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**CITY OF OCEAN SPRINGS, MISSISSIPPI**

**ANNUAL FINANCIAL REPORT**

**YEAR ENDED SEPTEMBER 30, 2006**

CITY OF OCEAN SPRINGS, MISSISSIPPI  
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**INTRODUCTORY SECTION**

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**LIST OF MUNICIPAL OFFICIALS**  
For the Year Ended September 30, 2006

Mayor	Connie Moran
Alderman - At large	Julia Weaver
Alderman - Ward 1	John Gill
Alderman - Ward 2	Matt McDonnell
Alderman - Ward 3	Curtis Lloyd
Alderman - Ward 4	Greg Denyer
Alderman - Ward 5	Jerry Dalgo
Alderman - Ward 6	James Hagan
City Clerk	Adrienne Howell
City Attorney	John Edwards
Community Development & Planning	Donovan Scruggs
Parks and Recreation	Damian McKay
Fire Department	Mark Hare
Police Department	Kerry Belk
Public Works	Andre Kaufman
Human Resource/Risk Management	Jill McDonnell
Finance Department	Shelly Ferguson

## FINANCIAL SECTION

## **INDEPENDENT AUDITORS' REPORT**



**Wolfe • McDuff & Oppie**

**CERTIFIED PUBLIC ACCOUNTANTS**

(A Professional Association)

Jack A. Oppie, CPA  
C. Scott Rankin, CPA

Jason S. Keenum, CPA  
Delorise A. Larsen, CPA  
Jesse J. Wolfe, CPA (Retired)  
Grover B. McDuff, CPA (Retired)

3103 Pascagoula Street • Pascagoula, MS 39567 • Phone: 228-762-6343 • Fax: 228-762-4498 • [www.wmocpas.com](http://www.wmocpas.com)

## Independent Auditors' Report

Honorable Mayor and Board of Aldermen  
City of Ocean Springs  
Ocean Springs, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Ocean Springs, Mississippi's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows 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 November 14, 2007, on our consideration of the City of Ocean Springs, Mississippi'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

### 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



America Counts on CPAs

Independent Auditors' Report

Page 2

The Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 54 through 56 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Ocean Springs, Mississippi's basic financial statements. The required supplementary information section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Ocean Springs, Mississippi. A substantial portion of the schedule of expenditures of federal awards has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them. The required supplementary information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*Wolfe McDuff & Oppie*

Pascagoula, Mississippi

November 14, 2007

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

The discussion and analysis of the City of Ocean Springs' (the City's) financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2006. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the City's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the City's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

The City has implemented Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued June 1999. As discussed in Footnote 1, Statement No. 34 allows for certain transition treatments in regards to infrastructure.

### **FINANCIAL HIGHLIGHTS**

- In 2006 and 2005, the City's net assets amounted to \$46,187,104 and \$41,124,492, respectively. While the net assets for governmental activities totaled \$36,163,211 in 2006 and \$32,016,380 in 2005, contributing 78% of total net assets in 2006 and 78% in 2005; business-type activities contributed 22% in 2006 and 22% in 2005, totaling \$10,023,893 in 2006 and \$9,108,112 in 2005.
- General revenues for 2006 and 2005 were \$12,049,494 and \$8,928,193, respectively; equaling 53.07% and 49.53% respectively, of all revenues. Program specific revenues in the form of charges for services and grants and contributions were \$10,654,506 and \$9,098,473; equaling 47% and 50% respectively, of total revenues.
- In 2006 and 2005, the City had \$17,641,388 and \$16,215,766, respectively, in expenses; only \$10,654,506 and \$9,098,473 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$12,049,494 and \$8,928,193 were adequate to provide for these programs.
- Capital assets for 2006 and 2005, net of accumulated depreciation, totaled \$40,190,872 and \$39,231,589 respectively, which represented an increase of approximately 2%.

### **OVERVIEW OF FINANCIAL STATEMENTS**

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

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline both functions of the City and business-type activities. The governmental activities of the City include police and fire protection, parks, recreation, public works, community development and general administrative services. The business-type activities include water and sewer system.

The government-wide financial statements can be found on pages 17 and 18 of this report.

**Fund financial statements** – Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements are comprised of the following funds: governmental, proprietary (enterprise), and fiduciary funds.

**Notes to the financial statements** – The notes provide additional information that is essential to a user's understanding of the basic financial statements. The notes to the financial statements can be found on pages 31-52 of this report.

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

The City adopts an annual operating budget for all governmental funds. A Budgetary Comparison Statement has been provided for the General Fund. This required supplementary information can be found on pages 53-57 of this report.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Cir. A-133 and can be found on page 60 of this report.

### **Reporting the City's Most Significant Funds**

Fund financial statements begin on page 19 and provide detailed information about the most significant funds. Some funds are required to be established by State law. However, the Board establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

responsibilities for using certain taxes, grants and other money. The City's three types of funds are discussed below:

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current liquid resources, as well as on balances of liquid resources available at the end of the fiscal year. Such information may be useful in evaluating the City's current financing requirements. Governmental funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can easily be converted to cash. The governmental funds financial statements provide a detailed short-term view of the City's operations. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's current financing decisions. Governmental funds include the General Fund and the Emergency Disaster – Katrina Fund. Other non-major capital project funds, debt service and special revenue funds are combined into a single column on the governmental fund financial statements. The Statement of Net Assets and the Statement of Activities provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 22 and 24, respectively.

**Proprietary funds** – When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same manner that all activities are reported in the Statement of Net Assets and the Statement of Activities. Proprietary funds include the Water Fund and the Sewer Fund. Other nonmajor proprietary funds include the Utility Capital Asset Fund, Water Maintenance Reserve Fund and Utility Sewer Deposit Fund, which are combined into a single column on the proprietary fund financial statements. These funds are the same as the business-type activities reported in the government-wide financial statements but provide more detail and additional information, such as cash flows. The accrual basis of accounting is used for proprietary funds.

**Fiduciary funds** – Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. There are four fiduciary funds types, but the City only utilizes the Agency Fund type. This fund type is used to report resources held in a purely custodial capacity for individuals or organizations outside the reporting government. The reporting government's only responsibility is to hold the assets and remit them to the individuals or organizations that own them. Assets equal liabilities and there are no "operations" to report. These funds include: School District Taxes, Tax Sale and Redemption, Payroll Clearing and Flexible Medical Spending.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets** – Net assets may serve over time as a useful indicator of government's financial position. The following table presents a summary of the City's net assets for the fiscal years ended September 30, 2006 and 2005.

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

**Table 1: Condensed Statements of Net Assets**  
**As of September 30, 2006**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Current and other assets	\$ 14,158,577	\$ 5,850,440	\$ 3,945,488	\$ 3,435,934	\$ 18,104,065	\$ 9,286,374
Capital assets, net	29,736,364	29,065,050	10,454,508	10,166,539	40,190,872	39,231,589
Total assets	43,894,941	34,915,490	14,399,996	13,602,473	58,294,937	48,517,963
Other liabilities	4,603,741	1,338,709	1,288,501	1,093,350	5,892,242	2,432,059
Long-term liabilities	3,127,989	1,560,401	3,087,602	3,401,011	6,215,591	4,961,412
Total liabilities	7,731,730	2,899,110	4,376,103	4,494,361	12,107,833	7,393,471
Net assets:						
Invested in capital assets, net of related debt	24,351,822	27,944,376	6,983,436	6,384,217	31,335,258	34,328,593
Restricted	3,493,436	1,723,394	487,308	452,093	3,980,744	2,175,487
Unrestricted	8,317,953	2,348,610	2,553,149	2,271,802	10,871,102	4,620,412
Total net assets	\$ 36,163,211	\$ 32,016,380	\$ 10,023,893	\$ 9,108,112	\$ 46,187,104	\$ 41,124,492

The City's restricted net assets accounted for 9% of total net assets in 2006, and 5% in 2005. Investment in capital assets (e.g. land, construction in progress, buildings, equipment, and infrastructure) net of debt accounted for 68% and 83%, respectively. The remaining balance consisted of unrestricted net assets, the part of net assets used to finance everyday operations without constraints of legal requirements.

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

- The City experienced an increase of approximately 42% in sales tax revenue during the year.
- The City also experienced an increase of approximately 32% in grant revenue, primarily due to Hurricane Katrina.
- The City was issued approximately \$4 million in debt obligations for assistance in operating expenses following Hurricane Katrina.

**Changes in net assets** – The City's total revenues for the fiscal years ended September 30, 2006 and 2005 were \$22,704,000 and \$18,026,666, respectively. The total cost of all programs and services was \$17,641,388 and \$16,146,536. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2006 and 2005.

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

**Table 2: Condensed Statements of Activities**  
**For the Years Ended September 30, 2006 and 2005**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Totals</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenues</b>						
Program revenues						
Fees, fines and charges for services	\$ 2,143,562	\$ 1,987,083	\$ 3,912,846	\$ 3,915,583	\$ 6,056,408	\$ 5,902,666
Operating grants and contributions	1,543,782	1,895,310	-	-	1,543,782	1,895,310
Capital grants and contributions	<u>2,840,632</u>	<u>239,496</u>	<u>213,684</u>	<u>1,061,001</u>	<u>3,054,316</u>	<u>1,300,497</u>
Total program revenues	<u>6,527,976</u>	<u>4,121,889</u>	<u>4,126,530</u>	<u>4,976,584</u>	<u>10,654,506</u>	<u>9,098,473</u>
General revenues						
Property taxes	4,119,034	3,468,300	-	-	4,119,034	3,468,300
Franchise taxes	834,841	706,595	-	-	834,841	706,595
Public service taxes	6,391,281	4,305,248	-	-	6,391,281	4,305,248
Other general revenues	<u>570,566</u>	<u>374,031</u>	<u>133,772</u>	<u>74,019</u>	<u>704,338</u>	<u>448,050</u>
Total general revenues	<u>11,915,722</u>	<u>8,854,174</u>	<u>133,772</u>	<u>74,019</u>	<u>12,049,494</u>	<u>8,928,193</u>
Total revenues	<u>18,443,698</u>	<u>12,976,063</u>	<u>4,260,302</u>	<u>5,050,603</u>	<u>22,704,000</u>	<u>18,026,666</u>
<b>Program expenses</b>						
General government	2,423,445	2,283,806	-	-	2,423,445	2,283,806
Public safety	4,690,989	4,393,252	-	-	4,690,989	4,393,252
Public works	5,594,784	4,138,529	-	-	5,594,784	4,138,529
Culture and recreation	1,275,126	1,286,271	-	-	1,275,126	1,286,271
Community development	586,315	551,951	-	-	586,315	551,951
Non-departmental	214,617	218,073	-	-	214,617	218,073
Debt service - interest	61,611	49,482	-	-	61,611	49,482
Water fund	-	-	975,114	1,397,936	975,114	1,397,936
Sewer fund	-	-	1,819,387	1,827,236	1,819,387	1,827,236
Total program expenses	<u>14,846,887</u>	<u>12,921,364</u>	<u>2,794,501</u>	<u>3,225,172</u>	<u>17,641,388</u>	<u>16,146,536</u>
Changes in net assets	3,596,811	54,699	1,465,801	1,825,431	5,062,612	1,880,130
Transfers in (out)	<u>550,020</u>	<u>344,700</u>	<u>(550,020)</u>	<u>(344,700)</u>	-	-
Increase in net assets	<u>\$ 4,146,831</u>	<u>\$ 399,399</u>	<u>\$ 915,781</u>	<u>\$ 1,480,731</u>	<u>\$ 5,062,612</u>	<u>\$ 1,880,130</u>

