430)	(16,426,757)
Total Other Financing Sources (Uses)	<u>(4,751,698)</u>	<u>36,273</u>	<u>3,893,595</u>	<u>249,188</u>	<u>2,302,952</u>	<u>1,730,310</u>
Net Change in Fund Balances	<u>(1,795,947)</u>	<u>(1,107,669)</u>	<u>3,947,199</u>	<u>1,440,056</u>	<u>(3,989,321)</u>	<u>(1,505,682)</u>
Fund Balances:						
July 01, 2010, as originally reported	18,030,665	1,186,376	7,147,527	5,639,340	8,645,395	40,649,303
Prior period adjustments	-	(78,707)	-	-	(18,264)	(96,971)
July 01, 2010, as restated	<u>18,030,665</u>	<u>1,107,669</u>	<u>7,147,527</u>	<u>5,639,340</u>	<u>8,627,131</u>	<u>40,552,332</u>
(Decrease) in reserve for inventory	-	-	-	-	(17,013)	(17,013)
June 30, 2011	<u>\$ 16,234,718</u>	<u>-</u>	<u>11,094,726</u>	<u>7,079,396</u>	<u>4,620,797</u>	<u>39,029,637</u>

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

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

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (1,505,682)
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$2,434,047 and the depreciation expense amounted to \$1,649,164.	784,883
2. Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds	1,499,486
3. The repayment of the principal on long-term debt consumes current financial resources of governmental funds but has no effect on net assets.	1,710,000
4. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	23,240
5. The sale and/or disposal of capital assets is reported as other financing sources in the governmental funds but is reported as a reduction of net capital assets on the Statement of Activities, along with any gain or loss.	(1,990)
6. A decrease in the inventory reserve is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenses are increased in the Statement of Activities	(17,013)
7. Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: Compensated absences	(29,107)
8. 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.	(1,692,846)
9. Gains for forgiveness of debt are not reported in governmental funds, but are reported in the Statement of Activities	<u>3,922,654</u>
Change in Net Assets of Governmental Activities	<u>\$ 4,693,625</u>

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

PASCAGOULA SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2011

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 2,909,233
Total Assets	\$ 2,909,233
Liabilities	
Accounts payable and accrued liabilities	\$ 2,799,074
Due to other funds	11,247
Due to student clubs	<u>98,912</u>
Total Liabilities	\$ 2,909,233

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

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

(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*, which 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 District implemented GASB Statement 54 during the fiscal year ended June 30, 2011 and as a result, the fund balance amounts for governmental funds have been reclassified and 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 Pascagoula 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, Pascagoula 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.

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

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.

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.

FEMA/MEMA Grant Fund - This special revenue fund is used to account for the federal funds that were made available as a result of Hurricane Katrina to assist with repairs, renovations and construction that were not covered by insurance.

Future Capital Projects Fund - This capital project fund is financed with local funds and is used to provide resources for repairs and renovations to school buildings and related facilities.

Three Mill Note Retirement Fund - This debt service fund is responsible for the retirement of the Three Mill Note.

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:

Payroll Clearing Fund - This fund is used as a clearing account for payroll and payroll related transactions.

Accounts Payable Clearing - This fund is used as a clearing account for non-payroll transactions.

Student Club Accounts - These funds are used to account for the transaction of student clubs.

Additionally, the school district reports the following fund types:

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

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 - 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.

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 and Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are 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.

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

D. Measurement Focus and Basis of Accounting (Continued)

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 Government Finance Officers Association and are consistent with the broad classifications recommended in Financial Accounting for Local and State School Systems, 2003, issued by the U.S. Department of Education.

E. Encumbrances

An encumbrance system is maintained to account for commitments resulting from approved purchase orders, work orders and contracts. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are not reported within committed or assigned fund balances.

F. Assets, liabilities, and net assets or equity

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.

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

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.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

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. 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 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.

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

6. Capital Assets (Continued)

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).

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:

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

9. Fund Balances (Continued)

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 approval from the board for the commitment of fund balances.

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 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.

(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.

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

(2) Cash and Cash Equivalents and Investments (Continued)

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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$38,477,014 and \$2,909,233, respectively. The bank balance was \$42,715,163.

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 \$42,715,163 was exposed to custodial credit risk.

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>
Money Market Mutual Funds	Aaa	Less than 1 year	\$ 949,648

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.

