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McComb School District
Financial Statements
For the Year Ended
June 30, 2005

McComb School District

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McComb School District

FINANCIAL AUDIT REPORT

McComb School District

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

Superintendent and School Board
McComb School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McComb School District as of and for the year ended June 30, 2005 which collectively comprise the McComb School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the McComb School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

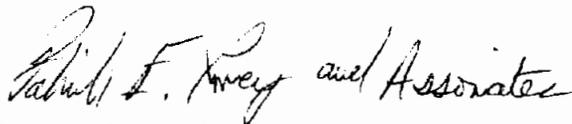
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the McComb School District, as of June 30, 2005 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2005 on our consideration of the McComb School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 5 through 14 and the Budgetary Comparison Schedule and corresponding notes on pages 39 through 43 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McComb School District's basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Patrick E. Lowery & Associates
Certified Public Accountants
October 27, 2005

McComb School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

McComb School District

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McComb School District

P.O. Box 868, 695 Minnesota Avenue
McComb, MS 39649



The discussion and analysis of the McComb School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District'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 School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the 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. Certain comparative information between the current year and the prior year is required to be presented and is included in this discussion and analysis.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,552,883, which represents a 23% increase from fiscal year 2004. The district originally expected a shortfall in advalorem receipts and Mississippi Adequate Education Program (MAEP) funds of approximately \$300,000. Expenditures for the fiscal year were budgeted with this shortfall in mind. However, the district received more advalorem and MAEP funds than originally expected, resulting in an increase in net assets for the fiscal year. In addition, the district did not expend funds that were originally budgeted for various special projects. The increase in net assets is also due to the purchase of various capital assets and building improvements made during the fiscal year and the reduction of long-term debt related to the capital assets.
- General revenues accounted for \$18,542,780 in revenue, or 73% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$6,959,191, or 27% of total revenues.
- The District had \$23,949,088 in expenses; only \$6,959,191 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$18,542,780 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,115,016 in revenues and \$16,434,907 in expenditures. After net other financing uses of \$39,776, the General Fund's fund balance increased \$640,333 from the prior year. This increase in fund balance is a result of conservative budgeting in expectation of a shortfall of advalorem receipts and MAEP

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McComb School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

funds. However, this shortfall did not occur. In addition, the district did not expend funds that were originally budgeted for various special projects.

- Capital assets, net of accumulated depreciation, increased by \$197,952.
- Long-term debt decreased by \$527,612.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental

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

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

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and is included in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$8,196,202 as of June 30, 2005.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$4,112,611 of the District's net assets (50%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$2,541,989 of the District's net assets (31%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes and scholarships. \$1,541,602 of the District's net assets (19%) reflects its unrestricted net assets.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 4,934,058	\$ 4,163,360
Other assets	789,429	580,895
Capital assets, net	<u>10,433,842</u>	<u>10,235,890</u>
Total assets	<u>16,157,329</u>	<u>14,980,145</u>
Current liabilities	1,313,889	1,149,524
Long-term debt outstanding	<u>6,647,238</u>	<u>7,174,850</u>
Total liabilities	<u>7,961,127</u>	<u>8,324,374</u>
Net assets:		
Invested in capital assets, net of related debt	4,112,611	3,528,372
Restricted	2,541,989	2,367,369
Unrestricted	<u>1,541,602</u>	<u>760,030</u>
Total net assets	<u>\$ 8,196,202</u>	<u>\$ 6,655,771</u>

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

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Management's Discussion and Analysis
For the Year Ended June 30, 2005