**Governmental activities**

The following table presents the cost of major City functional activities: general government, public safety, public works, culture and recreation, community development and debt service-interest. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and City's taxpayers by each of these functions.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

	<b>Governmental Activities</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
General government	\$ 2,423,445	\$ 2,545,373	\$ 2,283,806	\$ (281,959)
Public safety	4,690,989	(3,503,415)	4,393,252	(3,891,161)
Public works	5,594,784	(5,325,243)	4,138,529	(3,121,775)
Culture and recreation	1,275,126	(1,250,126)	1,286,271	(747,574)
Community development	586,315	(509,272)	551,951	(489,451)
Non-departmental	214,617	(214,617)	218,073	(218,073)
Debt service - interest	61,611	(61,611)	49,482	(49,482)
<b>Total expenses</b>	<b>\$ 14,846,887</b>	<b>\$ (8,318,911)</b>	<b>\$ 12,921,364</b>	<b>\$ (8,799,475)</b>

**Business-type activities**

The City's business-type activities generated a change in net assets of \$915,781. This represents a decrease of approximately \$565,000 from the previous year. The disruption of services due to Hurricane Katrina was partially responsible for this decrease.

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

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

- As the City completed the year, its governmental funds reported a combined fund balance of \$12,535,318, compared to \$4,734,456 in prior year. The general fund balance represented 63% and 62% of the fund balances, respectively.

**General Fund Budgetary Highlights**

Over the course of the year, adjustments made in the budget were minor. The changes were due to the following: 1) amendments were made shortly after the beginning of the year, 2) the Board made changes in the middle of the year to prevent shortages from the addition or extension of service contracts, or 3) Board approved several increases in appropriations to prevent budget overruns and to recognize receipt of funds not expected.

With these adjustments, the actual expenditures were \$10,184,114 compared to \$10,484,733 of the budget. A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report in Section III as required supplementary information.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
As of September 30, 2006

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – The City's total capital assets for 2006 and 2005 were \$40,190,872 and \$39,231,589, respectively. The City mainly invested in infrastructure improvements for the area. The following table presents a summary of the City's net assets for the fiscal years ended September 30, 2006 and 2005.

**Capital Assets at Year End (Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Land	\$ 2,646,794	\$ 2,616,794	\$ 29,413	\$ 29,413	\$ 2,676,207	\$ 2,646,207
Construction in progress	3,134	145,849	1,414,833	1,067,595	1,417,967	1,213,444
Buildings	3,842,908	3,924,852	6,663	7,805	3,849,571	3,932,657
Improvements	602,108	1,203,278	8,849,074	8,793,385	9,451,182	9,996,663
Equipment	1,111,170	104,932	154,525	268,341	1,265,695	373,273
Infrastructure	21,530,250	21,069,345	-	-	21,530,250	21,069,345
Total	<u>\$ 29,736,364</u>	<u>\$ 29,065,050</u>	<u>\$ 10,454,508</u>	<u>\$ 10,166,539</u>	<u>\$ 40,190,872</u>	<u>\$ 39,231,589</u>

This year's major projects included:

<b>Primary Government</b>	<b>Expended Through 09/30/06</b>	<b>Remaining Commitment</b>
Governmental Activities:		
Forest Hill Drainage (Site 1 & 2)	\$ 3,134	\$ 121,866
Business-type Activities:		
Sewer Improvements	\$ 1,414,833	833,153

More detailed information about the City's capital assets is presented in Note 3(D) to the financial statements.

**CITY OF OCEAN SPRINGS, MISSISSIPPI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
As of September 30, 2006**

**Debt Administration**

At September 30, 2006, the City had approximately \$9,703,900 in general obligation bonds and other long-term debt outstanding, of which \$3,488,309 is due within one year.

	<b>Outstanding Debt at Year Ended September 30,</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
General obligation bonds (backed by the City)	4,794,353	1,020,150	-	-	4,794,353	1,020,150
Revenue bonds and notes (backed by specific tax and fee revenues)	-	-	3,471,072	3,782,322	3,471,072	3,782,322
Other liabilities	1,332,477	796,874	105,998	90,332	1,438,475	887,206
Totals	<u>6,126,830</u>	<u>1,817,024</u>	<u>3,577,070</u>	<u>3,872,654</u>	<u>9,703,900</u>	<u>5,689,678</u>

More detailed information about the City's long-term liabilities is presented in Note 3 (F) to the financial statements.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

On August 29, 2005, the City was severely impacted by Hurricane Katrina. The City is in the process of rebuilding, which will be the case over the next several years. The City anticipates the use of federal grants, insurance reimbursements and loans to help with the costs.

The City's elected and appointed officials considered many factors when setting the fiscal-year 2006 budget, tax rates, and fees to be charged for business-type activities. The local economy is slowly recovering from the loss of several major industries and revenues loss due to Hurricane Katrina, but the prospects for new industries are improving.

These indicators were taken into account when adopting the General Fund budget for 2007. Amounts available for appropriation in the General Fund budget are \$20,411,069, an increase of approximately 35% over the final 2006 budget of \$15,136,845. Charges for services and federal and state grants are expected to play a significant part of the increase. Budgeted expenditures are expected to increase approximately 72%, to \$18,049,054 from \$10,484,733 in 2006. Increased wages and capital costs are the largest increments.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shelly Ferguson, City Clerk, at City Hall, 1018 Porter Avenue, Ocean Springs, Mississippi, 39566-1800. Phone (228) 875-4236.

## **BASIC FINANCIAL STATEMENTS**

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
For the Year Ended September 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,057,288	\$ 2,355,195	\$ 12,412,483
Receivables, net	3,532,623	888,994	4,421,617
Due from Fiduciary fund	80,131	4,446	84,577
Internal balances	(114,972)	114,972	-
Prepaid expenses	56,262	40,511	96,773
Other assets	17,760	-	17,760
Restricted assets:			
Cash and cash equivalents	529,485	541,370	1,070,855
Capital assets:			
Land and construction in progress	2,649,928	1,444,246	4,094,174
Other capital assets, net of accumulated depreciation	27,086,436	9,010,262	36,096,698
Total capital assets	29,736,364	10,454,508	40,190,872
Total assets	43,894,941	14,399,996	58,294,937
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	935,560	245,945	1,181,505
Customer and escrow deposits	39,833	553,088	592,921
Deferred revenues	629,507	-	629,507
Long-term liabilities:			
Due within one year:			
Bonds and capital leases	2,963,951	487,308	3,451,259
Compensated absences	34,890	2,160	37,050
Due in more than one year:			
Bonds and capital leases	2,420,591	2,983,764	5,404,355
Compensated absences	707,398	103,838	811,236
Total liabilities	7,731,730	4,376,103	12,107,833
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	24,351,822	6,983,436	31,335,258
Restricted for debt service	2,963,951	487,308	3,451,259
Restricted for other purposes	529,485	-	529,485
Unrestricted	8,317,953	2,553,149	10,871,102
Total net assets	\$ 36,163,211	\$ 10,023,893	\$ 46,187,104

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**GOVERNMENT - WIDE STATEMENT OF ACTIVITIES**  
For the Year Ended September 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Governmental activities:</b>							
General government	\$ 2,423,445	\$ 1,674,838	\$ 1,449,559	\$ 1,844,421	\$ 2,545,373	\$ -	\$ 2,545,373
Public safety	4,690,989	468,724	69,223	649,627	(3,503,415)	-	(3,503,415)
Public works	5,594,784	-	-	269,541	(5,325,243)	-	(5,325,243)
Culture and recreation	1,275,126	-	25,000	-	(1,250,126)	-	(1,250,126)
Community development	586,315	-	-	77,043	(509,272)	-	(509,272)
Non-departmental	214,617	-	-	-	(214,617)	-	(214,617)
Interest and fiscal charges	61,611	-	-	-	(61,611)	-	(61,611)
Total governmental activities	<u>14,846,887</u>	<u>2,143,562</u>	<u>1,543,782</u>	<u>2,840,632</u>	<u>(8,318,911)</u>	<u>-</u>	<u>(8,318,911)</u>
<b>Business-type activities:</b>							
Water fund	975,114	1,567,889	-	-	-	592,775	592,775
Sewer fund	<u>1,819,387</u>	<u>2,344,957</u>	<u>-</u>	<u>213,684</u>	<u>-</u>	<u>739,254</u>	<u>739,254</u>
Total business-type activities	<u>2,794,501</u>	<u>3,912,846</u>	<u>-</u>	<u>213,684</u>	<u>-</u>	<u>1,332,029</u>	<u>1,332,029</u>
Total primary government	<u>\$ 17,641,388</u>	<u>\$ 6,056,408</u>	<u>\$ 1,543,782</u>	<u>\$ 3,054,316</u>	<u>(8,318,911)</u>	<u>1,332,029</u>	<u>(6,986,882)</u>
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purposes					4,119,034	-	4,119,034
Franchise fees					834,841	-	834,841
Intergovernmental revenues					6,391,281	-	6,391,281
Interest earnings					278,896	133,772	412,668
Miscellaneous					291,670	-	291,670
Transfers					550,020	(550,020)	-
Total general revenues					<u>12,465,742</u>	<u>(416,248)</u>	<u>12,049,494</u>
<b>Change in net assets</b>					4,146,831	915,781	5,062,612
Net assets - beginning of year					<u>32,016,380</u>	<u>9,108,112</u>	<u>41,124,492</u>
Net assets - end of year					<u>\$ 36,163,211</u>	<u>\$ 10,023,893</u>	<u>\$ 46,187,104</u>