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

(3) Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	General Fund	\$ 235,221
Future Capital Projects Fund	Other governmental funds	2,000,000
Future Capital Projects Fund	General Fund	1,692,846
Three Mill Note Ret.	Other governmental funds	249,189
Other governmental funds	General Fund	209,419
Other governmental funds	Other governmental funds	22,387
General Fund	Other governmental funds	1,401,110
General Fund	Fiduciary funds	11,247
Total		<u>\$ 5,821,419</u>

The purpose of the interfund loans to the Other Governmental Funds was to eliminate deficit cash balances in certain federal programs as part of the normal year end closing adjustments.

B. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	General Fund	\$ 8,271,465
Other governmental funds	General Fund	340,385
General Fund	General Fund	30,595
General Fund	Other governmental funds	4,886,538
Other governmental funds	Other governmental funds	221,115
General Fund	Other governmental funds	206,736
Future Capital Projects Fund	Other governmental funds	9,993
Other governmental funds	Three Mill Note Ret.	249,188
Other governmental funds	Future Capital Projects Fund	2,210,742
Total		<u>\$ 16,426,757</u>

(4) Restricted Assets

The restricted assets represent the cash balance, totaling \$608,996, of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent the investment balance, totaling \$949,648 of the MAEP Limited Obligation Bond/Note Fund.

(5) Capital Assets

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

	Balance July 01, 2010	Additions	Retirements	Completed Construction	Balance June 30, 2011
<u>Non-depreciable capital assets:</u>					
Land	\$ 2,140,042	-	-	-	2,140,042
Construction progress	735,085	2,230,273	-	(250,756)	2,714,602
Total non-depreciable capital assets	<u>2,875,127</u>	<u>2,230,273</u>	<u>-</u>	<u>(250,756)</u>	<u>4,854,644</u>
<u>Depreciable capital assets:</u>					
Buildings	56,769,297	-	-	-	56,769,297
Improvements other than buildings	1,256,762	-	-	250,756	1,507,518
Mobile equipment	5,043,120	22,879	(16,792)	-	5,049,207
Furniture and equipment	2,875,127	180,895	(31,049)	-	3,024,973
Total depreciable capital assets	<u>65,944,306</u>	<u>203,774</u>	<u>(47,841)</u>	<u>250,756</u>	<u>66,350,995</u>

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

(5) Capital Assets (Continued)

<u>Less accumulated depreciation for:</u>					
Buildings	19,005,389	1,017,110	-	-	20,022,499
Improvements other than buildings	134,984	60,602	-	-	195,586
Mobile equipment	2,287,183	350,373	(15,113)	-	2,622,443
Furniture and equipment	<u>2,254,839</u>	<u>221,079</u>	<u>(30,738)</u>	-	<u>2,445,180</u>
Total accumulated depreciation	<u>23,682,395</u>	<u>1,649,164</u>	<u>(45,851)</u>	-	<u>25,285,708</u>
Total depreciable capital assets, net	<u>42,261,911</u>	<u>(1,445,390)</u>	<u>(1,990)</u>	<u>250,756</u>	<u>41,065,287</u>
Total capital assets, net	<u>\$ 45,137,038</u>	<u>784,883</u>	<u>(1,990)</u>	-	<u>45,919,931</u>

Depreciation expense was charged to the following governmental functions:

<u>Governmental activities:</u>	<u>Amount</u>
Instruction	\$ 1,046,618
Support services	477,536
Non-instructional	<u>125,010</u>
Total Depreciation Expense	<u>\$ 1,649,164</u>

Commitments under construction contracts at June 30, 2011, are summarized as follows:

<u>Governmental Activities</u>	<u>Spent to</u> <u>June 30, 2011</u>	<u>Remaining</u> <u>Commitment</u>
South Field Lighting	13,226	-
Colmer Middle Classroom Addition and Band Hall	\$ 2,584,976	-
Singing River Auditorium Renovations	71,025	106,000
Gautier High School Road	<u>42,580</u>	-
Total construction in progress	<u>\$ 2,711,807</u>	<u>106,000</u>

Construction projects included in governmental activities are funded with insurance proceeds and local funds.

