



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

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Director, Division of College and University Audits**

**GULF COAST RESEARCH LABORATORY**

**Audited Financial Statements  
For the Year Ended June 30, 1996**



GULF COAST RESEARCH LABORATORY

TABLE OF CONTENTS

FINANCIAL AUDIT REPORT ..... 1

    INDEPENDENT AUDITOR'S REPORT ..... 3

    AUDITED FINANCIAL STATEMENTS..... 5

        Balance Sheet ..... 6

        Statement of Changes in Fund Balances ..... 8

        Statement of Current Fund Revenues, Expenditures and Other Changes ..... 10

        Summary of Significant Accounting Policies ..... 11

        Notes to Financial Statements ..... 13

    SUPPLEMENTAL INFORMATION ..... 19

        Schedule of Federal Financial Assistance..... 20

        Notes to Schedule of Federal Financial Assistance ..... 23

COMPLIANCE REPORT ON MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS ..... 25

REPORT ON INTERNAL CONTROL..... 29

MANAGEMENT REPORT ..... 35

SCHEDULE OF FINDINGS AND RECOMMENDATIONS..... 41

DATA SHEET

INSTITUTION'S RESPONSE

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GULF COAST RESEARCH LABORATORY

FINANCIAL AUDIT REPORT

GULF COAST RESEARCH LABORATORY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## INDEPENDENT AUDITOR'S REPORT

November 5, 1997

Board of Trustees  
Institutions of Higher Learning  
Jackson, Mississippi

We have audited the accompanying balance sheet of Gulf Coast Research Laboratory as of June 30, 1996, the related statement of changes in fund balances and the statement of current fund revenues, expenditures and other changes for the year then ended. These financial statements are the responsibility of Gulf Coast Research Laboratory's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gulf Coast Research Laboratory at June 30, 1996, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made primarily for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Federal Financial Assistance listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of Gulf Coast Research Laboratory. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated November 5, 1997 on our consideration of Gulf Coast Research Laboratory internal control structure and a report dated November 5, 1997 on its compliance with laws and regulations.

A handwritten signature in cursive script that reads "Ramona Hill".

RAMONA HILL, CPA  
Director, Department of Audit

GULF COAST RESEARCH LABORATORY

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GULF COAST RESEARCH LABORATORY

AUDITED FINANCIAL STATEMENTS

GULF COAST RESEARCH LABORATORY  
Balance Sheet  
June 30, 1996  
(With Comparative Figures at June 30, 1995)

Exhibit A

ASSETS	Current Year	Prior Year	LIABILITIES AND FUND BALANCES	Current Year	Prior Year
Current Funds			Current Funds		
Current Unrestricted Funds:			Current Unrestricted Funds:		
Cash and other deposits (Note 4)	\$ 1,159,437	1,144,382	Accounts payable and accrued expenses	\$ 101,055	70,569
Accounts receivable:			Accrued leave (Note 3)	416,542	382,982
Other	151,598	122,769	Due to other funds	34,711	
Inventories	89,469	86,921	Fund balances:		
Due from other funds		37,798	Unallocated		
Total Current Unrestricted Funds	1,400,504	1,391,870	General	848,196	938,319
			Total Current Unrestricted Funds	1,400,504	1,391,870
Current Restricted Funds:			Current Restricted Funds:		
Cash and other deposits (Note 4)	123,230		Accounts payable and accrued expenses	40,429	27,828
Other accounts receivable	619,618	567,083	Due to other funds		37,798
Due from other funds	34,711		Fund balance:		
Total Current Restricted Funds	777,559	567,083	Allocated	737,130	501,457
			Total Current Restricted Funds	777,559	567,083
Total Current Funds	\$ 2,178,063	1,958,953	Total Current Funds	\$ 2,178,063	1,958,953
Plant Funds			Plant Funds		
Land	\$ 1,323,120	1,323,120	Fund balances:		
Improvements other than buildings	237,583	199,880	Net investment in plant	\$ 15,528,691	14,781,990
Buildings	7,125,039	7,129,854			
Furniture, machinery and equipment	5,117,030	4,929,875			
Books and films	1,268,715	1,199,261			
Construction in progress (Note 5)	457,204				
Total Plant Funds	\$ 15,528,691	14,781,990	Total Plant Funds	\$ 15,528,691	14,781,990

Agency Funds		
Cash and other deposits (Note 4)	\$ 1,838	2,013
Deferred compensation plan assets at fair market value (Note 10)	<u>409,467</u>	<u>313,856</u>
Total Agency Funds	\$ <u>411,305</u>	<u>315,869</u>

Agency Funds		
Accounts payable and accrued expenses	\$ 1,838	2,013
Due to depositors	<u>409,467</u>	<u>313,856</u>
Total Agency Funds	\$ <u>411,305</u>	<u>315,869</u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

GULF COAST RESEARCH LABORATORY  
Statement of Changes in Fund Balances  
For the Year Ended June 30, 1996