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to the principal payments made during the fiscal year.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the purchase of two buildings, one bus and several items of furniture and equipment and the completion of building improvements during the fiscal year. This increase is also a result of the decrease in long-term debt related to the capital assets.
- Unrestricted net assets increased from the previous fiscal year due to the increase in fund balance in the General Fund during the fiscal year.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$25,501,971. The total cost of all programs and services was \$23,949,088. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues	\$ 6,959,191	\$ 6,140,679
General revenues	<u>18,542,780</u>	<u>17,422,678</u>
Total revenues	<u>25,501,971</u>	<u>23,563,357</u>
Expenses:		
Instruction	13,739,316	12,926,953
Support services	7,925,541	8,151,678
Non-instructional	1,959,045	1,509,423
Sixteenth section	11,358	167
Interest and other expenses on long-term liabilities	<u>313,828</u>	<u>344,066</u>
Total expenses	<u>23,949,088</u>	<u>22,932,287</u>
Increase in net assets	<u>\$ 1,552,883</u>	<u>\$ 631,070</u>

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

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions. Funding received under the Early Reading Program and E2T2 Grant increased significantly from the previous fiscal year.
- General revenues increased from the previous fiscal year due primarily to an increase in taxes, unrestricted state and federal grants and contributions and sixteenth section sources.

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- Instruction expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits related to the 8% teacher pay increase.
- Non-instructional expenses increased from the previous fiscal year due primarily to expenditures related to the 21st Century grant and the Pike County Families First grant. Revenue received and expenditures incurred for these programs during the current fiscal year were significantly greater than the previous fiscal year.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2005, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. 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 District's taxpayers by each of these functions.

	2005		2004	
	Total	Net (Expense)	Total	Net (Expense)
	<u>Expenses</u>	<u>Revenue</u>	<u>Expenses</u>	<u>Revenue</u>
Instruction	\$ 13,739,316	\$ (9,888,352)	\$ 12,926,953	\$ (9,585,254)
Support services	7,925,541	(6,486,196)	8,151,678	(6,573,618)
Non-instructional	1,959,045	(318,784)	1,509,423	(288,503)
Sixteenth section	11,358	17,263	167	(167)
Interest on long-term liabilities	313,828	(313,828)	344,066	(344,066)
Total expenses	\$ 23,949,088	\$ (16,989,897)	\$ 22,932,287	\$ (16,791,608)

- The net cost of governmental activities for fiscal year 2005 in the amount of \$16,989,897 was financed by general revenue, which is made up of primarily property taxes of \$5,654,922 and state revenue of \$11,539,817.
- Investment earnings accounted for \$146,662 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$4,511,071. The net change in fund balance for the fiscal year was an increase

McComb School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

of \$814,056 due primarily to conservative budgeting in expectation of a shortfall of advalorem receipts and MAEP funds. However, this shortfall did not occur. In addition, the district did not expend funds that were originally budgeted for various special projects. The increase is also due to sixteenth section revenue generated during the fiscal year from the sale of timber, oil and gas royalties, earnings on investments and other sixteenth section sources. \$3,851,679, or 85%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The remaining fund balance of \$659,392, or 15%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for advances, inventory, prepaid items, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year was an increase of \$640,333 due primarily to conservative budgeting in expectation of a shortfall that never materialized. In addition, the district did not expend funds that were originally budgeted for various special projects. The net change in fund balance for the 16th Section Principal Fund for the fiscal year was an increase of \$209,483 due primarily to revenue generated from oil and gas royalties, easements and rights-of-way, pro rata revenue from other districts and earnings on sixteenth section investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$35,760.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in advalorem receipts during the fiscal year due to an increase in the assessed valuation of property.
- Budgeted amounts for support services expenditures in the General Fund were decreased. The original budget included expenditures related to several special projects that were not completed during the fiscal year. In addition, several teacher units for Special Education that were originally budgeted were not filled during the fiscal year.
- Budgeted amounts for facilities acquisition and construction expenditures in the General Fund were increased to reflect the expenditures incurred during the fiscal year. These expenditures were not originally budgeted.
- Budgeted amounts for proceeds of loans in the General Fund were increased to reflect the proceeds actually received during the fiscal year. The proceeds were not originally budgeted.