(6) Long-term Liabilities

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

	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>July 01, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>due within one</u>
A. Limited obligation bonds payable	\$ 3,675,000	-	(885,000)	2,790,000	925,000
B. Three mill notes payable	7,440,000	-	(825,000)	6,615,000	850,000
C. Shortfall notes payable	2,000,000	1,692,846	(3,692,846)	-	-
D. Compensated absences payable	<u>645,883</u>	<u>29,107</u>	<u>-</u>	<u>674,990</u>	<u>674,990</u>
Total	<u>\$ 13,760,883</u>	<u>1,721,953</u>	<u>(5,402,846)</u>	<u>10,079,990</u>	<u>2,449,990</u>

A. Limited obligation bonds payable

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

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
State aid capital improvement bonds	4.2-5.8%	5-1-1998	8-1-2013	\$ 9,465,000	2,790,000

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

(6) Long-term Liabilities (Continued)

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

Year Ending June 30	Principal	Interest	Total
2012	925,000	100,083	1,025,083
2013	970,000	59,340	1,029,340
2014	895,000	19,242	914,242
Total	<u>\$ 2,790,000</u>	<u>178,665</u>	<u>2,968,665</u>

This debt will be retired from the MAEP Retirement Fund (Debt Service Fund).

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three Mill Note Payable, Series 2003	2.4-4.75%	10-29-2003	10-1-2017	\$ 8,000,000	6,615,000

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

Year Ending June 30	Principal	Interest	Total
2012	850,000	238,700	1,088,700
2013	875,000	209,363	1,084,363
2014	910,000	177,670	1,087,670
2015	940,000	143,900	-
2015-2018	<u>3,040,000</u>	<u>202,590</u>	<u>3,242,590</u>
Total	<u>\$ 6,615,000</u>	<u>972,223</u>	<u>6,503,323</u>

This debt will be retired from the Three Mill Note Retirement Fund (Debt Service Fund).

C. 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.

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

(7) **Other Commitments**

Operating leases:

The school district has operating leases for the following equipment:

1. 41 copy machines with a minimum rental fee of \$193,884.

Lease expenditures for the year ended June 30, 2011, amounted to \$193,884.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2012	193,884
2013	<u>145,413</u>
Total	<u>\$ 339,297</u>

(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 ending June 30, 2011, 2010 and 2009 were \$5,266,566, \$5,376,400 and \$5,396,041, respectively, which equaled the required contributions for each year.

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

(9) Sixteenth Section Lands

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

Year Ending June 30	
2012	\$ 1,500
2013	2,814
2014	2,814
2015	2,814
2016	2,814
2017-2021	9,577
2022-2026	6,568
2027-2031	<u>1,314</u>
Total	<u>\$ 30,215</u>

(10) 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 the school district.

(11) Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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.

(12) Special Education Consortium

The school district entered into a special education agreement dated June 15, 1988 creating the Exceptional School Program. This consortium was created pursuant to the provisions of Section 37-7-403 through 37-7-415, Miss. Code Ann. (1972), and was approved by the Mississippi Department of Education. The consortium includes the following participants: Jackson County School District, Pascagoula School District, Ocean Springs School District, Moss Point School District and the Jackson County Board of Supervisors.

The building housing the Exceptional School Program is the property of the Jackson County Board of Supervisors, and they are responsible for the constructing, erecting, equipping, alterations, and major maintenance of the building.

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

(12) Special Education Consortium (Continued)

Operating expenses for the educational programs are shared in direct proportion to each school district's month's enrollment of students placed by each school district in the Exceptional School Program. Each school district is billed by the fiscal agent. The Jackson County Board of Supervisors provides funding by levying an ad valorem tax at a rate of not less than 0.5 mills. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Pascagoula School District has been designated as the lead school district (fiscal agent) and the operations of the consortium are included in its financial statements.

The following Statement of Revenues, Expenditures and Changes in Fund Balances is presented to detail the financial activity of the Exceptional School Program

Revenues

Local Sources:	
Ad valorem taxes	\$ -
Tuition from other LEA's with the state	-
Other	<u>115</u>
Total Revenues	<u>115</u>

Expenditures

Salaries	498,506
Employee benefits	84,941
Purchased property services	4,832
Other purchased property services	29,956
Supplies	5,527
Property	<u>518</u>
Total Expenditures	<u>624,280</u>

Excess (Deficiency) of Revenues Over (Under) Expenditures	(624,165)
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Other Financing Sources/Uses:

Transfers In	<u>624,165</u>
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Net Change in Fund Balance	-
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Fund Balance:

July 01, 2010	<u>-</u>
June 30, 2011	<u>\$ -</u>

(13) Prior Period Adjustments

In 2010, the school district overstated unearned revenue in the Statement of Net Assets in the amount of \$4,895,850. This overstatement did not cause Net Assets to be misstated.