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

## **FUND FINANCIAL STATEMENTS**

## **GOVERNMENTAL FUNDS FINANCIAL STATEMENTS**

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2006

	<b>Major Funds</b>			
	<b>General Fund</b>	<b>Emergency Disaster - Katrina</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 7,234,270	\$ 327,926	\$ 2,495,092	\$ 10,057,288
Restricted cash and cash equivalents	-	529,485	-	529,485
Receivables, net	1,530,817	1,929,412	72,394	3,532,623
Due from Fiduciary funds	77,228	-	2,903	80,131
Due from other funds	24,658	21,524	263,260	309,442
Prepaid expenses	56,262	-	-	56,262
Other assets	1,983	15,515	262	17,760
<b>Total assets</b>	<b>\$ 8,925,218</b>	<b>\$ 2,823,862</b>	<b>\$ 2,833,911</b>	<b>\$ 14,582,991</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 595,563	\$ 272,268	\$ 51,198	\$ 919,029
Compensated absences	33,275	-	1,615	34,890
Customer deposits	39,833	-	-	39,833
Due to other funds	409,211	6,594	8,609	424,414
Deferred revenues	-	-	629,507	629,507
<b>Total liabilities</b>	<b>1,077,882</b>	<b>278,862</b>	<b>690,929</b>	<b>2,047,673</b>
<b>Fund balances:</b>				
Reserved for:				
Debt service	-	-	207,154	207,154
Unreserved, reported in:				
General fund	7,847,336	-	-	7,847,336
Special revenue funds	-	2,545,000	1,164,469	3,709,469
Capital project funds	-	-	771,359	771,359
<b>Total fund balances</b>	<b>7,847,336</b>	<b>2,545,000</b>	<b>2,142,982</b>	<b>12,535,318</b>
<b>Total liabilities and fund balances</b>	<b>\$ 8,925,218</b>	<b>\$ 2,823,862</b>	<b>\$ 2,833,911</b>	<b>\$ 14,582,991</b>

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

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO STATEMENT OF NET ASSETS**  
For the Year Ended September 30, 2006

**Total governmental funds balance** **\$ 12,535,318**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Governmental capital assets	\$ 62,595,522	
less: accumulated depreciation	<u>(32,859,158)</u>	29,736,364

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:

Accrued interest payable	(16,531)
Governmental bonds and notes payable	(5,384,542)
Compensated absences	<u>(707,398)</u>

**Net assets of governmental activities** **\$ 36,163,211**

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

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
For the Year Ended September 30, 2006

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Emergency Disaster - Katrina</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Property taxes	\$ 3,392,729	\$ -	\$ 726,305	\$ 4,119,034
Franchise fees	834,841	-	-	834,841
Fees and fines	467,020	-	1,704	468,724
Licenses and permits	314,268	-	-	314,268
Intergovernmental	6,324,401	-	66,879	6,391,280
Charges for services	1,360,570	-	-	1,360,570
Investment earnings	209,590	-	69,305	278,895
Loan proceeds	1,410,121	2,545,000	-	3,955,121
Grants	260,860	2,899,118	829,574	3,989,552
Miscellaneous	154,512	60,771	612,263	827,546
Total revenues	<u>14,728,912</u>	<u>5,504,889</u>	<u>2,306,030</u>	<u>22,539,831</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,569,658	-	24,085	1,593,743
Public safety	4,444,779	2,827,551	44,757	7,317,087
Public works	2,628,944	-	90	2,629,034
Culture and recreation	977,294	-	127,037	1,104,331
Community development	582,603	-	-	582,603
Non-departmental	214,617	-	-	214,617
Debt service:				
Principal payments	22,397	-	204,732	227,129
Interest and fiscal charges	18,620	-	35,872	54,492
Capital outlay	168,930	206,088	1,382,062	1,757,080
Total expenditures	<u>10,627,842</u>	<u>3,033,639</u>	<u>1,818,635</u>	<u>15,480,116</u>
Excess of revenues over expenditures	<u>4,101,070</u>	<u>2,471,250</u>	<u>487,395</u>	<u>7,059,715</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Contribution in aid	321,113	73,750	-	394,863
Aid to other government	-	-	(203,736)	(203,736)
Transfers in	477,551	-	72,469	550,020
Total other financing sources (uses)	<u>798,664</u>	<u>73,750</u>	<u>(131,267)</u>	<u>741,147</u>
Net changes in fund balances	4,899,734	2,545,000	356,128	7,800,862
Fund balance - beginning of year	2,947,602	-	1,786,854	4,734,456
Fund balance - end of year	<u>\$ 7,847,336</u>	<u>\$ 2,545,000</u>	<u>\$ 2,142,982</u>	<u>\$ 12,535,318</u>

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

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
 STATEMENT OF ACTIVITIES**  
 For the Year Ended September 30, 2006

**Net change in fund balances - total governmental funds** **\$ 7,800,862**

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	\$	1,307,061	
Depreciation		<u>(605,471)</u>	
Excess of capital outlay over depreciation expenses			701,590

Governmental funds do not report the loss on disposal of capital assets. However, in the statement of activities, the original cost of the disposed assets less their accumulated depreciation is recorded as a loss. (30,279)

In the statement of activities, interest expense is accrued on outstanding loans, whereas in the governmental funds, an interest expenditure is reported when due. (7,119)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 227,129

The proceeds of new debt is reported as revenue in the governmental funds, but as a long-term liability in the statement of net assets. (4,490,996)

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 the funds -  
 Compensated absences payable (54,356)

**Changes in net assets of governmental activities** **\$ 4,146,831**

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

## PROPRIETARY FUNDS FINANCIAL STATEMENTS

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**  
For the Year Ended September 30, 2006

	<u>Major Funds</u>		<u>Non Major Funds</u>	<u>Total Proprietary Funds</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,089,513	\$ 1,158,076	\$ 107,606	\$ 2,355,195
Restricted cash and cash equivalents	-	-	541,370	541,370
Accounts receivable, net	211,012	677,982	-	888,994
Due from Fiduciary fund	2,669	1,777	-	4,446
Due from other funds	-	54,380	85,958	140,338
Prepaid expenses	20,256	20,255	-	40,511
Total current assets	<u>1,323,450</u>	<u>1,912,470</u>	<u>734,934</u>	<u>3,970,854</u>
Noncurrent assets:				
Capital assets:				
Land and construction in progress	24,059	1,420,187	-	1,444,246
Water and sewer plants	9,981,589	7,093,549	-	17,075,138
Buildings and equipment	478,479	612,759	-	1,091,238
Less accumulated depreciation	(4,905,660)	(4,250,454)	-	(9,156,114)
Total noncurrent assets	<u>5,578,467</u>	<u>4,876,041</u>	<u>-</u>	<u>10,454,508</u>
Total assets	<u>6,901,917</u>	<u>6,788,511</u>	<u>734,934</u>	<u>14,425,362</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	128,532	116,992	422	245,946
Compensated absences payable	282	1,878	-	2,160
Due to other funds	25,300	-	66	25,366
Bonds and notes payable	110,521	376,787	-	487,308
Total current liabilities	<u>264,635</u>	<u>495,657</u>	<u>488</u>	<u>760,780</u>
Noncurrent liabilities				
Deposits and escrow	-	-	553,088	553,088
Compensated absences	45,127	58,711	-	103,838
Bonds, notes and loans payable	2,407,566	576,198	-	2,983,764
Total noncurrent liabilities	<u>2,452,693</u>	<u>634,909</u>	<u>553,088</u>	<u>3,640,690</u>
Total liabilities	<u>2,717,328</u>	<u>1,130,566</u>	<u>553,576</u>	<u>4,401,470</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	3,060,380	3,923,056	-	6,983,436
Unrestricted	1,124,209	1,734,889	181,359	3,040,457
Total net assets	<u>\$ 4,184,589</u>	<u>\$ 5,657,945</u>	<u>\$ 181,359</u>	<u>\$ 10,023,893</u>

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS**  
**PROPRIETARY FUNDS**  
For the Year Ended September 30, 2006

	<u>Major Funds</u>			<u>Total</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Non Major</u>	<u>Proprietary</u>
			<u>Funds</u>	<u>Funds</u>
<b>OPERATING REVENUES</b>				
Charges for services	\$ 1,567,889	\$ 2,344,957	\$ -	\$ 3,912,846
Grants	-	213,684	-	213,684
Total operating revenues	1,567,889	2,558,641	-	4,126,530
<b>OPERATING EXPENSES</b>				
Personnel services	329,140	384,796	-	713,936
Administrative expenses	115,301	106,083	-	221,384
Wastewater treatment	-	956,627	-	956,627
Uncollectible accounts	261	21,070	-	21,331
Utilities	124,217	82,166	-	206,383
Depreciation	94,604	79,640	-	174,244
Other services and charges	269,158	182,049	-	451,207
Total operating expenses	932,681	1,812,431	-	2,745,112
Operating income	635,208	746,210	-	1,381,418
<b>NONOPERATING REVENUES</b>				
<b>(EXPENSES)</b>				
Interest and investment revenue	49,979	59,243	24,550	133,772
Loss on disposals	-	(3,374)	-	(3,374)
Interest expense	(42,433)	(3,582)	-	(46,015)
Transfers out	(276,510)	(273,510)	-	(550,020)
Total operating revenues (expenses)	(268,964)	(221,223)	24,550	(465,637)
Changes in net assets	366,244	524,987	24,550	915,781
Total net assets - beginning of year	3,818,345	5,132,958	156,809	9,108,112
Total net assets - end of year	<u>\$ 4,184,589</u>	<u>\$ 5,657,945</u>	<u>\$ 181,359</u>	<u>\$ 10,023,893</u>

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

**CITY OF OCEAN SPRINGS, MISSISSIPPI**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS**  
For the Year Ended September 30, 2006

	<u>Major Funds</u>			<u>Total Proprietary Funds</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Non Major Funds</u>	
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 1,674,430	\$ 2,306,195	\$ 100,994	\$ 4,081,619
Payments to suppliers	(439,356)	(1,319,914)	-	(1,759,270)
Payments to employees	(320,596)	(377,674)	-	(698,270)
Internal activity-payments to other funds	(81,440)	(69,133)	-	(150,573)
Other receipts (payments)	492	153	-	645
Net cash provided (used) by operating activities	833,530	539,627	100,994	1,474,151
<b>Cash flows from noncapital financing activities</b>				
Transfers to other funds	(276,510)	(273,510)	-	(550,020)
Net cash provided (used) in capital and related financing activities	(276,510)	(273,510)	-	(550,020)
<b>Cash flows from capital and related financing activities</b>				
Gain (Loss) on disposal of assets	-	(3,374)	-	(3,374)
Purchases of capital assets	-	(478,211)	-	(478,211)
Principal paid on capital debt	(314,072)	(2,511)	-	(316,583)
Interest paid on capital debt	(42,433)	(3,582)	-	(46,015)
Net cash provided (used) by capital and related financing activities	(356,505)	(487,678)	-	(844,183)
<b>Cash flows from investing activities</b>				
Interest received	49,979	59,243	24,550	133,772
Net cash provided by investing activities	49,979	59,243	24,550	133,772
<b>Net increase (decrease) in cash and cash equivalents</b>	250,494	(162,318)	125,544	213,720
Cash and cash equivalents:				
Beginning of the year	839,019	1,320,394	523,432	2,682,845
End of the year	\$ 1,089,513	\$ 1,158,076	\$ 648,976	\$ 2,896,565
<b>Reconciliation of operating income to net cash provided by operating activities</b>				
Operating income	\$ 635,208	\$ 746,210	\$ -	\$ 1,381,418
Adjustments to reconcile operating income to net cash providing by operating activities:				
Depreciation	94,604	79,640	-	174,244
Uncollectible accounts	261	21,070	-	21,331
Changes in assets and liabilities:				
Receivables, net	106,541	(252,445)	-	(145,904)
Due from other funds	(81,440)	(69,133)	-	(150,573)
Prepaid expenses	492	153	-	645
Accounts and other payables	69,320	7,011	-	76,331
Customer deposits	-	-	100,995	100,995
Compensated absences	8,544	7,122	-	15,666
Net cash provided by operating activities	\$ 833,530	\$ 539,628	\$ 100,995	\$ 1,474,153