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Management's Discussion and Analysis
For the Year Ended June 30, 2005

- Budgeted amounts for transfers into the General Fund were increased to reflect the transfers from the 16th Section Interest Fund and Forestry Escrow Fund. Transfers from these funds were not included in the original budget.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets, before depreciation, were \$16,724,566, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$491,857 from the previous year. During the fiscal year, the district purchased two buildings, one bus, several items of furniture and equipment and completed various building improvements. The district also disposed of two buses and several items of furniture and equipment during the fiscal year. Total depreciation expense for the year was \$359,220. Total accumulated depreciation as of June 30, 2005 was \$6,290,724, resulting in total net assets of \$10,433,842.

Debt Administration. At June 30, 2005, the District had \$6,647,238 in limited obligation bonds and other long-term debt outstanding, of which \$648,794 is due within one year. During the fiscal year, the district made principal payments in the amount of \$633,077 on long-term debt. The district also acquired new debt in the amount of \$95,245 during the fiscal year.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has not increased over the past several years. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly over the past several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the McComb School District, P. O. Box 868, McComb, MS 39649-0868.

McComb School District

FINANCIAL STATEMENTS

McComb School District

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McComb School District
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 3,724,344
Cash with fiscal agent	254,143
Due from other governments	1,051,272
Inventories and prepaid items	63,197
Restricted assets	630,531
Capital assets, net (Note 4)	<u>10,433,842</u>
 Total Assets	 \$ <u><u>16,157,329</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 82,349
Due to other governments	1,010,080
Deferred Revenue	119,987
Interest payable on long-term liabilities	101,473
 Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	516,051
Non-capital related liabilities	132,743
 Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	5,805,180
Non-capital related liabilities	<u>193,264</u>
 Total Liabilities	 \$ <u><u>7,961,127</u></u>
Net Assets	
Investment in capital assets, net of related debt	\$ 4,112,611
Restricted net assets:	
Expendable:	
School - based activities	757,299
Debt service	387,568
Capital improvements	184
Forestry improvements	32,090
Unemployment benefits	73,622
Non-expendable:	
Sixteenth section	1,263,226
Permanent Funds	28,000
Unrestricted	<u>1,541,602</u>
 Total Net Assets	 \$ <u><u>8,196,202</u></u>

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

McComb School District
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Primary Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 13,739,316	340,243	3,510,721	-	(9,888,352)
Support services	7,925,541	-	1,439,345	-	(6,486,196)
Non-instructional	1,959,045	125,231	1,515,030	-	(318,784)
Sixteenth section	11,358	28,621	-	-	17,263
Interest on long-term liabilities	313,828	-	-	-	(313,828)
Total governmental activities	\$ 23,949,088	494,095	6,465,096	-	(16,989,897)

General Revenues:

Taxes:	
General purpose levies	5,239,541
Debt purpose levies	415,381
Unrestricted grants and contributions:	
State	11,539,817
Federal	447,571
Unrestricted investment earnings	146,662
Sixteenth section sources	429,978
Other	323,830
Total General Revenues	18,542,780
 Change in Net Assets	 1,552,883
 Net Assets-Beginning	 6,655,771
Prior Period Adjustments	(12,452)
Net Assets - Beginning - Restated	6,643,319
 Net Assets - Ending	 \$ 8,196,202