Exhibit B

	<u>Current Funds</u>			<u>Plant Funds</u>	
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	<u>Unexpended</u>	<u>Investment in Plant</u>
Revenues and Other Additions					
Tuition and fees	\$ 60,725		60,725		
State appropriations	4,006,488		4,006,488	461,193	
Federal grants and contracts		3,992,186	3,992,186		
State grants and contracts		328,890	328,890		
Private gifts, grants & contracts		258,052	258,052		
Investment income	49,158		49,158		
Additions to plant facilities					989,088
Sales and services of educational activities	598,466		598,466		
Other	765,843	1,022	766,865		
<b>Total Rev. &amp; Other Additions</b>	<b>5,480,680</b>	<b>4,580,150</b>	<b>10,060,830</b>	<b>461,193</b>	<b>989,088</b>
Expenditures & Other Deductions					
Educational and general:					
Instruction	79,104		79,104		
Research	1,759,974	2,724,659	4,484,633		
Public service	879,689		879,689		
Academic support	110,146		110,146		
Student services	53,199		53,199		
Institutional support	971,386	1,453,306	2,424,692		
Operation & maintenance of plant	1,426,341		1,426,341		
<b>Total Educational and General</b>	<b>5,279,839</b>	<b>4,177,965</b>	<b>9,457,804</b>		
Indirect cost recovered		423,916	423,916		
Repairs and maintenance Expended for plant facilities				3,989 457,204	
Plant assets sold or retired					242,387
Provision for accrued leave	33,560		33,560		
<b>Total Expenditures and Other Deductions</b>	<b>5,313,399</b>	<b>4,601,881</b>	<b>9,915,280</b>	<b>461,193</b>	<b>242,387</b>
Transfers - Additions (Deductions)					
Mandatory:					
Restricted fund matching	(257,404)	257,404			
<b>Total Mandatory</b>	<b>(257,404)</b>	<b>257,404</b>			
<b>Total Transfers</b>	<b>(257,404)</b>	<b>257,404</b>			

Net Increase (Decr.) for Year	<u>(90,123)</u>	<u>235,673</u>	<u>145,550</u>		<u>746,701</u>
Fund Balance at Beg. of Year	<u>938,319</u>	<u>501,457</u>	<u>1,439,776</u>		<u>14,781,990</u>
Fund Balance at End of Year	\$ <u>848,196</u>	<u>737,130</u>	<u>1,585,326</u>	<u>0</u>	<u>15,528,691</u>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

GULF COAST RESEARCH LABORATORY  
Statement of Current Fund Revenues, Expenditures and Other Changes  
For the Year Ended June 30, 1996  
(With Comparative Figures for the Year Ended June 30, 1995)

Exhibit C

	Current Year			Prior Year	
	Unrestricted	Restricted	Total	Total	
<b>Revenues and Other Additions</b>					
Tuition and fees	\$ 60,725		60,725		69,482
State appropriations	4,006,488		4,006,488		3,361,434
Federal grants and contracts		3,920,561	3,920,561		4,298,867
State grants and contracts					546,345
Private gifts, grants and contracts					112,525
Investment income	49,158		49,158		39,083
Sales and services of educational activities	598,466		598,466		502,007
Other	765,843		765,843		400,996
<b>Total Revenues and Other Additions</b>	<b>5,480,680</b>	<b>3,920,561</b>	<b>9,401,241</b>		<b>9,330,739</b>
<b>Expenditures &amp; Mandatory Transfers</b>					
Educational and general:					
Instruction	79,104		79,104		64,253
Research	1,759,974	2,724,659	4,484,633		4,671,288
Public service	879,689		879,689		686,648
Academic support	110,146		110,146		105,668
Student services	53,199		53,199		48,624
Institutional support	971,386	1,453,306	2,424,692		2,572,495
Operation & maintenance of plant	1,426,341		1,426,341		942,073
<b>Total Educational and General Expenditures</b>	<b>5,279,839</b>	<b>4,177,965</b>	<b>9,457,804</b>		<b>9,091,049</b>
Mandatory transfers:					
Restricted fund matching	257,404	(257,404)			
<b>Total Expenditures and Mandatory Transfers</b>	<b>5,537,243</b>	<b>3,920,561</b>	<b>9,457,804</b>		<b>9,091,049</b>
<b>Other Transfers - Additions (Ded.)</b>					
Excess restricted receipts over expenditures & mandatory transfers		659,589	659,589		150,624
Indirect costs recovered		(423,916)	(423,916)		
Provision for accrued leave	(33,560)		(33,560)		(4,477)
Other					
<b>Total Other Transfers - Additions (Deductions)</b>	<b>(33,560)</b>	<b>235,673</b>	<b>202,113</b>		<b>146,147</b>
<b>Net Change in Fund Balance</b>	<b>\$ (90,123)</b>	<b>235,673</b>	<b>145,550</b>		<b>385,837</b>

See accompanying Summary of Significant Accounting Policies and Notes to Financial Statements.

## GULF COAST RESEARCH LABORATORY

### Summary of Significant Accounting Policies For the Year Ended June 30, 1996

The significant accounting policies followed by Gulf Coast Research Laboratory are described below to enhance the usefulness of the financial statements to the reader.

(1) Basis of Accounting.

The financial statements have been prepared generally in accordance with the accounting principles outlined in the Financial and Reporting Manual for Higher Education, and the American Institute of Certified Public Accountants Industry Audit Guide on Audits of Colleges and Universities.

The accompanying financial statements have been prepared generally on the accrual basis with the following exceptions, which are common practices in colleges and universities:

- A. Depreciation on physical plant and equipment has not been provided.
- B. To the extent that Current Funds are used to finance plant assets, the amounts so provided are accounted for as (a) expenditures, in the case of normal acquisition and/or replacement of moveable equipment and library books; (b) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewals and replacements; and (c) transfers of a nonmandatory nature for all other cases.
- C. Interest expense on debt is recorded when paid.