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

## FIDUCIARY FUNDS FINANCIAL STATEMENT

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**STATEMENT OF NET ASSETS**  
**FIDUCIARY FUNDS**  
For the Year Ended September 30, 2006

	<u><b>Tax Collector Clearing Fund</b></u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 475,726
Due from other governments	<u>319,500</u>
Total assets	<u>795,226</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	503,687
Escrow deposits	<u>176,528</u>
Total liabilities	<u>680,215</u>
<b>NET ASSETS</b>	
Held in trust for other purposes	<u><u>\$ 115,011</u></u>

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

## NOTES TO FINANCIAL STATEMENTS

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Ocean Springs, Mississippi was incorporated on September 10, 1892. The City operates under a Mayor-Alderman form of government and provides the following services as authorized by its charter: public safety, public works, culture, recreation and water and sewer system.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements and the fund financial statements for the proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. For enterprise funds, GASB Statement Nos. 20 and 34 provide the City with the option to electing to apply FASB pronouncements issued after that date. The City has chosen not to apply those pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

**A. Financial Reporting Entity**

These financial statements present the City (the primary government) only. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Ocean Springs has no component units.

The Ocean Springs Municipal Separate School District has been excluded from the reporting entity because it is an "other stand-alone government". The School District is a related organization of, but not a component unit of the City of Ocean Springs. The governing authorities of the City do select a majority of the School District's Board, but do not have ongoing financial accountability for the school district.

In addition, management has determined that the City is related to the Jackson County Utility Authority, Jackson County, Mississippi, through the existence of a joint venture arrangement.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

A joint venture is a legal entity or other organization that results from a contractual arrangement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Generally, the purpose of a joint venture is to pool resources and share the costs; risks and rewards of providing goods or services to the venture participants directly, or for the benefit of the general public or specific recipients.

In addition, management has identified one jointly governed organization, the Jackson-George Regional Library System. A jointly governed organization is similar in nature to a joint venture in that it provides goods and services to the citizens of two or more governments. However, it does not meet the definition of a joint venture because there is no ongoing significant financial interest or responsibility by the participating governments.

**B. Basic Financial Statements-Government-wide statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, recreation, public works, garbage collection, and general administrative services are classified as governmental activities. The City's water, sewer, & gas services are classified as business-type activities.

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis, and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts: invested in capital assets, net of related debt; restricted net assets and unrestricted net assets. The City first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (public safety, public works, culture and recreation, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits, and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating and capital grants. Program revenues must be directly associated with the function (police, public works, community and youth services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc.). The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**C. Basic Financial Statements-Fund Financial Statements**

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenue and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

The following fund types are used by the City:

**Governmental Funds:**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City.

1. **General fund** is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
2. **Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. These funds include: Tourism, Parks and Recreation, Library, Fines & forfeitures, Residential Area Park, Municipal reserves, Fire protection, and Emergency Disaster Funds.
3. **Debt service funds** are used to account for the accumulation of funds for the periodic payment of principal and interest on general long-term debt. These funds include: General obligations and School general obligations.
4. **Capital projects funds** are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds). These funds include: Annexation, Mary C. O'Keefe Building, Holcomb/Highway 90 interchange, WAM centennial celebration, Public Safety Buildings, Government Street Overlay, and Eagle Point/Eagle Nest.

**Proprietary Funds:**

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The following is a description of the proprietary funds of the City.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**Enterprise funds** are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity (a) is financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) establishes fees and charges based on a pricing policy designed to recover similar costs. These funds include: Water, Sewer, Utility Capital Assets, Utility Service Deposits, and Sewer Maintenance Reserve.

**Fiduciary Funds:**

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. There are four fiduciary funds types, but the City only utilizes the Agency Fund type. This fund type is used to report resources held in a purely custodial capacity for individuals or organizations outside the reporting government. The reporting government's only responsibility is to hold the assets and remit them to the individuals or organizations that own them. Assets equal liabilities and there are no "operations" to report. These funds include: School District Taxes, Tax Sale and Redemption, Payroll Clearing and Flexible Medical Spending.

**D. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**Accrual:**

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

**Modified Accrual:**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. Available means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt, if any, is recognized when due.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**E. Financial Statement Amounts**

**Cash and Cash Equivalents:**

The City has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agents. Additionally, each fund's equity in the City's investment pool is treated as a cash equivalent because the funds can deposit or effectively withdraw cash at any time without prior notice or penalty.

**Investments:**

Investments are stated at fair value.

**Accounts Receivable:**

Accounts Receivable are recorded in the Governmental and Business-type Funds. Where appropriate, an associated allowance for doubtful accounts has been established in the related fund.

**Inventories:**

The City accounts for inventories using the purchase method of accounting, under which individual inventory items are recorded as expenditures at the time of purchase. Inventories are excluded from the balance sheet on the basis of overall immateriality.

**Capital Assets:**

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized when their cost exceeds 25% of the building's previously capitalized cost and if the repair extends the building's estimated useful life. Other costs incurred for repairs and maintenance are expensed as incurred. Capital lease obligations are treated in the same manner as purchased fixed assets.

Depreciation on capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 years
Improvements	40 years
Infrastructure	50 years
Equipment	5-10 years

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**Revenues:**

Substantially all government fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASB Statement No. 33. In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**Expenditures:**

Expenditures are recognized when the related fund liability is incurred.

**Compensated Absences:**

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to two years generally. Upon termination, any accumulated vacation will be paid to the employee. Sick leave is not paid upon termination. The City accrues accumulated unpaid vacation leave at the end of the fiscal year. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**Post Employment Health Care Benefits:**

The City does not have costs associated with post-employment benefits for retired employees. The City does allow employees to continue in the group plan after retirement, however, all premiums are paid by the retired employees.

**Interfund Activity:**

Interfund activity consists of loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2006

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental and proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature as a local government unit, the City is subject to various federal, state, and local laws and contractual regulations. An analysis of the City's compliance with significant laws and regulations and demonstration of its stewardship over City resources follows.

**A. Fund Accounting Requirements**

The City complies with all state and local laws and regulations requiring the use of separate funds.

**B. Deposits and Investments Laws and Regulations**

State law requires that all deposits in excess of FDIC insurance limits be 105% collateralized by U.S. Government obligations or by state municipal obligations that have a market value of not less than the principal amount of the deposits. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State legislature and is governed by Section 27-1-5-5 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. At year-end, the carrying amount of the City's deposits was \$13,959,064 and the respective bank balances totaled \$15,403,070. There were no certificates of deposits outstanding at September 30, 2006. Deposits reported to the Mississippi State Treasurer totaled \$10,593,697, leaving a potential under-collateralization of approximately \$4.8 million.

**C. Revenue Restrictions**

The City has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

**Revenue Source:**

Sales Tax  
Gasoline Excise & Commercial Vehicle Tax  
Water, Sewer, and Gas Revenue  
Grant Agreements  
Ad Valorem Tax

**Legal Restrictions in Use:**

Sewer Rehabilitation Notes  
Street and Road Purposes  
Debt Service and Utility Operations  
Grant Program Expenditures  
Debt Service

CITY OF OCEAN SPRINGS, MISSISSIPPI  
NOTES TO BASIC FINANCIAL STATEMENTS  
For the Year Ended September 30, 2006

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (continued)**

For the year ended September 30, 2006, the City complied, in all material respects, with these revenue restrictions.

**D. Debt Restrictions and Covenants**

General Obligation Debt represents direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations. The City complied, in all material respects, with debt restrictions and covenants required by bond indentures.

**E. Deficit Fund Equity**

The City had one fund reporting liabilities in excess of assets resulting in a deficit fund equity. The Eagle Point/Eagle Nest fund ended the year with a deficit fund balance of \$5,263 because of interfund transfers that were not made in the previous year.

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS**

**A. Cash and Investments**

The City deposits funds with Hancock Bank. Allocation of the resulting balance is accomplished with inter-bank transfers. Approved city depositories for the calendar years 2005-2006 were as follows:

	<b><u>Allocation Percentage</u></b>
Hancock Bank	50.00%
Peoples Bank	16.66%
Bancorp South	16.67%
Merchants & Marine Bank	16.67%
	<u>100.00%</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

Deposits at September 30, 2006 (including restricted deposits) are as follows:

	<u>Bank Balances</u>	<u>Total Carrying Value</u>
Pooled deposits:		
Cash and cash equivalents	\$ 14,381,705	\$ 13,326,089
Non-pooled deposits:		
Cash and cash equivalents		
Police dept (fiscal agent account)	2,308	2,308
Debt reserve fund	254,500	254,500
Capitalized interest fund	274,985	274,985
Payroll fund	482,296	-
Flexible spending fund	5,899	(1)
Petty cash	1,270	1,270
	<u>\$ 15,402,963</u>	<u>\$ 13,859,151</u>

Reconciliation to Government-wide Statement of Net Assets:

Governmental activities:	
Unrestricted cash - Governmental activities	\$ 10,057,288
Restricted cash - Governmental-type activities	529,485
Business-type activities:	
Unrestricted cash - Business-type activities	2,355,195
Restricted cash - Business-type activities	541,370
Agency fund cash (not included in government-wide statements)	475,726
	<u>\$ 13,959,064</u>

**B. Restricted Cash**

The amounts reported as restricted assets are cash and accrued interest held by the trustee bank on behalf of the various public trusts (Authorities) related to their required note payable accounts and amounts held in trust for customer utility meter deposits.