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

McComb School District
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	Major Funds			
	General	16th Section	Other	Total
	Fund	Principal Fund	Governmental Funds	Governmental Funds
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,595,450	630,531	1,128,894	4,354,875
Cash with fiscal agents (Note 2)	95,245	-	158,898	254,143
Due from other governments	222,940	-	821,590	1,044,530
Other receivables, net	-	-	-	-
Due from other funds (Note 3)	375,299	36,500	6,587	418,386
Advance to other funds (Note 3)	-	596,195	-	596,195
Inventories and prepaid items	25,957	-	37,240	63,197
Total Assets	\$ 3,314,891	1,263,226	2,153,209	6,731,326
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 52,123	-	30,226	82,349
Due to other funds (Note 3)	800,915	-	620,809	1,421,724
Advances from other funds (Note 3)	596,195	-	-	596,195
Deferred Revenue	-	-	119,987	119,987
Total Liabilities	1,449,233	-	771,022	2,220,255
Fund Balances:				
Reserved for:				
Inventory	-	-	37,240	37,240
Advances	-	596,195	-	596,195
Prepaid Items	25,957	-	-	25,957
Unreserved:				
Undesignated, reported in:				
General fund	1,839,701	-	-	1,839,701
Special Revenue funds	-	-	817,864	817,864
Capital Projects funds	-	-	2,135	2,135
Debt Service funds	-	-	489,041	489,041
Permanent funds	-	667,031	35,907	702,938
Total Fund Balances	1,865,658	1,263,226	1,382,187	4,511,071
Total Liabilities and Fund Balances	\$ 3,314,891	1,263,226	2,153,209	6,731,326

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

McComb School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,511,071
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$6,290,724 (Note 4)	10,433,842
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds as follows:	
Long-term liabilities (Note 5)	(6,647,238)
Accrued interest on debt	<u>(101,473)</u>
Total Net Assets - Governmental Activities	\$ <u><u>8,196,202</u></u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2005

	Major Funds			Total Governmental Funds
	General	16th Section	Other	
	Fund	Principal Fund	Governmental Funds	
Revenues:				
Local sources	\$ 5,739,379	16,743	786,657	6,542,779
State sources	11,179,409	-	942,369	12,121,778
Federal sources	196,228	-	6,134,478	6,330,706
Sixteenth section sources	-	217,501	265,859	483,360
Total Revenues	<u>17,115,016</u>	<u>234,244</u>	<u>8,129,363</u>	<u>25,478,623</u>
Expenditures:				
Instruction	9,844,214	-	3,911,956	13,756,170
Support services	6,218,064	-	1,672,139	7,890,203
Noninstructional services	110,869	-	1,864,414	1,975,283
Sixteenth section	-	-	11,358	11,358
Facilities acquisition and construction	193,529	-	-	193,529
Debt service:				
Principal	39,694	-	593,383	633,077
Interest	28,537	-	294,653	323,190
Other	-	-	779	779
Total Expenditures	<u>16,434,907</u>	<u>-</u>	<u>8,348,682</u>	<u>24,783,589</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>680,109</u>	<u>234,244</u>	<u>(219,319)</u>	<u>695,034</u>
Other Financing Sources (Uses):				
Proceeds of loans	95,245	-	-	95,245
Insurance loss recoveries	23,348	-	-	23,348
Sale of transportation equipment	429	-	-	429
Operating transfers in	2,389,568	-	728,658	3,118,226
Operating transfers out	(2,548,366)	(24,761)	(545,099)	(3,118,226)
Total Other Financing Sources (Uses)	<u>(39,776)</u>	<u>(24,761)</u>	<u>183,559</u>	<u>119,022</u>
Net Change in Fund Balances	<u>640,333</u>	<u>209,483</u>	<u>(35,760)</u>	<u>814,056</u>
Fund Balances:				
July 1, 2004, as previously stated	1,225,325	1,053,743	1,427,277	3,706,345
Prior period adjustments & reclassifications	-	-	(12,452)	(12,452)
July 1, 2004, as restated	1,225,325	1,053,743	1,414,825	3,693,893
Increase (Decrease) in reserve for inventory	-	-	3,122	3,122
June 30, 2005	<u>\$ 1,865,658</u>	<u>1,263,226</u>	<u>1,382,187</u>	<u>4,511,071</u>