Gifts, grants and pledges are generally recorded when received or when billable.

Property, buildings and equipment are stated at cost at the date of acquisition or fair market value at date of donation. Improvements made as part of repair and renovation projects are capitalized based upon institution estimates which approximate cost. Public domain (infrastructure) fixed assets consisting of certain improvements other than buildings, such as roads, bridges, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the institution, are capitalized.

Merchandise for resale inventories and consumable supply inventories are stated at cost, with cost being determined principally by the first-in, first-out method.

All revenues and related expenditures incurred in connection with summer sessions are reported within the fiscal year in which the summer sessions are predominantly conducted.

(2) Fund Accounting.

In order to insure observance of limitations and restrictions placed on the use of the resources available, the accounts of the institution are maintained in accordance with the principles of "fund accounting." This accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

The Current Funds are used primarily to account for transactions which are expended in performing the primary and support objectives of the institution.

GULF COAST RESEARCH LABORATORY

Summary of Significant Accounting Policies  
For the Year Ended June 30, 1996

## GULF COAST RESEARCH LABORATORY

### Summary of Significant Accounting Policies For the Year Ended June 30, 1996

Current Funds consist of the following:

- A. The Unrestricted Fund which is used to account for:  
  
The appropriated budget as approved by the Mississippi State Legislature and the Board of Trustees of State Institutions of Higher Learning.
- B. The Restricted Fund which is used to account for Current Funds expended for operating purposes but restricted by donors or other outside agencies as to the specific purpose for which they may be expended.

Other funds consist of the following:

- A. The Plant Funds which are used to account for the transactions relating to institution physical properties include:
  - 1. The Unexpended Plant Fund which is comprised of amounts which have been appropriated or designated for the purchase of institution physical properties or the repair and maintenance of such physical properties.
  - 2. The Investment in Plant Fund which represents the total physical properties in service by the institution and all construction in progress as well as any associated liabilities.
- B. Agency Funds account for assets held by the institution as custodian or fiscal agent for others. Consequently, the transactions of this fund do not affect the statement of changes in fund balances.

## GULF COAST RESEARCH LABORATORY

### Notes to Financial Statements For the Year Ended June 30, 1996

(1) Financial Reporting Entity.

The operations and programs of Gulf Coast Research Laboratory, both educational and research, are managed and controlled by the University of Southern Mississippi. The President of the University of Southern Mississippi prepares and presents to the Board of Trustees of State Institutions of Higher Learning a proposed budget for Gulf Coast Research Laboratory. Included in operations and programs of Gulf Coast Research Laboratory are those of the Mississippi-Alabama Sea Grant Consortium.

On March 21, 1996, the Board of Trustees of State Institutions of Higher Learning created an Institute of Marine Sciences which would facilitate interaction and collaboration among formerly independent research and academic units at the University of Southern Mississippi, including Gulf Coast Research Laboratory, the Center for Marine Science at Stennis Center, the Department of Biological Sciences at the University of Southern Mississippi, and other academic units having an interest in the marine sciences.

The Board of Trustees of the Institutions of Higher Learning created the Institute of Marine Sciences by merging Gulf Coast Research Laboratory along with the laboratory's J. L. Scott Marine Education Center & Aquarium with the University of Southern Mississippi's Center for Marine Science at Stennis Space Center. Since Gulf Coast Research Laboratory is a separate body politic, the Director of the Institute is also the Director of Gulf Coast Research Laboratory, as directed by the Board of Trustees of State Institutions of Higher Learning. The laboratory's control and supervision is vested in the Board of Trustees of State Institutions of Higher Learning by Section 37-101-21, Miss. Code Ann. (1972). The Director of the Institute of Marine Sciences reports to the Vice President for Academic Affairs and Research and Planning of the University of Southern Mississippi.

(2) Appropriations - General Operations.

Gulf Coast Research Laboratory is a state supported institution that receives annual appropriations for operations from the state of Mississippi. The laws of the state and the policies and procedures specified by the state for state agencies and institutions are applicable to the activities of the institution.

(3) Accrued Leave.

Twelve-month employees earn annual personal leave at a rate of 12 hours per month for zero to three years of service; 14 hours per month for three to eight years of service; 16 hours per month for eight to 15 years of service; and from 15 years of service and over, 18 hours per month are earned. There is no requirement that annual leave be taken and there is no maximum accumulation. At termination, these employees are paid for up to 240 hours of accumulated annual leave.

The liability for accrued leave at June 30, 1996, as reported in the Current Funds, was \$416,542.

GULF COAST RESEARCH LABORATORY

Notes to Financial Statements  
For the Year Ended June 30, 1996

(4) Cash and Other Deposits.