In 2011, the school district overstated Net Assets and Fund Balance in the amount of \$96,971 due to the recording of deferred liabilities in prior year (\$78,707) and incorrect accounting of inventory (\$18,264).

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

(14) Extraordinary Items and/or Special Items

In fiscal year ending June 30, 2007, the district borrowed \$2,000,000 from the U.S. Department of Homeland Security (FEMA) under the Community Disaster Loan program. This is a shortfall note and its purpose was to provide funds for a shortfall in the local budget that was caused because of damages to properties and tax assessments and related tax collection as a result of Hurricane Katrina in August 2005. Payments on the loan are deferred for a five year period. During fiscal year 2011, the U.S. Department of Homeland Security (FEMA) issued, under the Community Disaster Loan program an additional \$1,692,846. During fiscal year ending June 30, 2011, FEMA forgave all of the outstanding principal and related interest, totaling \$3,922,654.

(15) Subsequent Events

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Pascagoula School District evaluated the activity of the district through October 25, 2011, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

In February 2011, the Jackson County Board of Supervisors determined that ad valorem taxes from expansions or additions at Chevron Corporation and Gulf LNG, a subsidiary of Northrop Grumman Corporation, should be shared with three other school districts in Jackson County. This ruling is currently being appealed by the School District. If upheld by the Mississippi Supreme Court, the School District expects to lose approximately \$2,000,000 in ad valorem tax revenue. At the time of report issuance, the appeal was still in process.

(16) Economic Dependency

The School District is significantly dependent economically on two ad valorem tax payers (Chevron Corporation and Huntington Ingalls Corporation). In the event of a loss of these ad valorem taxes, the district would encounter an economic hardship. See Note 15.

(17) Insurance loss recoveries

The Pascagoula School District received \$36,273 in insurance loss recoveries related to Hurricane Katrina damage during the 2010-2011 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as other revenue.

PASCAGOULA SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

PASCAGOULA SCHOOL DISTRICT

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PASCAGOULA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 31,717,021	32,326,035	32,325,997	609,014	(38)
State source	26,143,791	26,271,149	26,271,147	127,358	(2)
Federal source	350,000	2,143,861	451,013	1,793,861	(1,692,848)
Total Revenues	<u>58,210,812</u>	<u>60,741,045</u>	<u>59,048,157</u>	<u>2,530,233</u>	<u>(1,692,888)</u>
Expenditures:					
Instruction	34,850,566	31,434,975	31,436,205	3,415,591	(1,230)
Support services	24,549,884	24,764,747	24,656,201	(214,863)	108,546
Debt service:					
Other	22,500	-	-	22,500	-
Total Expenditures	<u>59,422,950</u>	<u>56,199,722</u>	<u>56,092,406</u>	<u>3,223,228</u>	<u>107,316</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(1,212,138)</u>	<u>4,541,323</u>	<u>2,955,751</u>	<u>5,753,461</u>	<u>(1,585,572)</u>
Other Financing Sources (Uses):					
Sale of other property	-	1,192	1,191	1,192	(1)
Operating transfers in	10,619,708	8,642,465	8,642,445	(1,977,243)	(20)
Operating transfers out	(10,290,730)	(14,878,037)	(13,395,334)	(4,587,307)	1,482,703
Total Other Financing Sources (Uses)	<u>328,978</u>	<u>(6,234,380)</u>	<u>(4,751,698)</u>	<u>(6,563,358)</u>	<u>1,482,682</u>
Net Change in Fund Balance	<u>(883,160)</u>	<u>(1,693,057)</u>	<u>(1,795,947)</u>	<u>(809,897)</u>	<u>(102,890)</u>
Fund Balances:					
July 01, 2010	<u>20,843,510</u>	<u>17,802,093</u>	<u>18,030,665</u>	<u>(3,041,417)</u>	<u>228,572</u>
June 30, 2011	<u>\$ 19,960,350</u>	<u>16,109,036</u>	<u>16,234,718</u>	<u>(3,851,314)</u>	<u>125,682</u>