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

McComb School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 814,056
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$563,630 and the depreciation expense amounted to \$359,220. (Note 4)	204,410
2. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activity. (Note 5)	(95,245)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of activity. (Note 5)	633,077
4. Expenses in the statement of activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated Absences	(10,220)
5. Governmental funds recognize interest on long-term debt when it becomes due, however, the statement of activities recognizes interest as it accrues regardless of when it becomes due.	10,141
6. In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Proceeds from the sale of capital assets	(429)
Losses on the sale of capital assets	(6,029)
7. Increases or decreases in reserve for inventory directly affects fund balance in the fund statements, but is adjusted through expenses in the statement of activities.	<u>3,122</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,552,883</u></u>

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

McComb School District
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 111,356
Due from other funds (Note 3)	<u>1,010,080</u>
Total Assets	<u>\$ 1,121,436</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,090,027
Due to other funds	6,742
Due to student clubs	<u>24,667</u>
Total Liabilities	<u>\$ 1,121,436</u>

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

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of McComb since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation.

The school district's basic financial statement consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

Fund Financial Statements:

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

16th Section Principal Fund - This fund accounts for the principal amounts due on sixteenth section principal loans.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

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

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

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

McCOMB SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

II. Inventories and Prepaid Items.

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

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as Prepaid items in both governmental and fund financial statements.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

K. Interfund Transactions and Balances.

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

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

Non-current portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriations.

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

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for prepaid items - An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net current assets.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

(2) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$4,354,875 and \$111,356 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$3,724,344 and Restricted Assets \$2,541,989. The Restricted Assets represents the cash balance of the 16th section Principal Funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$5,445,742.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the

McCOMB SCHOOL DISTRICT

**Notes to Financial Statements
For the Year Ended June 30, 2005**

Mississippi State Treasurer on behalf of the district. By signed agreement the Mississippi State Treasurer's office is acting on behalf of the school district.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$254,143.

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

A. **Due From/To Other Funds:**

	Due From	Due To
Major funds:		
General fund	\$ 375,299	800,915
16 th Section Principal Fund	36,500	
Other Governmental Funds	6,587	620,809
Fiduciary Funds	1,010,080	6,742
Total Funds	\$ 1,428,466	1,428,466

The purpose of the interfund receivables and payables are to close out federal program funds at year end. All interfund receivables and payables are expected to be repaid within one year.

B. **Advances To/From Other Funds:**

	Advances To	Advances From
Major funds:		
General fund	\$	596,195
16 th Section Principal Fund	596,195	
Other Governmental funds	0	0
Total Funds	\$ 596,195	596,195

[Note: The sixteenth section principal loans payable is not reflected on the statement of net assets because these funds were borrowed by the General Fund from the sixteenth section trust fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions were reflected on Exhibit D-1.]

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 22,839	23,847	47,686
2007	22,839	22,934	45,773
2008	22,839	22,021	44,860
2009	13,839	21,107	34,946
2010	48,839	20,554	69,393
2011 - 2015	169,000	81,480	250,480
2016 - 2020	207,000	43,320	250,320
2021 - 2022	89,000	5,280	94,280
Total	\$ 596,195	240,543	836,738

C. Transfers In/Out.

	Transfer In	Transfers Out
Major funds:		
General fund	\$ 2,389,568	2,548,366
16 TH Section Principal Fund		24,761
Other Governmental Funds	728,658	545,099
Total Funds	\$ 3,118,226	3,118,226

The purposes of interfund transfers are to transfer federal program indirect costs to the General Fund and to close out federal program funds at year end. These transfers are consistent with the activities of the fund making the transfer.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(4) Capital Assets.