For financial statement purposes cash and other deposits are represented by demand accounts and time deposits such as savings accounts, certificates of deposit and money market funds, U.S. Treasury bills and notes, discount notes, and repurchase agreements with a maturity of one year or less as of June 30, 1996. Also included in this account are imprest cash accounts held by the institution. The institution participates in the State of Mississippi Securities Pledged Collateral Pool (the Pool) which includes funds on deposit at the following bank:

- Hancock Bank

The Pool is monitored by the State Treasurer's Office. The carrying amount of cash deposits for all state entities participating in the Pool at June 30, 1996 was \$253,669,000 and the corresponding depository balances which are represented by collected funds were \$258,700,000. The portion of such depository balances covered by federal depository insurance or by collateral held by the institution's agent in the name of the institution was \$181,226,000. In addition, \$16,199,000 was collateralized with securities held by a pledging financial institution's agent in the entities name. The remaining \$61,275,000 was collateralized with securities held by a pledging financial institution or was uninsured and uncollateralized.

The following schedule presents the carrying amounts and depository balances for Gulf Coast Research Laboratory funds included in the State of Mississippi Securities Pledged Collateralization Pool. The schedule also presents information concerning funds held at depositories not included in the Pool, and the securities pledged as collateral for these funds. The depository balances include accrued interest.

	Carrying Amount	Depository Balance	Total	Securities Pledged as Collateral		
				(1)	(2)	(3)
Funds included in state collateral pool	\$ 1,202,423	1,727,188		(see explanation above regarding securities pledged - State of Mississippi Securities Pledged Collateralization Pool)		
Funds not included in state collateral pool	<u>82,082</u>	<u>83,948</u>	\$ <u>83,948</u>	<u>83,948</u>		
Totals	\$ <u>1,284,505</u>	<u>1,811,136</u>				

- (1) Funds were fully insured or collateralized with securities held by the institution or its agent in the name of the institution.
- (2) Funds were collateralized with securities held by a pledging financial institution's trust department or agent in the institution's name.
- (3) Funds were collateralized with securities held by a pledging financial institution or were uninsured and uncollateralized.

(5) Construction Commitments and Financing.

The institution has contracted for the construction of a dining hall. At June 30, 1996, estimated costs to complete the project are \$88,782. The remaining costs of \$53,170 are to be funded by state appropriations and \$35,612 by local funds.

## GULF COAST RESEARCH LABORATORY

### Notes to Financial Statements For the Year Ended June 30, 1996

(6) Pension Plan.

Plan Description. The institution 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 information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the institution is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirement of PERS members are established and may be amended only by the State of Mississippi Legislature. The institution's contributions to PERS for the years ending June 30, 1996, 1995 and 1994 were \$373,176, \$353,107 and \$320,872, respectively, equal to the required contributions for each year.

(7) Workers' Compensation Plan.

The institution participates in a self-funded Workers' Compensation Plan (the Plan) along with the public four-year universities of the state. The Plan exists in order to provide a mechanism for the State Institutions of Higher Learning (IHL) to fund and budget for the costs of providing Workers' Compensation benefits to eligible employees. The Plan does not pay benefits directly to employees. Rather, funds are set aside in trust and a third party Plan administrator is utilized to distribute the benefits to eligible employees. The assets of the Plan at June 30, 1996 were \$2,756,706.

A professionally licensed actuarial firm was contracted to prepare quarterly reports setting forth estimated reserves for the Plan. The June 30, 1996 quarterly report estimates that contingent liabilities exceeded Plan assets by \$2.235 million.

(8) Unemployment Trust Fund.

The institution participates in a self-funded Unemployment Trust Fund (the Fund) along with the public four-year universities of the state. The Fund exists in order to provide a mechanism for the State Institutions of Higher Learning (IHL) to fund and budget for the costs of providing unemployment compensation benefits to eligible former employees. The Fund does not pay benefits directly to former employees. Rather, it reimburses the Mississippi Employment Security Commission for benefits it pays directly to former IHL employees. The assets of the Fund at June 30, 1996 were \$806,346 and the liabilities were \$110,443.

A professional licensed actuarial firm was contracted to perform an actuarial analysis of the Fund as of June 30, 1996. They determined the recommended funding requirement as of June 30, 1996 is \$700,000 to \$1,000,000. Furthermore, they concluded that since the actual fund balance was \$695,903 and is, for practical purposes, equal to the lower end of the recommended range, that the Fund balance at June 30, 1996 is reasonable.

## GULF COAST RESEARCH LABORATORY

### Notes to Financial Statements For the Year Ended June 30, 1996

(9) Tort Liability Trust Fund.

The institution participates in a self-funded Tort Liability Trust Fund (the Trust Fund) along with the public four-year universities of the state. In accordance with Section 11-46 of Mississippi State Law, the Mississippi Tort Claims Board has authorized the Board of Trustees of State Institutions of Higher Learning (IHL Board) to establish a fund in order to self-insure a certain portion of its liability under the Mississippi Tort Claims Act. The IHL Board established the Trust Fund to provide for self-insurance.

Effective July 1, 1993, Mississippi statute permitted tort claims to be filed against the State Institutions of Higher Learning. A maximum limit of liability of \$50,000 per occurrence applies for claims or causes of action arising from acts or omissions occurring on or after July 1, 1993, but before July 1, 1997. There after the limit is increased to \$250,000 for the period July 1, 1997 through June 30, 2001, and is increased to \$500,000 after June 30, 2001.

The assets of the Trust Fund at June 30, 1996 were \$3,598,611 and the liabilities were \$1,882,100. A professionally licensed actuarial firm was contracted to perform an actuarial analysis of the Trust Fund as of June 30, 1996. They concluded that the program appears to be adequately funded with a margin of conservatism.

(10) Deferred Compensation Plan.