The business-type restricted assets as of September 30, 2006, are as follows:

<u>Types of Restricted Assets</u>	<u>Cash Including Time Deposits</u>
Debt service reserve fund	\$ 254,500
Capitalized interest fund	274,985
Customer deposits and escrow	541,370
	<u>\$ 1,070,855</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**C. Accounts Receivable**

Accounts receivable at September 30, 2006 consisted of the following:

	<b>Accounts Receivable</b>	<b>Allowance for Uncollectible Accounts</b>	<b>Net Accounts Receivable</b>
<b>General Fund:</b>			
Ad valorem taxes	\$ 63,001	\$ -	\$ 63,001
Franchise taxes	295,973	-	295,973
Sales tax	854,549	-	854,549
Garbage collections	244,689	63,774	180,915
Grants	80,951	-	80,951
Other	55,427	-	55,427
	<u>1,594,590</u>	<u>63,774</u>	<u>1,530,816</u>
<b>Special Revenue:</b>			
Ad valorem taxes	7,264	-	7,264
Grants	1,931,513	-	1,931,513
<b>Debt Service:</b>			
Ad valorem taxes	35,601	-	35,601
<b>Capital Projects:</b>			
Grants	27,429	-	27,429
Total governmental activities	<u>3,596,397</u>	<u>63,774</u>	<u>3,532,623</u>
<b>Enterprise:</b>			
Water collections	254,866	43,854	211,012
Sewer collections	470,866	99,159	371,707
Grants	306,275	-	306,275
Total business-type activities	<u>1,032,007</u>	<u>143,013</u>	<u>888,994</u>
Total government-wide activities	<u>\$ 4,628,404</u>	<u>\$ 206,787</u>	<u>\$ 4,421,617</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**D. Capital Assets:**

Capital asset activity for the year ended September 30, 2006, was as follows:

	Primary Government			
	Beginning Balance	Increases	Decreases	Ending Balance
Government activities:				
Capital assets not being depreciated:				
Land	\$ 2,616,794	\$ 30,000	\$ -	\$ 2,646,794
Construction in progress	145,849	369,185	(511,900)	3,134
Total capital assets not being depreciated	2,762,643	399,185	(511,900)	2,649,928
Capital assets being depreciated:				
Buildings	5,148,411	-	-	5,148,411
Improvements other than buildings	2,595,006	10,601	-	2,605,607
Machinery and equipment	4,956,862	897,279	(207,652)	5,646,489
Infrastructure	46,033,187	511,900	-	46,545,087
Total capital assets being depreciated	58,733,466	1,419,780	(207,652)	59,945,594
Less accumulated depreciation for:				
Buildings	(1,223,559)	(81,944)	-	(1,305,503)
Improvements other than buildings	(1,391,728)	(102,709)	-	(1,494,437)
Machinery and equipment	(4,851,929)	(369,824)	177,372	(5,044,381)
Infrastructure	(24,963,843)	(50,994)	-	(25,014,837)
Total accumulated depreciation	(32,431,059)	(605,471)	177,372	(32,859,158)
Total capital assets being depreciated, net	26,302,407	814,309	(30,280)	27,086,436
Total governmental activities capital assets, net	\$ 29,065,050	\$ 1,213,494	\$ (542,180)	\$ 29,736,364
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 29,413	\$ -	\$ -	\$ 29,413
Construction in progress	1,067,595	465,587	(118,349)	1,414,833
Total capital assets not being depreciated	1,097,008	465,587	(118,349)	1,444,246
Capital assets being depreciated:				
Buildings	35,390	-	-	35,390
Machinery and equipment	1,083,882	-	(28,033)	1,055,849
Water and sewer system plant	16,956,789	118,349	-	17,075,138
Total capital assets being depreciated	18,076,061	118,349	(28,033)	18,166,377
Less accumulated depreciation for:				
Buildings	(27,585)	(1,142)	-	(28,727)
Machinery and equipment	(815,541)	(110,442)	24,659	(901,324)
Water and sewer system plant	(8,163,404)	(62,660)	-	(8,226,064)
Total accumulated depreciation	(9,006,530)	(174,244)	24,659	(9,156,115)
Total capital assets being depreciated, net	9,069,531	(55,895)	(3,374)	9,010,262
Total business-type activities capital assets, net	\$ 10,166,539	\$ 409,692	\$ (121,723)	\$ 10,454,508
Primary Government				
Total capital assets, net	\$ 39,231,589	\$ 1,623,186	\$ (663,903)	\$ 40,190,872

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

A summary of general fixed assets transactions for the year ended September 30, 2006 follows:

Active construction in progress is composed of the following:

	<b>Expended through 09/30/06</b>	<b>Remaining Commitment</b>
<b>Governmental activities:</b>		
Forest Hill Drainage Project (Site 1 & 2)	\$ 3,134	121,866
<b>Business-type activities:</b>		
Sewer Improvements	\$ 1,414,833	833,153

Depreciation expense was charged to functions/programs for the year ended September 30, 2006 as follows:

<b>Governmental activities:</b>	
General government	\$ 40,247
Public safety	252,520
Public works	138,198
Culture and recreation	170,794
Community development	3,712
Total governmental activities depreciation expense	<u>\$ 605,471</u>
<b>Business-type activities:</b>	
Water fund	\$ 94,604
Sewer fund	79,640
Total business-type activities depreciation expense	<u>\$ 174,244</u>

**E. Accounts Payable:**

Payables are composed of amounts due to vendors within 60 days of year end and accrued salaries and benefits.

**F. Long-Term Debt:**

The City's long-term debt is segregated between the amounts to be repaid from governmental activities and amounts to be repaid from business-type activities. Long-term liability activity for the year ended September 30, 2006 is shown below:

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
General obligation debt	\$ 1,020,150	\$ 3,955,121	\$ (180,918)	\$ 4,794,353	\$ 2,896,230
Capital leases	100,524	535,875	(46,210)	590,189	67,721
Compensated absences	696,350	45,938	-	742,288	34,890
Total governmental activities long-term liabilities	<u>\$ 1,817,024</u>	<u>\$ 4,536,934</u>	<u>\$ (227,128)</u>	<u>\$ 6,126,830</u>	<u>\$ 2,998,841</u>
<b>Business-type activities:</b>					
Water and sewer debt	\$ 3,782,322	\$ -	\$ (311,250)	\$ 3,471,072	\$ 487,308
Compensated absences	90,332	15,666	-	105,998	2,160
Business-type activities long-term liabilities	<u>\$ 3,872,654</u>	<u>\$ 15,666</u>	<u>\$ (311,250)</u>	<u>\$ 3,577,070</u>	<u>\$ 489,468</u>

**Description of Debt**

At September 30, 2006, notes payable consisted of the following individual issues:

	<u>General Long- Term Debt</u>
<b>Governmental activities:</b>	
<b>General obligation bonds and notes</b>	
Unsecured promissory note, refinanced in October 2007	\$ 2,545,000
Drainage Improvement Notes of 1997, payable in annual installments of \$45,000, bearing interest at 4.86%, maturing April 2007	45,000
Shearwater Bridge Notes of 2003, payable in annual installments of \$35,000, bearing interest at 2.74%, maturing September 2008	105,000
Community Center Bonds of 1987, payable in annual installments of \$35,000, bearing interest at 5.00%, maturing September 2008	70,000
Unsecured community disaster loan, payable in monthly installments of \$25,175, bearing interest at 2.74%, maturing January 2012	1,410,121
Mary C. O'Keefe Center Capital Improvement Loan, payable in monthly installments of \$2,773, bearing interest at 3.00%, maturing May 2013	436,382
Mary C. O'Keefe Center Capital Improvement Loan, payable in monthly installments of \$2,414, bearing interest at 3.00%, maturing September 2013	182,850
Total general obligation bonds and notes	<u>4,794,353</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

	<u>General Long-Term Debt</u>
<b>Governmental activities (continued):</b>	
<b>Capital leases</b>	
Capital lease note, payable in monthly installments of \$25,522, bearing interest at 3.32%, maturing February 2009; secured by vehicle	71,750
Capital lease note, payable in monthly installments of \$5,521, bearing interest at 4.35%, maturing December 2015; secured by vehicle	518,438
<b>Compensated absences</b>	742,288
Less current portion of long-term debt	(2,998,841)
Total governmental activities long-term debt	<u>\$ 3,127,988</u>
	<u>Enterprise Long-Term Debt</u>
<b>Business-type activities:</b>	
<b>Water and sewer debt:</b>	
Drinking Water Systems Improvement Loans, payable in monthly installments of \$2,622, bearing interest at 4.50%, maturing October 2006, deferred until October 2007	\$ 30,791
Sunplex General Obligation Note, payable in annual installments of \$190,000, bearing interest at 3.04%, maturing July 2007	210,000
Water Well/Tank Construction Note of 1993, payable in annual installments of \$26,667, bearing interest at 4.95%, maturing June 2008	53,334
Water Well/Tank Construction Note of 1989, payable in annual installments of \$40,000, bearing interest at 7.10%, maturing May 2009	120,000
Water Pollution Control Emergency Loan, payable in monthly installments of \$2,015, bearing interest at 4.00%, maturing May 2011, deferred until October 2007	122,424
State Revolving Fund Loan, payable in monthly installments of \$7,501, bearing interest at 4.50%, maturing January 2018, deferred until October 2007	799,770
Drinking Water Systems Improvement Loan, payable in monthly installments of \$3,549, bearing interest at 3.00%, maturing February 2021, deferred until October 2007	522,924
Capital Improvement Revolving Loan, payable in monthly installments of \$2,773, bearing interest at 3.00%, maturing March 2021	390,882

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

	<b>Enterprise Long-Term Debt</b>
<b>Business-type activities (continued):</b>	
<b>Water and sewer debt:</b>	
Capital Improvement Revolving Loan, payable in monthly installments of \$1,515, bearing interest at 3.00%, maturing September 2021	213,506
Drinking Water Systems Improvement Loan, payable in monthly installments of \$6,493, bearing interest at 3.50%, maturing April 2024, deferred until October 2007	1,007,441
Total water and sewer debt	<u>3,471,072</u>
Compensated absences	105,998
Less current portion of long-term debt	(489,468)
Total business-type activities long-term debt	<u><u>\$ 3,087,602</u></u>

**General Obligation Bonds**

General obligation bonds are direct obligations issued on a pledge of the general taxing power of the City for the payment of its debt obligations. General obligation bonds require the City to compute the rate of taxes required to provide a fund to pay interest and principal at maturity. The millage rate for the year ended September 30, 2006, was 1.77 mills or \$1.77 per \$1,000 of assessed value.

**Revenue Bonds**

Revenue bonds are collateralized by the revenues of the water and sewer funds. The City executed various long-term debt agreements with the State of Mississippi Environmental Quality for the purpose of improving the water distribution and sewer collection systems. The City entered into an agreement with Mississippi State Tax Commission, allowing the Tax Commission to withhold \$22,180 from monthly sales tax revenues as payment for principal and interest on bonds. The balance outstanding on these bonds was \$2,483,350.