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

	Balance 7-1-2004	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2005
<u>Non-depreciable capital assets:</u>						
Land	\$ 123,362	0	0	0	0	123,362
Construction in progress	57,646	0	0	0	0	57,646
Total non-depreciable capital assets	181,008	0	0	0	0	181,008
<u>Depreciable capital assets:</u>						
Buildings	12,998,755	383,456	0	0	0	13,382,211
Building improvements	806,450	85,195	0	0	0	891,645
Improvements other than buildings	222,554	0	0	0	0	222,554
Mobile equipment	1,162,547	47,500	52,000	0	0	1,158,047
Furniture and equipment	861,395	47,479	19,773	0	0	889,101
Leased property under capital leases	0	0	0	0	0	0
Total depreciable capital assets	16,051,701	563,630	71,773	0	0	16,543,558
<u>Less accumulated depreciation for:</u>						
Buildings	4,517,462	174,415	0	0	0	4,691,877
Building improvements	90,099	35,666	0	0	0	125,765
Improvements other than buildings	64,144	6,328	0	0	0	70,472
Mobile equipment	696,958	72,994	46,800	0	0	723,152
Furniture and equipment	628,156	69,817	18,515	0	0	679,458
Leased property under capital leases	0	0	0	0	0	0
Total accumulated depreciation	5,996,819	359,220	65,315	0	0	6,290,724
Total depreciable capital assets, net	10,054,882	204,410	6,458	0	0	10,252,834
Governmental activities capital assets, net	\$ 10,235,890	204,410	6,458	0	0	10,433,842

Additions to buildings includes a donated building valued at \$320,000.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 253,107
Support services	91,162
Non-instructional	<u>14,951</u>
Total depreciation expense	<u>\$ 359,220</u>

Commitments under construction contracts at June 30, 2005, are summarized as follows:

	<u>Remaining Commitment</u>	<u>Required Future Financing</u>
Bus Barn	\$ 187,000	0
Total	<u>\$ 187,000</u>	<u>0</u>

(5) Long-term liabilities.

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

	<u>Balance 7-1-2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance 6-30-2005</u>	<u>Amounts due within one year</u>
A. Limited obligation bonds payable	4,440,000		225,000		4,215,000	235,000
B. Three mill notes payable	2,023,068		216,838		1,806,230	226,269
C. Shortfall notes payable	307,218		151,545		155,673	119,116
D. Other loans payable	244,450	95,245	39,694		300,001	54,782
E. Compensated absences payable	160,114	10,220			170,334	13,627
Total	<u>\$ 7,174,850</u>	<u>105,465</u>	<u>633,077</u>	<u>0</u>	<u>6,647,238</u>	<u>648,794</u>

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

A. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital Improvement, Series 1998	Varies	02-01-98	02-01-18	\$ 5,180,000	4,215,000
Total				\$ 5,180,000	4,215,000

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 235,000	183,782	418,782
2007	245,000	173,641	418,641
2008	260,000	162,845	422,845
2009	270,000	151,450	421,450
2010	280,000	139,485	419,485
2011 – 2015	1,620,000	491,548	2,111,548
2016 – 2018	1,305,000	101,775	1,406,775
Total	\$ 4,215,000	1,404,526	5,619,526

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

B. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
	4.35%	06-03-02	06-03-12	\$ 2,430,000	1,806,230
Total				\$ 2,430,000	1,806,230

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 226,269	78,571	304,840
2007	236,111	68,729	304,840
2008	246,382	58,458	304,840
2009	257,100	47,740	304,840
2010	268,284	36,556	304,840
2011 - 2012	572,084	37,593	609,677
Total	\$ 1,806,230	327,647	2,133,877

This debt will be retired from the EEF Buildings and Buses Fund - Special Revenue Fund and the 3 Mill Notes Fund - Debt Service Fund.

C. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
	2.98%	12-10-02	03-01-06	242,639	83,856
	3.57%	12-10-03	03-01-07	105,000	71,817
Total				\$ 347,639	155,673

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 119,116	5,132	124,248
2007	36,557	1,323	37,880
Total	\$ 155,673	6,455	162,128

This debt will be retired from the Shortfall Note Fund - Debt Service Fund.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

D. Other loans payable.

The school district has issued debt instruments granted under the authority of Section 57-39-39 Mississippi Code of 1972.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Mississippi Development Authority - Energy Investment Program	1.0%	08-26-03	09-01-09	\$ 244,450	204,756
	2.75%	04-08-05	05-01-11	95,245	95,245
Total				\$ 339,695	300,001

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

Year Ending June 30	Principal	Interest	Total
2006	54,782	4,834	59,616
2007	55,753	3,863	59,616
2008	56,577	3,039	59,616
2009	57,417	2,199	59,616
2010	58,315	1,344	59,659
2011	17,157	472	17,629
Total	\$ 300,001	15,751	315,752

This debt will be retired from the General Fund.