The institution, through the Mississippi Public Employees' Retirement System (PERS), offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the institution (without being restricted to the provisions of benefits under the plan), subject only to the claims of the institution's general creditors. Participants' rights under the plan are equal to those of general creditors of the institution in an amount equal to the fair market value of the deferred account for each participant.

The Mississippi Public Employees' Retirement System maintains the deferred compensation plan account in the name of the institution. The amount of assets held for participants employed by Gulf Coast Research Laboratory as of June 30, 1996, was \$409,467.

(11) Litigations.

On May 19, 1987, a \$3.5 million lawsuit was filed against Gulf Coast Research Laboratory by two employees who alleged racial discrimination as a reason for their dismissal. As of the date of this report, an opinion by the judge, rendering in favor of the plaintiffs, has been appealed to the Mississippi State Supreme Court. Final action is pending.

## GULF COAST RESEARCH LABORATORY

### Notes to Financial Statements For the Year Ended June 30, 1996

(12) Point Cadet Property.

On December 2, 1985, a lease agreement was entered into by and between the Board of Trustees of State Institutions of Higher Learning, for and on behalf of Gulf Coast Research Laboratory, a body politic and corporate authorized and existing under the laws of the State of Mississippi, Lessor, and the Point Cadet Development Corporation, Lessee. The Point Cadet Development Corporation acted for and in behalf of the City of Biloxi, Mississippi, the Biloxi Port Commission, and the Greater Biloxi Economic Development Foundation. The Point Cadet Development Corporation was the City of Biloxi's management corporation for its Waterfront Development Plan.

The term of the lease is for 99 years, commencing on January 1, 1986 and provides the method for calculating the rent for each calendar year. The lease also specifies that the Lessee shall submit to the Lessor on or before April 1 of each year, commencing April 1 of the calendar year next succeeding the commencement of the term of the lease, a certified report prepared by independent certified public accountants of recognized standing showing the net income, as defined, and the calculation of rent for the preceding calendar year, and at the time of submitting such report shall pay the Lessor the rent shown to be due by the report.

The lease provides that the rent shall be the greater of twenty percent (20%) of the net income from the development of the demised ground lease premises or the fair market rental value of the demised ground lease premises as determined and listed in the lease. Gulf Coast Research Laboratory has received, each year, the fair market rental value as provided in the lease.

(13) Cedar Point Property.

On November 27, 1995, the Board of Supervisors of Jackson County, Mississippi executed a warranty deed to the Board of Trustees of the State Institutions of Higher Learning, for the use and benefit of the University of Southern Mississippi and Gulf Coast Research Laboratory, deeding a certain tract or parcel of land situated in Jackson County, Mississippi, known as Cedar Point. As of the date of this report, the land has not been added to the assets of the University of Southern Mississippi or Gulf Coast Research Laboratory due to the fact that the transactions relating to the purchase and sale of the land by the Board of Supervisors of Jackson County, Mississippi is being questioned.

GULF COAST RESEARCH LABORATORY

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GULF COAST RESEARCH LABORATORY

SUPPLEMENTAL INFORMATION

GULF COAST RESEARCH LABORATORY  
Schedule of Federal Financial Assistance  
For the Year Ended June 30, 1996

	<u>CFDA NUMBER</u>	<u>DIRECT FEDERAL</u>	<u>FEDERAL FLOW- THROUGH</u>	<u>TOTAL REVENUES</u>	<u>TOTAL EXPENDITURES</u>
Major Programs					
Research:					
Department of Agriculture		\$			
USDA/Water Resources	10.001		7,249	7,249	8,283
Marine Shrimp Farming	10.200	740,592		740,592	744,033
Guayule Resins	10.200				1,050
U. S. Forest Service	10.652	797		797	796
Scientific and Technical Cooperation	10.963		2,000	2,000	357
Total Department of Agriculture		<u>741,389</u>	<u>9,249</u>	<u>750,638</u>	<u>754,519</u>
Department of Commerce					
Pearl River Striped Bass	11.405	45,455		45,455	51,182
IJ Monitoring and Assessment	11.407	7,697		7,697	7,697
Fisheries	11.407	51,268		51,268	62,427
Parasitology	11.407	13,038		13,038	13,166
Aquatic Environments	11.417				3,844
Cobia DNA	11.417				1
Blue Crab	11.417	37		37	9
Project Marine Discovery	11.417	16,510		16,510	23,367
Ocean & Coastal Processes	11.417	12,412		12,412	21,093
Global Environmental Education	11.417	25,839		25,839	20,045
Teacher Mini-Camps	11.417	49,009		49,009	55,032
Environmental Variation	11.417	14,114		14,114	14,243
Tidal Marsh Guide	11.417				4,201
Sea Grant Fellowship	11.417	5,042		5,042	5,388
Sea Grant	11.417	1,298,247		1,298,247	1,453,647
Snappers	11.433				1
Coastal Herring	11.433				5
Cobia Study	11.433	19,147		19,147	19,291
SEAMAP	11.435	102,917		102,917	102,047
Climate & Global Change	11.443	1,890		1,890	1,890
Total Department of Commerce		<u>1,662,622</u>		<u>1,662,622</u>	<u>1,858,576</u>