**Capital Improvement Loans**

Capital Improvement Revolving Loans were issued to the City by Mississippi Development Authority for the purpose of renovating the Mary O'Keefe building and repairing the Civic Center and Halstead Water Tanks. The City entered into an agreement with Mississippi State Tax Commission, allowing the Tax Commission to withhold \$4,288 from monthly sales tax revenues as payment for principal and interest on bonds. The balance outstanding at September 30, 2006 was \$604,388.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

**Debt Maturity**

Debt service requirements at September 30, 2006 were as follows:

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>Notes &amp; Capital Leases</b>		<b>Water and Sewer Bonds &amp; Notes</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
2007	2,963,951	75,420	487,308	122,860
2008	477,702	70,841	242,535	108,604
2009	399,484	56,044	222,422	97,335
2010	386,118	44,361	189,251	87,606
2011	397,927	32,546	196,343	80,512
2012-2016	557,570	71,257	983,303	295,897
2017-2021	146,437	19,563	900,336	114,889
2022-2026	55,352	3,301	249,574	16,394
Total	<u>\$ 5,384,541</u>	<u>\$ 373,333</u>	<u>\$ 3,471,072</u>	<u>\$ 924,097</u>

**Legal Debt Margin**

The legal debt limit is fifteen percent (15%) of the total net tax assessments of \$138,223,472. The net tax assessment is the total tax assessment less the homestead exemption. At September 30, 2006, the City's legal debt limit for general obligation bonds was \$20,733,521. After reducing this amount by outstanding obligation notes of \$5,384,541, the remaining legal debt margin was \$15,348,980.

**G. Interfund Balances**

Interfund balances at September 30, 2006 consisted of the following:

	DUE FROM:					
	Governmental Activities			Business-type Activities		
	General Fund	Katrina Fund	Other Governmental Funds	Water Fund	Other Business-type Funds	Total
DUE TO:						
Governmental activities:						
General fund	\$ -	\$ 6,594	\$ 9,287	\$ 16,541	\$ -	\$ 32,422
Katrina fund	21,524	-	-	-	-	21,524
Other governmental	248,957	-	-	-	-	248,957
Business-type activities:						
Sewer fund	45,555	-	-	8,759	66	54,380
Other business-type	85,958	-	-	-	-	85,958
Total	\$ 401,994	\$ 6,594	\$ 9,287	\$ 25,300	\$ 66	\$ 443,241

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 3. DETAIL NOTES ON TRANSACTION CLASSES/ACCOUNTS (continued)**

All balances resulted from the time lag between dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**H. Interfund Transfers**

Transfer balance at September 30, 2006 consisted of the following:

	TRANSFERS IN:		
	Governmental Activities		
		Other	
TRANSFERS OUT:	General Fund	Governmental Fund	Total
Governmental activities:			
General fund	\$ -	\$ 50,000	\$ 50,000
Other governmental funds	27,531	-	27,531
Business-type activities:			
Water fund	251,510	25,000	276,510
Sewer fund	248,510	25,000	273,510
Total	\$ 527,551	\$ 100,000	\$ 627,551

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

**NOTE 4. OTHER NOTES**

**A. Property Tax**

Property tax is levied on the assessed (appraised) value as compiled by the Jackson County Tax Assessor for all real and business personal property located in the City. The assessment roll is approved and the levy is set before September 30 following a series of public hearings to receive citizen comments. Resulting taxes are due on or before February 1. An inter-local government agreement effective October 1, 1989 provided for billing and collection of City and Ocean Springs School District taxes by Jackson County, Mississippi (less an appropriate collection fee).

Included in revenues are taxes for automobile tags which are assessed and collected by Jackson County. Such taxes, less a collection fee, are remitted to the City monthly.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 4. OTHER NOTES (continued)**

Property tax revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue.

Increase in taxes are generally limited by State law to 10% of the taxes collected for the prior assessment year, excluding taxes from property added to the tax assessment rolls in the current year.

The City is required by law to assess and collect taxes necessary for operation of the Ocean Springs School District (OSD) and for service of certain related debt. OSD provides services to residents inside and outside of the geographic boundaries of the City and has a separate appointed and/or elected board. The school district is not included as a component unit of the City's financial reporting entity because the City does not have the ability to exercise control over school operations or approve budgets. A similar situation exists with the Jackson-George Regional Library System, who receives a portion of the City's tax levy for library operation.

The tax levies for the calendar years 2007, 2006 and 2005 (taxes collected in the fiscal years ending 09/30/08, 09/30/07 and 09/30/06) are as follows:

	<u>09/30/07</u> <u>Millage</u>	<u>09/30/06</u> <u>Millage</u>	<u>09/30/05</u> <u>Millage</u>
City Funds:			
General fund	22.32	22.32	20.60
Special revenue funds:			
Library fund	1.01	1.01	1.01
Park commission fund	-	-	1.72
General debt service fund	1.77	1.77	1.77
Total City administered funds	<u>25.10</u>	<u>25.10</u>	<u>25.10</u>
School Funds:			
District maintenance	54.34	54.34	54.34
School debt	7.76	7.76	7.76
Total School administered funds	<u>62.10</u>	<u>62.10</u>	<u>62.10</u>
Total levy	<u><u>87.20</u></u>	<u><u>87.20</u></u>	<u><u>87.20</u></u>

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 4. OTHER NOTES (continued)**

**B. Pension Plans**

**Defined Benefit Pension Plan**

**Plan Description:**

The City of Ocean Springs, Mississippi 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 City of Ocean Springs is required to contribute at an actuarially determined rate. The rate was 10.75% of annual covered payroll, but increased to 11.30% effective July 1, 2006. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature.

City of Ocean Springs and participant contributions to PERS for the years ended September 30, 2006, 2005, and 2004 were \$1,014,074, \$1,267,152, and \$1,441,936, respectively, representing 100% of the required contributions for those years.

**C. Commitments and Contingencies**

**Related Party Transactions**

No known transactions requiring disclosure occurred between the City and its employees or elected officials.

**Grants and Awards**

The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed by management to be material.

**Litigation**

Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially effect the City's financial position.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 4. OTHER NOTES (continued)**

**Contract commitments**

Construction Contracts:

The City has entered into various construction contracts for infrastructure improvements with an estimated remaining commitment of \$955,019. The majority of these commitments are being funded by various state and federal grants. See Note 3(D) for more detailed information on these commitments.

**D. Joint Venture**

A joint venture arrangement exists between the City and Jackson County Utility Authority (the Authority), which was established by an act of the Mississippi Legislature to design and implement a water pollution abatement plan. The Authority is responsible for the operations and maintenance of the wastewater treatment plants for the cities of Ocean Springs, Moss Point, Ocean Springs and Gautier. The Authority enters into subscription agreements with each of the governing bodies and districts to fund its operations. The City of Ocean Springs' subscription agreement called for monthly payments of \$76,682 during the 2005-2006 fiscal year. The following is a synopsis of the Authority's financial statements as of and for the year ended September 30, 2006, a complete copy of which is on file at the administrative offices of the Authority located at 1201 Louis Alexis Trail, Gautier, Mississippi 39553.

**BALANCE SHEET**

**ASSETS**

Current assets	\$ 6,077,490
Restricted investments	6,137,533
Capital assets	44,442,085
Total assets	<u>\$ 56,657,108</u>

**LIABILITIES AND FUND BALANCE**

**LIABILITIES**

Current liabilities	\$ 3,536,192
Noncurrent liabilities	15,273,450
Total liabilities	<u>18,809,642</u>

**FUND BALANCE**

	37,847,466
Total liabilities and fund balance	<u>\$ 56,657,108</u>

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
For the Year Ended September 30, 2006

**NOTE 4. OTHER NOTES (continued)**

**STATEMENT OF REVENUES AND EXPENSES**

Operating revenues	\$ 6,955,490
Operating expenses	(6,690,200)
Non-operating revenues	331,008
Non-operating expenses	(709,979)
Capital contributions and grants	18,493,432
Change in net assets	<u>\$ 18,379,751</u>

**E. Subsequent events**

The City received an additional \$1.4 million in disaster loans in the fiscal year ending September 30, 2007. The purpose of these funds is to assist the City in carrying on existing governmental functions or to help meet disaster-related needs. The loan will be secured by tax revenues.

The City also anticipates receiving a State Revolving Fund loan in the amount of approximately \$3.6 million for water system repairs.

In February 2007, the City adopted a resolution requesting the Mississippi State Legislature approve a local/private bill to levy a 2% tax on the gross receipts of restaurants and lounges within the City limits. The resolution was passed by the legislature, but the status is still pending because it is subject to a voter referendum.

The City is still in the process of recovering from the Hurricane Katrina, and anticipates receiving various grants and loans to assist in the recovery. The City will also continue with other projects that have been in development, such as improvements to water systems and sewer extensions.

## **REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Year Ended September 30, 2006

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts (Budgetary Basis)	Variance with Final Budget Favorable (Unfavorable)
Budgetary fund balance, October 1	\$ 587,790	\$ 1,106,551	\$ 2,532,817	\$ 1,426,266
<b>Resources (inflows):</b>				
Ad valorem taxes	3,171,326	3,415,335	3,415,335	-
Franchise fees	681,000	711,698	711,698	-
Fees and fines	442,000	454,924	454,924	-
Licenses and permits	300,000	314,268	314,268	-
Intergovernmental	5,670,350	6,080,593	6,080,593	-
Charges for services	1,854,520	1,876,340	1,876,340	-
Grants	655,641	229,830	229,830	-
Other financing sources	<u>1,774,218</u>	<u>2,319,746</u>	<u>2,319,746</u>	<u>-</u>
Amounts available for appropriations	<u>15,136,845</u>	<u>16,509,285</u>	<u>17,935,551</u>	<u>1,426,266</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**BUDGETARY COMPARISON SCHEDULE - GENERAL FUND**  
For the Year Ended September 30, 2006