E. Compensated absences payable.

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

(6) Defined Benefit Pension Plan.

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

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,359,783, \$1,254,465, and \$1,196,716, respectively, which equaled the required contributions for each year.

(7) Other Commitments.

Commitments under construction contracts are described in Note 4.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2006	\$ 6,489
2007	6,258
2008	6,258
2009	6,258
2010	6,258
2011-2015	23,048
2016-2020	10,278
2021-2025	9,672
2026-2030	9,268
2031-2035	8,068
2036-2040	1,644
Total	\$ <u>93,499</u>

McCOMB SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. Reclassify fund equity - an adjustment to correct a prior year error in recording an asset or liability:	
a) Other Governmental Funds	(12,452)
	<u>(12,452)</u>
Total	\$ <u>(12,452)</u>

Exhibit D- Statement of Revenue, Expenditures and changes in Fund Balance

<u>Explanation(s)</u>	<u>Amount</u>
1. Reclassify fund equity - an adjustment to correct a prior year error in recording an asset or liability:	
a) Other Governmental Funds	(12,452)
	<u>(12,452)</u>
Total	\$ <u>(12,452)</u>

(10) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

McCOMB SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

McCOMB SCHOOL DISTRICT

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McComb School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 5,326,993	5,739,379	5,739,379	412,386	-
State sources	11,149,733	11,179,409	11,179,409	29,676	-
Federal sources	247,687	196,228	196,228	(51,459)	-
Total Revenues	<u>16,724,413</u>	<u>17,115,016</u>	<u>17,115,016</u>	<u>390,603</u>	<u>-</u>
Expenditures:					
Instruction	9,765,551	9,844,214	9,844,214	(78,663)	-
Support services	6,475,119	6,216,620	6,218,064	258,499	(1,444)
Noninstructional services	116,159	110,869	110,869	5,290	-
Facilities acquisition and construction	-	194,973	193,529	(194,973)	1,444
Debt service:					
Principal	62,533	39,694	39,694	22,839	-
Interest	27,246	28,537	28,537	(1,291)	-
Total Expenditures	<u>16,446,608</u>	<u>16,434,907</u>	<u>16,434,907</u>	<u>11,701</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures					
	<u>277,805</u>	<u>680,109</u>	<u>680,109</u>	<u>402,304</u>	<u>-</u>
Other Financing Sources (Uses):					
Proceeds of loans	-	95,245	95,245	95,245	-
Insurance loss recoveries	-	23,348	23,348	23,348	-
Sale of transportation equipment	-	429	429	429	-
Operating transfers in	2,044,514	2,426,068	2,389,568	381,554	(36,500)
Other financing sources	-	-	-	-	-
Operating transfers out	(2,534,964)	(2,548,366)	(2,548,366)	(13,402)	-
Total Other Financing Sources (Uses)	<u>(490,450)</u>	<u>(3,276)</u>	<u>(39,776)</u>	<u>487,174</u>	<u>(36,500)</u>
Net Change in Fund Balances					
	<u>(212,645)</u>	<u>676,833</u>	<u>640,333</u>	<u>889,478</u>	<u>(36,500)</u>
Fund Balances:					
July 1, 2004			<u>1,225,325</u>		
June 30, 2005			<u>1,865,658</u>		