Department of Defense					
Minority Teachers	12.300				148
Navy Scholarship	12.300		5,000	5,000	931
Total Department of Defense			<u>5,000</u>	<u>5,000</u>	<u>1,079</u>
Department of Interior					
Striped Bass Growth	15.600	3,285		3,285	3,359
Cobia Project	15.605		36,775	36,775	38,132
Fish & Wildlife	15.605				27
Spotted Sea Trout	15.605				801
Coastal Wetlands	15.605				24
Red Drum	15.605		7,246	7,246	7,246
Striped Bass	15.605		21,850	21,850	23,837
Speckled Trout	15.605		137,892	137,892	135,025
Striped Bass Restoration	15.605		12,174	12,174	15,917
Blue Sucker/USF&W	15.608		8,216	8,216	8,370
Ecological Fauna	15.916	(719)		(719)	1,584
National Park Service	15.916	2,512		2,512	(1,012)
Other	N/A	12,094		12,094	9,105
Total Department of Interior		<u>17,172</u>	<u>224,153</u>	<u>241,325</u>	<u>242,415</u>
National Science Foundation					
NSF	47.051				9
Issues for Teachers	47.066	16,085		16,085	16,165
NSF/Biomarkers	47.074	8,385		8,385	4,825
Copper Metabolism	47.074		36,456	36,456	36,472
NSF/Minicamp	47.076	33,784		33,784	36,378
Total National Science Foundation		<u>58,254</u>	<u>36,456</u>	<u>94,710</u>	<u>93,849</u>
National Aeronautics and Space Administration					
Operation Pathfinder	43.001		49,099	49,099	49,558
Environmental Protection Agency					
EPA/Gulf of Mexico	66.500		11,000	11,000	14,935
Weeks Bay	66.502	92,211		92,211	97,794
Finfish	66.505				2,593
Contamination Workshop	66.505	859		859	405
Ecosystem Health	66.505				16
University of North Texas	66.505		66,915	66,915	99,972
EMAP	66.505	14,222		14,222	14,381
EPA/Bicavailability	66.505	46,137		46,137	46,143
EPA/Water Quality Assessment	66.505	27,769		27,769	27,752

	CFDA NUMBER	DIRECT FEDERAL	FEDERAL FLOW- THROUGH	TOTAL REVENUES	TOTAL EXPENDITURES
EPA/Endangered Species	66.505	33,413		33,413	45,056
Coral Reef Curriculum	66.505	3,479		3,479	3,497
EPA/EPSCOR	66.505	9,339		9,339	9,986
EMAP Benthic Analysis	66.505	71,701		71,701	71,701
EMAP University of Mississippi	66.505	100,817		100,817	100,817
EMAP Grain Size	66.505	12,992		12,992	12,841
EMAP Acid Volitivity	66.505	35,594		35,594	35,993
EMAP Statistics	66.505	65,692		65,692	65,692
EPA Mega Medaka	66.507	221,325		221,325	220,037
Other	N/A				67
Total Environmental Protection Agency		735,550	77,915	813,465	869,678
Department of Health and Human Services					
National Toxicology Program	93.143	375,327		375,327	379,254
Total Federal Financial Assistance		\$ 3,590,314	401,872	3,992,186	4,248,928

See accompanying Notes to Schedule of Federal Financial Assistance.

## GULF COAST RESEARCH LABORATORY

### Notes to Schedule of Federal Financial Assistance For the Year Ended June 30, 1996

#### A. Basis of Presentation.

The accompanying Schedule of Federal Financial Assistance (the schedule) has been generally prepared in the format as set forth in Statement of Position 92-9. The purpose of the schedule is to present a summary of those activities represented by Gulf Coast Research Laboratory for the year ended June 30, 1996, which have been financed by the U.S. Government (federal awards). For the purposes of the schedule, federal awards include all federal assistance and procurement relationships entered into directly between Gulf Coast Research Laboratory and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. Because the schedule presents only a selected portion of the activities of Gulf Coast Research Laboratory, it is not intended to and does not present either the financial position or the changes in fund balances of Gulf Coast Research Laboratory.

In accordance with Office of Management and Budget (OMB) Circular A-133, federal awards are classified as follows:

Major Programs - Total federal program expenditures which are the larger of three percent of total federal funds expended or \$100,000.

#### Research and Development

Other Federal Assistance - Federal awards that do not meet the definition of major programs.

Individual awards within each category of federal awards are identified by CFDA number and program name if the award is individually significant to the category of award. All other awards are presented in total by funding agency.

#### B. Revenue and Expenditure Recognition.

Revenue is recognized when received or when earned by the institution.

Deductions (expenditures) for direct costs are recognized as incurred using the accrual method of accounting and the cost accounting principles contained in the U.S. Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions. Under those cost principles, certain types of expenditures are not allowable or are limited as to reimbursement. Moreover, expenditures include a portion of costs associated with general institution activities (indirect costs) which are allocated to federal awards under negotiated formulas commonly referred to as indirect cost rates. Indirect costs and related revenues applicable to these cost recoveries are classified as unrestricted revenues and expenditures of the general purpose financial statements.

GULF COAST RESEARCH LABORATORY

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GULF COAST RESEARCH LABORATORY

COMPLIANCE REPORT ON MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

GULF COAST RESEARCH LABORATORY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## COMPLIANCE REPORT ON MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

November 5, 1997

Board of Trustees  
Institutions of Higher Learning  
Jackson, Mississippi

We have audited the balance sheet of Gulf Coast Research Laboratory as of June 30, 1996, the related statement of changes in fund balances, the statement of current fund revenues, expenditures and other changes and the schedule of federal financial assistance and have issued our report thereon dated November 5, 1997.