	<u>Original Budgeted Amounts</u>	<u>Final Budgeted Amounts</u>	<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
<b>Charges to appropriations (outflows):</b>				
<i>General Government</i>				
Personnel services	\$ 691,212	\$ 684,056	\$ 684,056	\$ -
Supplies	38,000	32,587	31,434	1,153
Other services	919,472	795,203	780,956	14,247
Capital outlay	<u>67,202</u>	<u>64,192</u>	<u>24,790</u>	<u>39,402</u>
Total general government	<u>1,715,886</u>	<u>1,576,038</u>	<u>1,521,236</u>	<u>54,802</u>
<i>Public Safety</i>				
Personnel services	3,922,125	3,805,446	3,805,446	-
Supplies	271,365	250,280	217,080	33,200
Other services and charges	248,202	222,033	202,817	19,216
Capital outlay	<u>148,069</u>	<u>128,011</u>	<u>128,011</u>	<u>-</u>
Total public safety	<u>4,589,761</u>	<u>4,405,770</u>	<u>4,353,354</u>	<u>52,416</u>
<i>Public Works</i>				
Personnel services	1,182,305	1,149,823	1,149,823	-
Supplies	289,250	226,450	193,865	32,585
Other services and charges	1,457,400	1,372,932	1,336,586	36,346
Capital outlay	<u>304,600</u>	<u>36,706</u>	<u>32,506</u>	<u>4,200</u>
Total public works	<u>3,233,555</u>	<u>2,785,911</u>	<u>2,712,780</u>	<u>73,131</u>
<i>Culture and Recreation</i>				
Personnel services	577,485	506,316	506,316	-
Supplies	147,775	104,113	96,448	7,665
Other services and charges	385,785	331,340	304,906	26,434
Capital outlay	<u>63,980</u>	<u>27,946</u>	<u>23,071</u>	<u>4,875</u>
Total culture and recreation	<u>1,175,025</u>	<u>969,715</u>	<u>930,741</u>	<u>38,974</u>
<i>Community Development</i>				
Personnel services	301,753	275,756	275,756	-
Supplies	123,850	118,091	88,746	29,345
Other services and charges	207,400	160,250	158,101	2,149
Capital outlay	<u>119,493</u>	<u>117,680</u>	<u>67,878</u>	<u>49,802</u>
Total community development	<u>752,496</u>	<u>671,777</u>	<u>590,481</u>	<u>81,296</u>
Debt service	25,550	25,522	25,522	-
Transfers	<u>50,000</u>	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total charges to appropriations	<u>11,542,273</u>	<u>10,484,733</u>	<u>10,184,114</u>	<u>300,619</u>
Budgetary fund balance, September 30	<u>\$ 3,594,572</u>	<u>\$ 6,024,552</u>	<u>\$ 7,751,437</u>	<u>\$ 1,726,885</u>

The accompanying notes are an integral part of these financial statements.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF BUDGET-TO-ACTUAL RECONCILIATION**  
**GENERAL FUND**

For the Year Ended September 30, 2006

An explanation of the differences between budgetary inflows and outflows and revenues and expenditures determined in accordance with generally accepted accounting principles is as follows:

**Sources/inflows of resources:**

	<u><b>General Fund</b></u>
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 17,935,551
Difference - budget to GAAP	
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes.	(2,532,817)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.	(527,551)
The budget is prepared on the cash basis whereas the fund statements are on the modified accrual basis. This is the net effect of accrual transactions.	<u>(146,271)</u>
Total revenues as reported on the Statement of Revenue, Expenditures, and Changes in Fund Balances - Governmental Funds, General Fund	<u><u>\$ 14,728,912</u></u>

**Uses/outflows of resources:**

Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 10,184,114
Differences - budget to GAAP	
The City budgets for claims and compensated absences only to the extent expected to be paid, rather than on the modified accrual basis.	33,275
Encumbrances for supplies and equipment ordered but not received are reported in the year the order is placed for budgetary purposes, but in the year the supplies are received for financial reporting purposes.	360,453
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.	<u>50,000</u>
Total expenditures as reported on the Statement of Revenues, Expenditure, and Changes in Fund Balances - Governmental Funds, General Fund	<u><u>\$ 10,627,842</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended September 30, 2006

**NOTE A. BUDGETARY DATA**

The procedures used by the City in establishing the budgetary data are as follows:

1. The City Clerk's office prepares estimates of available revenue.
2. Department directors submit proposed expenditure budgets to the City Clerk by June 1 each year.
3. The Mayor and the department directors review expenditure budgets and necessary revisions are made.
4. Budgeted revenues and expenditures are balanced, and a summary budget is prepared and presented to the Mayor.
5. The Mayor submits the proposed budget to the Board by August 1.
6. Public hearings are conducted to obtain taxpayer comments.
7. The final budget is approved by September 15 and is published in a local newspaper on or before September 30.
8. The budget is formally amended at the first meeting in September each year. However, budget revisions are made throughout the year (prior to September), as reallocations of funds are necessary, a budget deficit is indicated, or circumstances change which dictate the need for a budget amendment.
9. Formal budgetary integration is employed as a management control device during the year for the general fund.
10. The general fund budget is adopted on a cash basis as required by State statute. The appropriated budget is prepared by fund, function and department. The legal level of budgetary controls is the department level. The City Clerk's office exercises budgetary monitoring throughout the fiscal year. An adopted budget may not exceed its appropriated level without Board approval. However, department heads may make transfers of appropriations within a department. Budgetary controls are implemented through the City Clerk's office through the use of budget to actual reports. Any purchase requisition that will cause a line item to exceed its budget will be disallowed by the City Clerk. The department head will then be required to make an inter-department budget transfer or request a budget amendment.

**NOTE B: EXCESS OF EXPENDITURES OVER APPROPRIATIONS (BUDGET)**

There were no excess of expenditures over appropriations (budget) for the fiscal year ending September 30, 2006.

## **OTHER SUPPLEMENTARY INFORMATION**

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF SURETY BONDS OF MUNICIPAL OFFICIALS**  
For the Year Ended September 30, 2006

<b>Name</b>	<b>Position</b>	<b>Amount</b>
Connie Moran	Mayor	\$ 100,000
Julie Weaver	Alderman at Large	100,000
John Gill	Alderman Ward #1	100,000
Matt McDonnell	Alderman Ward #2	100,000
Curtis Lloyd	Alderman Ward #3	100,000
Greg Denyer	Alderman Ward #4	100,000
Jerry Dalgo	Alderman Ward #5	100,000
James Hagan	Alderman Ward #6	100,000
Adrienne Howell	City Clerk	100,000
Kerry Belk	Chief of Police	50,000

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2006

<b>Federal Grantor/Pass-Through Grantor/Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Federal Expenditures</b>
<b>U.S Department of Transportation</b>			
Highway Planning and Construction	20.205	STP-9064-00(006)	336,927
Passed Through State:			
Urban Youth Corp Grant	20.215		\$ 66,971
Alcohol Traffic Safety	20.601	05TA3161	<u>28,139</u>
			<u>432,037</u>
<b>U.S. Department of Justice</b>			
Passed Through State:			
Public Safety Grant	16.592	2003DDBX0354	482,666
Public Safety Grant	16.592	06HR3161	2,802
HIDTA	16.592		<u>7,174</u>
			<u>492,642</u>
<b>U.S Department of Homeland Security</b>			
Passed Through State:			
Hurricane Katrina Public Assistance	97.036	1604-DR-MS	2,899,117
Homeland Security Grant	97.067		12,389
Law Enforcement Training	97.081		3,990
Community Disaster Loan	97.030		<u>1,410,121</u>
			<u>4,325,617</u>
<b>U.S. Environmental Protection Agency</b>			
Clean Water State Revolving Funds	66.458	XP97470404-0	<u>395,016</u>
<b>Total Expenditures of Federal Awards</b>			<b>\$ <u>5,645,312</u></b>

See notes to schedule of expenditures of federal awards.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended September 30, 2006

**NOTE 1. BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Ocean Springs and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the basic financial statements.

**NOTE 2. LOAN AGREEMENTS OUTSTANDING**

Proceeds of various State Revolving Funds were obtained and expended in prior years for sewer rehabilitation, capital improvements and drinking water system improvements. The State Revolving Funds are financed, at least in part, by the U.S. Environmental Protection Agency. The principal balance on September 30, 2006 was:

State Revolving Fund	\$ 799,770
Capital Improvement Revolving Funds	604,388
Water Pollution Control Emergency Loan	122,424
Drinking Water Systems Improvement Loans	1,561,156

## REPORTS ON COMPLIANCE AND INTERNAL CONTROL



**Wolfe • McDuff & Oppie**  
CERTIFIED PUBLIC ACCOUNTANTS  
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**Independent Auditors' Report On Compliance and on  
Internal Control Over Financial Reporting Based on an  
Audit of Financial Statements Performed in Accordance  
With *Government Auditing Standards***

The Honorable Mayor and Members of the Board of Aldermen  
City of Ocean Springs, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Ocean Springs as of and for the year ended September 30, 2006, which collectively comprise the City of Ocean Springs' basic financial statements and have issued our report thereon dated November 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Ocean Springs' 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 City of Ocean Springs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Ocean Springs' internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Ocean Springs' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City of Ocean Springs' financial statements that is more than inconsequential will not be prevented or detected by the City of Ocean Springs' internal control. We consider the deficiencies described in findings 9/2006 - 1, 9/2006 - 2, and 9/2006 - 3, located in the accompanying Schedule of Findings and Questioned Costs, to be significant deficiencies in internal control over financial reporting.

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



Report on Compliance and on Internal Control over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance  
With *Government Auditing Standards*  
Page 2

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 9/2006 - 1, 9/2006 - 2, and 9/2006 - 3 to be material weaknesses.

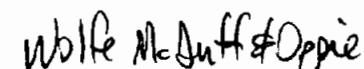
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Ocean Springs' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in finding 9/2006 - 4 located in the accompanying Schedule of Findings and Questioned Costs.

We also noted certain matters that we reported to management of the City of Ocean Springs, in a separate letter dated November 14, 2007.

The City of Ocean Springs' response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Ocean Springs' response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Board of Aldermen, 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.

  
Pascagoula, Mississippi  
November 14, 2007



**Wolfe • McDuff & Oppie**  
CERTIFIED PUBLIC ACCOUNTANTS  
(A Professional Association)

Jack A. Oppie, CPA  
C. Scott Rankin, CPA

Jason S. Keenum, CPA  
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**Independent Auditors' Report on Compliance With Requirements  
Applicable to Each Major Program and on Internal Control  
Over Compliance in Accordance With OMB Circular A-133**

The Honorable Mayor and Members of the Board of Aldermen  
City of Ocean Springs, Mississippi

Compliance

We have audited the compliance of the City of Ocean Springs with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. The City of Ocean Springs' 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 City of Ocean Springs' management. Our responsibility is to express an opinion on the City of Ocean Springs' compliance based on our audit.

Except as discussed in the following paragraph, 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 City of Ocean Springs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Ocean Springs' compliance with those requirements.

We were unable to obtain sufficient documentation supporting the compliance of the City of Ocean Springs with Department of Homeland Security requirements regarding the Public Assistance Grants and the Community Disaster Loan, nor were we able to satisfy ourselves as to the City of Ocean Springs' compliance with those requirements by other auditing procedures. Please refer to finding 9/2006 - 4 located in the accompanying Schedule of Findings and Questioned Costs for more information.