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

PASCAGOULA SCHOOL DISTRICT
 Budgetary Comparison Schedule
 FEMA/MEMA Fund
 For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ -	2,121	2,121	2,121	-
Federal source	5,000,000	149,926	113,652	(4,850,074)	(36,274)
Total Revenues	5,000,000	152,047	115,773	(4,847,953)	(36,274)
Expenditures:					
Support services	2,761,914	1,259,717	1,259,715	1,502,197	2
Total Expenditures	2,761,914	1,259,717	1,259,715	1,502,197	2
Excess (Deficiency) of Revenues over (under) Expenditures	2,238,086	(1,107,670)	(1,143,942)	(3,345,756)	(36,272)
Other Financing Sources (Uses):					
Insurance loss recoveries	-	-	36,273	-	36,273
Operating transfers out	(2,238,086)	-	-	2,238,086	-
Total Other Financing Sources (Uses)	(2,238,086)	-	36,273	2,238,086	36,273
Net Change in Fund Balance	-	(1,107,670)	(1,107,669)	(1,107,670)	1
Fund Balances:					
July 01, 2010, as originally reported	-	1,186,376	1,186,376	1,186,376	-
Prior period adjustments	-	-	(78,707)	-	(78,707)
July 01, 2010, as restated	-	1,186,376	1,107,669	1,186,376	(78,707)
June 30, 2011	\$ -	78,706	-	78,706	(78,706)

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

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

PASCAGOULA SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

PASCAGOULA SCHOOL DISTRICT
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 Natural Resources Conservation Program:		
Wetlands reserve program	10.072	\$ 2,444
Total passed-through Natural Resources Conservation Program		<u>2,444</u>
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	1,404,114
National school lunch program	10.555	2,264,691
Summer food service program for children	10.559	20,341
Total child nutrition cluster		<u>3,689,146</u>
Total passed-through Mississippi Department of Education		<u>3,689,146</u>
Total U.S. Department of Agriculture		<u>3,691,590</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	155,005
Total U.S. Department of Defense		<u>155,005</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	410,037
Total Federal Communications Commission		<u>410,037</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Board for Community and Junior Colleges:		
Adult education - state grant program	84.002	96,446
Total passed-through Mississippi Board for Community and Junior Colleges		<u>96,446</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	3,094,617
Title I - grants to local educational agencies, recovery act	84.389	1,545,976
Total Title I cluster		<u>4,640,593</u>
Career and technical education - basic grants to states	84.048	85,531
Safe and drug-free schools and communities - state grants	84.186	34,042
Education technology state grants, recovery act	84.386	16,597
Education technology - state grants	84.318	26,726
Total Educational Technology State Grants Cluster		<u>43,323</u>
Gaining early awareness and readiness for undergraduate programs	84.334	36,653
English language acquisition grants	84.365	186,592
Improving teacher quality - state grants	84.367	622,064
ARRA Stabilization Fund	84.394	1,697,939
Education Jobs Fund	84.410	1,267,918
Hurricane education recovery	84.938	239,333
Subtotal		<u>8,853,988</u>
Special education cluster:		
Special education - grants to states	84.027	1,294,907
Special education - preschool grants	84.173	55,844

PASCAGOULA SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

ARRA - Special education, Part B	84.391	1,014,840
ARRA - Special education - preschool grants	84.392	<u>36,626</u>
Total special education cluster		<u>2,402,217</u>
Total passed-through Mississippi Department of Education		<u>11,256,205</u>
Total U.S. Department of Education		<u>11,352,651</u>
Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Health and Human Services</u>		
Direct Program:		
ARRA Temporary Assistance for Needy Families (TANF) Supplemental Grants	93.716	<u>658</u>
Total Department of Health and Human Services		<u>658</u>
<u>U.S. Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Agency:		
Disaster Grants - Public Assistance (Presidentially declared disasters)	97.036	<u>1,259,715</u>
Total Department of Homeland Security		<u>1,259,715</u>
Total for All Federal Awards		<u>\$ 16,869,656</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.