We have also audited Gulf Coast Research Laboratory's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; claims for advances and reimbursements; monitoring subrecipients; cost allocation; special requirements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 1996, and have issued our report thereon dated November 5, 1997. The management of Gulf Coast Research Laboratory is responsible for the institution's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States and OMB Circulars A-110 and A-133. Those standards and OMB Circulars A-110 and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the institution's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed instances of noncompliance with the requirements referred to above, which are described in the accompanying "Schedule of Findings and Recommendations." We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, Gulf Coast Research Laboratory complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort or earmarking; reporting; claims for advances and reimbursements; monitoring subrecipients; cost allocation; special requirements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1996.

This report is intended for the use of Gulf Coast Research Laboratory, the cognizant audit agency and other agencies. This restriction is not intended to limit the distribution of this report which is a matter of public record.

A handwritten signature in black ink that reads "Ramona Hill". The signature is written in a cursive style with a large initial "R" and a long, sweeping tail on the "l".

RAMONA HILL, CPA  
Director, Department of Audit

GULF COAST RESEARCH LABORATORY

REPORT ON INTERNAL CONTROL

GULF COAST RESEARCH LABORATORY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## REPORT ON INTERNAL CONTROL

November 5, 1997

Board of Trustees  
Institutions of Higher Learning  
Jackson, Mississippi

We have audited the balance sheet of Gulf Coast Research Laboratory as of June 30, 1996, the related statement of changes in fund balances, the statement of current fund revenues, expenditures and other changes and the schedule of federal financial assistance and have issued our report thereon dated November 5, 1997. We have also audited the institution's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated November 5, 1997.

We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circulars A-110 and A-133. Those standards and OMB Circulars A-110 and A-133 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the institution complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit for the year ended June 30, 1996, we considered the institution's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the institution's financial statements and on its compliance with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-133.

The management of Gulf Coast Research Laboratory is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

#### Accounting Controls

- Revenue/cash receipts
- Purchasing/cash disbursements
- Payroll
- Property control
- Journal vouchers/interdepartmental transactions

#### Administration of Federal Financial Assistance Programs

##### General Requirements

- Political activity
- Civil rights
- Cash management
- Drug-free workplace
- Financial reporting
- Allowable costs/cost principles
- Administrative requirements

##### Specific Requirements

- Types of services
- Eligibility
- Matching, level of effort
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures, determined whether they have been placed in operation and we assessed control risk.

For the year ended June 30, 1996, the institution expended 100% of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls as required by OMB Circular A-133 to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the institution's major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

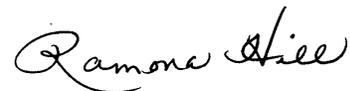
Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements or that could adversely affect the organization's ability to administer federal award programs in accordance with applicable laws and regulations.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited or that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected by employees in the normal course of performing their assigned functions.

We have identified three reportable conditions, none of which we consider to be a material weakness as defined in the preceding paragraph. These matters are included in the accompanying "Schedule of Findings and Recommendations."

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended for the use of Gulf Coast Research Laboratory, the cognizant audit agency and other agencies. This restriction is not intended to limit the distribution of this report which is a matter of public record.

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RAMONA HILL, CPA  
Director, Department of Audit

GULF COAST RESEARCH LABORATORY

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GULF COAST RESEARCH LABORATORY

MANAGEMENT REPORT

GULF COAST RESEARCH LABORATORY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## MANAGEMENT REPORT

November 5, 1997

Board of Trustees  
Institutions of Higher Learning  
Jackson, Mississippi

We have audited the balance sheet of Gulf Coast Research Laboratory as of June 30, 1996, the related statement of changes in fund balances, the statement of current fund revenues, expenditures and other changes and the schedule of federal financial assistance for the year then ended and have issued our report thereon dated November 5, 1997. We conducted our audit in accordance with generally accepted auditing standards; Government Auditing Standards issued by the Comptroller General of the United States; the provisions of OMB Circulars A-110 and A-133; the provisions of compliance features identified in the Department of Health and Human Services (DHHS) Guidelines for Audits of Federal Awards to Educational Institutions (guidelines); and the provisions of compliance features identified in the U.S. Department of Education Audit Guide for Student Financial Assistance Programs. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

### Laws and Regulations

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to Gulf Coast Research Laboratory is the responsibility of the institution's management. As part of our audit, we performed tests of the institution's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

The results of our tests indicate that for the items tested, Gulf Coast Research Laboratory had complied with those laws and regulations referred to above, noncompliance with which could have a material effect on the audited financial statements. For items not tested, nothing came to our attention that would lead us to believe Gulf Coast Research Laboratory had not complied with the laws and regulations, noncompliance with which could have a material effect on the audited financial statements.

## Compliance with Requirements of the Federal Financial Assistance Programs

### A. Compliance with Specific Requirements for Major Programs.

Summary of Transactions for Major Programs.

Research.	Number of Items	Total
Universe		\$ 4,248,928
Sample	46	440,606

For the items tested, we found instances of noncompliance with specific requirements of the major federal financial assistance programs which are described in the accompanying "Schedule of Findings and Recommendations."