In our opinion, except for the effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the City of Ocean Springs' compliance with the requirements of the Department of Homeland Security regarding the Public Assistance Grant and Community Disaster Loan, the City of Ocean Springs complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

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### Internal Control Over Compliance

The management of the City of Ocean Springs is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Ocean Springs' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Ocean Springs' internal control over compliance.

Our consideration of the internal control over compliance was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency and a material weakness.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as finding 9/2006 - 4 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider finding 9/2006 - 4 to be a material weakness.

The City of Ocean Springs' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the the City of Ocean Springs' response and, accordingly, we express no opinion on it.

This report is intended for the information of management, Board of Aldermen, 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.

*Wolke M. Juff & Oppie*

Pascagoula, Mississippi  
November 14, 2007



# Wolfe • McDuff & Oppie

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## Independent Auditors' Report on Compliance With Mississippi State Laws and Regulations

The Honorable Mayor and Members of the Board of Aldermen  
City of Ocean Springs, Mississippi

We have audited the accompanying financial statements of the City of Ocean Springs, Mississippi as of and for the year ended September 30, 2006, and have issued the report dated November 14, 2007. We have 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*.

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 state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the basic financial statements disclosed the following instances of noncompliance with state laws and regulations. Our findings and recommendations and management's responses are as follows:

### I FIXED ASSET CONTROL

#### Finding

During our audit of fixed assets, we noticed management has not reconciled its physical inventory of fixed assets to the general ledger, as required by the Mississippi Municipal Fixed Assets Management Manual, issued by the Mississippi Office of the State Auditor.

#### Recommendation

We recommend management complete its physical inventory of fixed assets and general ledger reconciliation as soon as possible. Once completed, we recommend the City implement an annual inventory with the department heads to help monitor assets and maintain a detailed ledger of fixed assets, along with a listing of additions and deletions during the year. The Office of the State Auditor has prepared forms and checklists to assist municipalities perform this required inventory; they are available for download on the State Auditor's website. At least annually, the accounting department should reconcile the fixed asset inventory to the general ledger.

Membership in:

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AICPA Governmental Audit Quality Center • AICPA Center for Audit Quality • AICPA Employee Benefit Plan Audit Quality Center



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Management's Response

A physical inventory was performed August 21-25, 2006 of all city departments. A new purchasing agent was hired and will perform a reconciliation of inventory to general ledger.

II BANK DEPOSIT COLLATERAL

Finding

During our audit of cash, we noticed the Mississippi Collateral Sufficiency Analysis was not being compared to the bank statements for accuracy. The State of Mississippi sends all public entities a Collateral Sufficiency Analysis each quarter requesting that the reported amounts be checked for accuracy to assist the State Treasurer's Office in ensuring the deposits are adequately collateralized (Sections 27-105-1 et seq. Miss. Code Ann. (1972)). As of September 30, 2006, when comparing actual bank balances with the State Treasurer's records, the City was under collateralized by \$4,809,373.

Recommendation

We recommend management review the statements quarterly and notify the State Treasurer's Office when there are discrepancies to ensure adequate collateralization of public funds.

Management's Response

We will implement this procedure immediately.

III PUBLICATION OF AUDIT

Finding

During our audit, we were unable to verify the publication of the audit for the period ending September 30, 2005. Section 21-17-19 of the Mississippi Code of 1972 requires publishing the substance and availability of the audit, posting the audit at city hall, the library or courthouse, and one other public place, and providing a copy of the audit to any municipal resident who requests one. Management failed to provide evidence the City complied with the publication requirement.

Recommendation

We recommend management review all municipal requirements and keep copies of documentation that substantiates the City's compliance.

Management's Response

We will ensure all requirements are met and copies kept.

Report on Compliance with Mississippi State  
Laws and Regulations  
Page 3

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Wolfe McQuinn & Oppie*

Pascagoula, Mississippi  
November 14, 2007

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2006

**A. SUMMARY OF AUDIT RESULTS**

1. In our report, our opinion on the basic financial statements was unqualified.
2. There are significant deficiencies relating to the audit of the financial statements reported in the Report on Compliance and Internal Control Over Financial Reporting. The significant deficiencies are reported as material weaknesses.
3. There are instances of noncompliance material to the financial statements of the City of Ocean Springs which were disclosed during the audit.
4. There was one significant deficiency relating to the audit of major federal award programs that is reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance. The significant deficiency is reported as a material weakness.
5. The auditor's report on compliance for major federal award programs for the City of Ocean Springs expresses a qualified opinion.
6. There was one audit finding relative to the major federal award programs for the City of Ocean Springs that is reported in Part C of this schedule.
7. The major programs tested were:
  - Federal Emergency Management Agency - Public Assistance Grants - CFDA No. 97.036
  - Department of Transportation - Federal-aid Highway Program - CFDA No. 20.205
  - Department of Homeland Security - Community Disaster Loans - CFDA No. 97.030
  - Department of Justice - Public Safety Grants - CFDA No. 16.592
8. The dollar threshold for distinguishing Types A and B programs was \$300,000.
9. The City of Ocean Springs was not determined to be a low-risk auditee.

**B. FINDINGS - FINANCIAL STATEMENT AUDIT**

9/2006 - 1

Finding

During our audit of cash, we noticed that several bank accounts were not reconciled or had unreconciled differences, simply because management considered them to be insignificant. Management should be able to account for any differences within the bank statements and general

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2006

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

ledger. In reviewing the bank reconciliations for the entire year for the collections and payroll accounts, it appears the accounts have never been reconciled. It was brought to our attention that some of the differences have carried over from previous years. We believe reconciling bank accounts each month is among the most basic of internal controls in any organization. Failure to perform this rudimentary procedure subjects the City to undue risk of failure to detect errors, omissions, misstatements, or misappropriations, some of which might be material to the financial statements.

Recommendation

We recommend management reconcile all bank accounts immediately. Any outstanding items should be researched and cleared. In the future, all bank accounts should be reconciled monthly.

Auditee's Response

Bank reconciliations are performed monthly. There are journal entries and computer errors that will be addressed immediately.

9/2006 - 2

Finding

During our audit of fixed assets, we noticed management failed to reconcile its physical inventory of fixed assets to the general ledger. Management's detailed listing of fixed assets as of September 30, 2006 does not reconcile to the carrying amount in the general ledger. We believe this is a weakness in internal control and leaves the City susceptible to theft or misappropriation of assets.

Recommendation

We recommend management immediately appoint a Fixed Assets Control Clerk, who would have designated responsibility to maintain a fixed asset control system. The system should be implemented as soon as possible and should include an annual inventory of fixed assets. At the end of the fiscal year, the accounting department should reconcile the general ledger to the inventory control records.

Auditee's Response

A physical inventory was performed August 21-25, 2006 of all city departments. A new purchasing agent was hired and will perform a reconciliation of inventory to general ledger.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
For the Year Ended September 30, 2006

**B. FINDINGS - FINANCIAL STATEMENT AUDIT (continued)**

9/2006 - 3

Finding

During our audit of utility receivable accounts, management was unable to generate a utility receivable subsidiary ledger to support balances in the general ledger. We were informed the aged receivable report needed to be generated on the effective date (in this case September 30, 2006) for the information to be accurate. Furthermore, we found management does not reconcile the utility receivable subsidiary ledger to the general ledger utility receivable account on a monthly basis.

Recommendation

We recommend management reconcile the month-end receivable reports to the general ledger as a part of the month-end closing process.

Auditee's Response

We will work with our software provider to develop the needed reports and will reconcile the accounts as part of the monthly closing procedures.

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT**

**Questioned  
Costs**

DEPARTMENT OF HOMELAND SECURITY

Hurricane Katrina Public Assistance Grant- CFDA No. 97.036

9/2006-4 - Grant No. FEMA 1604-DR-MS - Year ended September 30, 2006

*Condition and Criteria:* During our audit of grant agreements, we found management does not have a system in place to organize its grant files. Auditors had difficulty gathering the needed information for most of the grants. Files were missing grant agreements, CFDA numbers, status reports, etc. Some files appear to be missing all together.

CITY OF OCEAN SPRINGS, MISSISSIPPI  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended September 30, 2006

**C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS  
AUDIT (continued)**

**Questioned  
Costs**

*Effect:* Documentation supporting an expenditure was not available, resulting in a questioned cost.

*Cause:* Procedures put into place to maintain grant files were not followed.

*Population and Items Tested:* At the time of our audit, five of a sample of forty expenditures, or twelve percent, could not be supported, resulting in questioned costs associated with those grant expenditures. Management later provided documentation to the auditors for all but one of these expenditures, resulting in a questioned cost in the amount of \$2,121.56, associated with the Department of Homeland Security - Hurricane Katrina Public Assistance grant, CFDA No. 97.036, Grant No. FEMA 1604-DR-MS.

\$ 2,122

*Auditor's Recommendation:* It has been recommended in previous years, that management should seriously consider placing the grant administration under centralized control, giving one individual responsibility for grant administration and compliance. We understand management has assigned a grant coordinator within the current year. Without having all grant information available, the City risks losing grant funding for not being in compliance with grant requirements. We recommend management implement a system to ensure that all grant information is turned over to the grant administrator and that the files are maintained properly. All files should contain grant agreements, with terms and CFDA numbers. Backup should be provided for expenditures related to grants when reimbursement is requested. Management should also implement an accounting system to assign separate general ledger account numbers, instead of sharing accounts, to keep track of grant revenues and expenditures by program or project.

*Grantee Response:* A full-time Grants Administrator and full-time Project Coordinator were hired to administer and maintain all grant files. A process of transitioning all grants to their oversight is in place. Separate funds and accounts numbers are in place for a majority of the grants. The remainder of the grants will be given separate account numbers.

Total - Department of Homeland Security

\$ 2,122

CITY OF OCEAN SPRINGS, MISSISSIPPI  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended September 30, 2006

FINDING 2005 - A - 1: Accounts Receivable Reconciliation

*Condition:* The accounts receivable subsidiary application generates entries into the General Ledger for a significant amount of the the city's revenue pertaining to water, sewer, garbage and various other fees associated with these functions (such as deposits, cut-off fees, transfer fees, etc.). It is the auditor's understanding that there are currently no procedures in place to support the balance carried in the General Ledger. The auditor believes the City's lack of routine balancing of this application constitutes inadequate internal controls over accounts receivable.

*Recommendation:* We recommend the necessary procedures be implemented to insure the integrity of this financial subsidiary system. At a minimum, monthly reconciliations to the General Ledger should be performed and all outstanding items should be researched and cleared.

*Current Status:* Client has contacted their software vendor concerning the problem; however, no changes have been made. A similar finding is reported in the current fiscal year.