PASCAGOULA SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For Year Ended June 30, 2011

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 57,960,704	40,958,475	1,315,686	3,848,796	11,837,747
Other	<u>25,142,295</u>	<u>6,367,071</u>	<u>493,061</u>	<u>58,433</u>	<u>18,223,730</u>
Total	<u>\$ 83,102,999</u>	<u>47,325,546</u>	<u>1,808,747</u>	<u>3,907,229</u>	<u>30,061,477</u>
Total number of students	<u>6,939</u>				
Cost per student	<u>\$ 11,976</u>	<u>6,820</u>	<u>261</u>	<u>563</u>	<u>4,332</u>

NOTES TO SCHEDULE

1. 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.
2. General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.
3. School Administration - includes expenditures for the following function: Support Services - School Administration.
4. Other - includes all expenditure functions not included in Instruction or Administration Categories.

PASCAGOULA SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

PASCAGOULA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 32,325,997	33,417,904	30,392,634	29,275,306
Intermediate sources	-	-	-	36,917
State sources	26,271,147	26,930,999	29,765,601	31,128,012
Federal source	<u>451,013</u>	<u>505,554</u>	<u>409,525</u>	<u>513,325</u>
Total Revenues	<u>59,048,157</u>	<u>60,854,457</u>	<u>60,567,760</u>	<u>60,953,560</u>
Expenditures:				
Instruction	31,436,205	33,307,052	35,901,428	34,361,865
Support services	24,656,201	27,421,535	24,889,430	22,658,167
Noninstructional services	-	-	2,700	68,811
Facilities acquisition and construction	-	<u>406,627</u>	<u>2,751,456</u>	<u>261,767</u>
Total Expenditures	<u>56,092,406</u>	<u>61,135,214</u>	<u>63,545,014</u>	<u>57,350,610</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>2,955,751</u>	<u>(280,757)</u>	<u>(2,977,254)</u>	<u>3,602,950</u>
Other Financing Sources (Uses):				
Insurance loss recoveries	-	8,790	466	4,022,589
Sale of transportation equipment	-	-	24,933	1,201
Sale of other property	1,191	120	-	2,770
Operating transfers in	8,642,445	59,792	45,000	56,164
Other financing sources	-	-	8,812	-
Operating transfers out	<u>(13,395,334)</u>	<u>(4,597,253)</u>	<u>(5,156,114)</u>	<u>(13,388,948)</u>
Total Other Financing Sources (Uses)	<u>(4,751,698)</u>	<u>(4,528,551)</u>	<u>(5,076,903)</u>	<u>(9,306,224)</u>
Net Change in Fund Balance	(1,795,947)	(4,809,308)	(8,054,157)	(5,703,274)
Fund Balances:				
Beginning of period, as originally reported	18,030,665	22,670,169	30,735,419	36,515,915
Prior period adjustments	-	<u>169,804</u>	<u>(11,093)</u>	<u>(77,222)</u>
Beginning of period, as restated	<u>18,030,665</u>	<u>22,839,973</u>	<u>30,724,326</u>	<u>36,438,693</u>
End of Period	<u>\$ 16,234,718</u>	<u>18,030,665</u>	<u>22,670,169</u>	<u>30,735,419</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS.

PASCAGOULA SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 35,778,070	37,177,098	35,781,685	32,346,736
Intermediate sources	-	-	-	36,917
State sources	28,600,587	29,120,035	31,999,495	33,354,113
Federal source	15,485,164	13,349,013	9,443,945	11,394,551
Sixteenth section sources	3,186	8,826	40,635	19,075
Total Revenues	<u>79,867,007</u>	<u>79,654,972</u>	<u>77,265,760</u>	<u>77,151,392</u>
Expenditures:				
Instruction	45,261,915	42,219,274	42,460,223	42,237,474
Support services	29,700,752	33,560,247	32,257,530	30,199,784
Noninstructional services	3,792,444	3,881,065	3,898,930	4,088,396
Sixteenth section	-	-	602	-
Facilities acquisition and construction	2,230,273	1,137,054	2,751,456	1,127,124
Debt service:				
Principal	1,710,000	935,000	2,795,000	1,755,000
Interest	405,780	456,659	554,691	627,874
Other	1,835	3,476	25,145	4,413
Total Expenditures	<u>83,102,999</u>	<u>82,192,775</u>	<u>84,743,577</u>	<u>80,040,065</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(3,235,992)</u>	<u>(2,537,803)</u>	<u>(7,477,817)</u>	<u>(2,888,673)</u>
Other Financing Sources (Uses):				
Proceeds general obligation bonds	-	-	-	-
Proceeds of loans	1,692,846	-	-	-
Insurance loss recoveries	36,273	8,790	466	4,023,577
Sale of transportation equipment	-	-	24,933	1,201
Sale of other property	1,191	120	-	2,770
Operating transfers in	16,426,757	9,333,031	5,424,673	13,927,535
Other financing sources	-	-	8,812	-
Operating transfers out	<u>(16,426,757)</u>	<u>(9,333,031)</u>	<u>(5,424,673)</u>	<u>(13,927,535)</u>
Total Other Financing Sources (Uses)	<u>1,730,310</u>	<u>8,910</u>	<u>34,211</u>	<u>4,027,548</u>
Net Change in Fund Balance	(1,505,682)	(2,528,893)	(7,443,606)	1,138,875
Fund Balances:				
Beginning of period, as originally reported	40,649,303	43,969,793	51,414,315	51,740,455
Prior period adjustments	<u>(96,971)</u>	<u>(774,311)</u>	<u>(13,884)</u>	<u>(1,440,758)</u>
Beginning of period, as restated	<u>40,552,332</u>	<u>43,195,482</u>	<u>51,400,431</u>	<u>50,299,697</u>
Increase (Decrease) in reserve for inventory	<u>(17,013)</u>	<u>(17,286)</u>	<u>12,968</u>	<u>(24,257)</u>
End of Period	<u>\$ 39,029,637</u>	<u>40,649,303</u>	<u>43,969,793</u>	<u>51,414,315</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