### B. Compliance with General Requirements.

We have applied procedures to test Gulf Coast Research Laboratory's compliance with the following requirements applicable to each of its federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 1996:

1. Political activity
2. Drug-free workplace
3. Civil rights
4. Cash management
5. Financial reporting
6. Allowable costs/cost principles
7. Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Audits of Institutions of Higher Learning. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the institution's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no instances of noncompliance with the requirements listed in the preceding paragraph of this report and have identified these instances in the accompanying "Schedule of Findings and Recommendations." With respect to items not tested, nothing came to our attention that caused us to believe that Gulf Coast Research Laboratory had not complied with those requirements.

### State Laws and Regulations

During the course of our audit, we noted instances of noncompliance with state laws and regulations and have identified these instances in the accompanying "Schedule of Findings and Recommendations."

For items tested, other than the findings previously mentioned, the institution had complied with state laws and regulations. For items not tested, other than the findings previously mentioned, nothing came to our attention that would lead us to believe the institution had not complied with state laws and regulations.

### Follow-up on Prior Year Findings

Government Auditing Standards require the auditor to disclose the status of known but uncorrected significant or material findings from prior audits. Any findings noted in the previous audit that were not corrected are presented in the "Schedule of Findings and Recommendations."

This report is intended for the use of Gulf Coast Research Laboratory, the cognizant audit agency and other federal audit agencies. This restriction is not intended to limit the distribution of this report which is a matter of public record.

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RAMONA HILL, CPA  
Director, Department of Audit

GULF COAST RESEARCH LABORATORY

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GULF COAST RESEARCH LABORATORY

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

GULF COAST RESEARCH LABORATORY

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GULF COAST RESEARCH LABORATORY

Schedule of Findings and Recommendations  
For the Year Ended June 30, 1996

Internal Control

Reportable Conditions

1. Finding

As previously stated, our review of the internal control structure revealed the following:

- A. The same person requested, approved and received purchases.
- B. Passwords were not changed on a regular basis.

Recommendation

We recommend that the institution insure that the same person does not request, approve and receive purchases. Also, passwords should be changed periodically.

2. Finding

Our tests of revenue and cash receipts revealed that billings for the various types of accounts receivable accounts are not centralized nor made at regular intervals.

Recommendation

We recommend that the various billings of accounts receivable be centralized and made at regular intervals.

3. Finding

We noted that there is no detail listing of library books and reprints which supports the value of these fixed assets or the amount reported in the general ledger.

Recommendation

We recommend that the institution obtain a detail listing of library books and reprints supporting the value of these fixed assets as reported in the general ledger.

Specific Compliance with Major Federal Financial Assistance Programs

Finding

Our testing of technical reports for the Mississippi-Alabama Sea Grant College Program Grant #NA56RG0129 revealed that two technical reports due from subgrantees were filed untimely.

Recommendation

We recommend that the institution develop procedures to insure that technical reports are filed timely.

## GULF COAST RESEARCH LABORATORY

### Schedule of Findings and Recommendations For the Year Ended June 30, 1996

#### General Requirements

##### Finding

Our testing of financial reporting revealed the following:

- A. The final Financial Status Report (SF 269) for the USDA Marine Shrimp Farming Program (Cooperative Agreement #92-38808-6920) was filed 109 days late.
- B. The Financial Status Report (SF 269) for the EPA Mega Medaka Grant (Assistance ID No. CR816007-03-5) due November 14, 1996 has not been filed as of the date of this report.
- C. The Federal Cash Transactions Reports for the EPA Mega Medaka Grant (Assistance ID No. CR816007-03-5) due September 20, 1995, January 19, 1996, April 19, 1996 and July 19, 1996, respectively, were all filed untimely.

##### Recommendation

We recommend that the institution develop procedures to insure the timely filing of all financial reports.

#### State Laws and Regulations

##### Finding

Our test of accounts payable revealed that two invoices were not paid within the forty-five (45) day limit as set out in the purchasing laws of the State of Mississippi.

##### Recommendation

We recommend that the institution insure that accounts payables are paid within the forty-five (45) day limit as set out in the purchasing laws of the State of Mississippi.

#### Follow-up on Prior Year Finding

##### Finding

Our test of indirect costs revealed that for the USDA Marine Shrimp Farming Program (Cooperative Agreement #92-38808-6920) incorrect calculations resulted in over funding.

##### Recommendation

We recommend that the institution insure that indirect costs calculations are properly calculated.

##### Questioned Cost

\$2,263

GULF COAST RESEARCH LABORATORY  
DATA SHEET  
For the Year Ended June 30, 1996

Lead Auditor: Brent Ballard, CPA

Telephone Number: (601) 364-2720

Contact Person at Institution: Kris Fulton, Business Manager

Address of Contact: P. O. Box 7000  
703 East Beach Boulevard  
Ocean Springs, Mississippi 39564

Telephone Number of Contact: (601) 875-2244

The field audit work was performed between June 23, 1997 and November 5, 1997 at the institution's facilities as follows:

<u>Location</u>	<u>Description of Facility</u>	<u>Dates Visited</u>
Ocean Springs, Mississippi	Main Campus	6-23-97 - 11-5-97

Institution's Accrediting Organization: Southern Association of Colleges and Schools

GULF COAST RESEARCH LABORATORY

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