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

McCOMB SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

McCOMB SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

McCOMB SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 76,063
Child nutrition cluster:		
School breakfast program	10.553	356,841
National school lunch program	10.555	817,308
Summer food service program for children	10.559	1,190
Total child nutrition cluster		<u>1,175,339</u>
Total U.S. Department of Agriculture		<u>1,251,402</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	13,179
Total		<u>13,179</u>
Passed-through Mississippi Board for Community and Junior Colleges:		
Adult education - state grant program	84.002	133,252
Total		<u>133,252</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,460,781
Vocational education - basic grants to states	84.048	62,517
Safe and drug-free schools and communities - state grants	84.186	32,248
Twenty first century community learning centers	84.287	345,168
State grants for innovative programs	84.298	21,346
Capacity building for traditionally under served populations	84.315	49,976
Education technology state grants	84.318	229,444
Early childhood educator professional development	84.349	17,453
Rural education	84.358	127,333
Early reading first	84.359	1,043,228
Improving teacher quality - state grants	84.367	346,993
Total		<u>3,736,487</u>

Special education cluster:

Special education - grants to states	84,027	637,040
Special education - preschool grants	84,173	18,200
Total		<u>655,240</u>

Total passed-through Mississippi Department of Education		<u>4,391,727</u>
Total U.S. Department of Education		<u>4,538,158</u>

Department of Health and Human Services

Passed through Mississippi Department of Human Services

Temporary Assistance to Needy Families	93,558	311,745
Total Department of Health and Human Services		<u>311,745</u>

Corporation for National and Community Service

Passed-through the Mississippi Department of Education:

Learn and serve America - school and community based programs	94,004	9,907
Total Corporation for National and Community Service		<u>9,907</u>

Other Federal Assistance

Direct program:

Reserve Officers' Training Corps	12,XXX	51,462
Total Other Federal Assistance		<u>51,462</u>

Total for All Federal Awards		<u>\$ 6,162,674</u>
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NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

McComb School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>	
Salaries and fringe benefits	\$ 18,329,428	11,808,032	2,041,171	4,480,225	
Other	6,454,161	1,948,138	308,635	4,197,388	
Total	\$ 24,783,589	13,756,170	2,349,806	8,677,613	
Total number of students *		2,687			
Cost per student \$		9,224	5,120	875	3,229

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

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type - all the 1000 functional codes

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative

McCOMB SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

McCOMB SCHOOL DISTRICT

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

Superintendent and School Board
McComb School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McComb School District as of and for the year ended June 30, 2005 which collectively comprise the McComb School District's basic financial statements and have issued our report thereon dated October 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Patrick E. Lowery & Associates
Certified Public Accountants
October 27, 2005

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INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board
McComb School District

Compliance

We have audited the compliance of the McComb School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

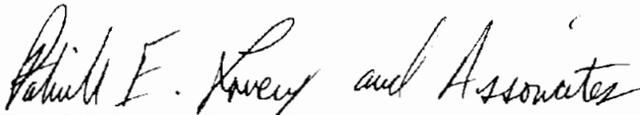
In our opinion, McComb School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the McComb School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Patrick E. Lowery & Associates
Certified Public Accountants
October 27, 2005

McComb School District

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

McComb School District

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

Superintendent and School Board
McComb School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McComb School District as of and for the year ended June 30, 2005 which collectively comprise McComb School District's basic financial statements and have issued our report thereon dated October 27, 2005. 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*.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$21,987 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Patrick E. Lowery & Associates
Certified Public Accountants
October 27, 2005

McComb School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

McComb School District

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McComb School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | Unqualified |
| 2. | Material noncompliance relating to the financial statements? | No |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |

Federal Awards:

- | | | |
|----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Title I-Grants to local educational agencies
CFDA # 84.010 | |
| b. | Twenty First Century Community Learning Centers
CFDA # 84.287 | |
| c. | Temporary Assistance to Needy Families
CFDA # 93.558 | |
| d. | Improving Teacher Quality-State Grants
CFDA # 84.367 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

McComb School District

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005

- 10 Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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