PASCAGOULA SCHOOL DISTRICT

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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
Pascagoula School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pascagoula School District as of and for the year ended June 30, 2011, which collectively comprise Pascagoula School District's basic financial statements and have issued our report thereon dated October 25, 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

In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

A 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 the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**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***
Page 2

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.

Walter McDull Jr, Oppie

Pascagoula, Mississippi
October 25, 2011



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

Superintendent and School Board
Pascagoula School District

Compliance

We have audited the compliance of the Pascagoula School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Pascagoula School District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Pascagoula School District complied, in all material respects, with the 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 the Pascagoula School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pascagoula 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 the school district's internal control over compliance.

Membership in:
American Institute of Certified Public Accountants • Mississippi Society of Certified Public Accountants • AICPA Private Companies Practice Section
AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133
Page 2

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 the 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.

Walter McDuff / Oppie

Pascagoula, Mississippi
October 25, 2011

PASCAGOULA SCHOOL DISTRICT

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

PASCAGOULA SCHOOL DISTRICT

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

Superintendent and School Board
Pascagoula School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Pascagoula School District as of and for the year ended June 30, 2011, which collectively comprise Pascagoula School District's basic financial statements and have issued our report thereon dated October 25, 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 did not report any 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.

Wolfe, McDuff & Oppie

Pascagoula, Mississippi
October 25, 2011

Membership in:
American Institute of Certified Public Accountants • Mississippi Society of Certified Public Accountants • AICPA Private Companies Practice Section
AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



PASCAGOULA SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PASCAGOULA SCHOOL DISTRICT

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

Section I: Summary of Auditor's Results

Financial Statements:		
1.	Type of auditor's report issued on the financial statements:	Unqualified
2.	Noncompliance material to financial statements noted?	No
3.	Internal control over financial reporting:	
a.	Material weaknesses identified?	No
b.	Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Federal Awards:		
4.	Type of auditor's report issued on compliance for major federal programs:	Unqualified
5.	Internal control over major programs:	
a.	Material weaknesses identified?	No
b.	Significant deficiencies identified that are not considered to be material weaknesses?	None reported
6.	Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	No
7.	Federal programs identified as major programs:	
a.	Education Technology State Grants CFDA #: 84.318	
b.	Title I Grants to Local Educational Agencies CFDA #: 84.010, 84.389	
c.	Special Education Cluster CFDA #: 84.027, 84.173, 84.391, 84.392	
d.	ARRA Stabilization Fund CFDA #: 84.394	
e.	ARRA Temporary Assistance for Needy Families (TANF) Supplemental Grants CFDA #: 93.716	
f.	Improving Teacher quality State Grants CFDA #: 84.367	
g.	Education Jobs Fund CFDA #: 84.410	
h.	Hurricane Education Recovery CFDA #: 84.938	
8.	Dollar threshold used to distinguish between type A and type B programs:	\$506,090
9.	Auditee qualified as low-risk auditee?	Yes
10.	Prior fiscal year findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133?	No

Section 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.