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**McComb School District  
Financial Statements  
For the Year Ended  
June 30, 2006**

McComb School District

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McComb School District

FINANCIAL AUDIT REPORT

**PATRICK E. LOWERY AND ASSOCIATES**

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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 accompanying 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, 2006 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.

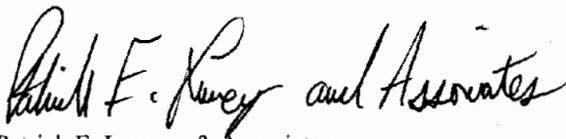
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 opinions.

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, 2006 and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2006 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 4 through 15 and the Budgetary Comparison Schedules and corresponding notes on pages 41 through 46 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 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 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 and is not a required part of the basic financial statements. 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

December 15, 2006

McComb School District

MANAGEMENT'S DISCUSSION AND ANALYSIS

# 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, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic 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.

## FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,758,857, which represents a 21% increase from fiscal year 2005. 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 received approximately \$1,171,000 in federal funds under the Displaced Student Grant which resulted from students displaced by Hurricane Katrina. The increase in net assets is also due to the purchase of various capital assets and building improvements made during the fiscal year.
- General revenues account for \$19,898,176 in revenue, or 71% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$8,215,012, or 29% of total revenues.
- The District had \$26,354,331 in expenses; only \$8,215,012 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,898,176 were adequate to provide for these programs.
- Among major funds, the General Fund had \$18,166,135 in revenues and \$17,349,807 in expenditures. After net other financing sources of \$48,315, the net change in fund balance for the General Fund was an increase of \$864,643 from the prior year. This increase is due to an increase in the amount of advalorem and MAEP funds over the amount originally expected, proceeds of loans, and insurance loss recoveries resulting from damages from Hurricane Katrina. In addition, salary related expenditures normally

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incurred in the General Fund were reported in the Displaced Student Grant Funds and federal sources were received to cover those expenditures.

- Capital assets, net of accumulated depreciation, increased by \$40,290.
- Long-term debt increased by \$1,954,323. This increase is due to proceeds of loans resulting from the issuance of Qualified Zone Academy Bonds (QZAB) and a shortfall note obtained during the fiscal year.

## 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.

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**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 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*. 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 have 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 and each additional major special revenue fund.

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

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$9,955,059 as of June 30, 2006.

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. \$4,668,952 of the District's net assets (47%) reflects its investment in capital assets (e.g., land, 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. \$4,933,879 of the District's net assets (50%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16<sup>th</sup> section investment purposes and scholarships. \$352,228 of the District's net assets (3%) 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, 2006 and comparative data for the fiscal year ended June 30, 2005.

	Net Assets		Percentage
	June 30, 2006	June 30, 2005	Change
Current assets	\$ 8,312,607	\$ 4,934,058	63.2 %
Other assets	1,245,899	789,429	97.6 %
Capital assets, net	10,474,132	10,433,842	.4 %
<b>Total assets</b>	<b>20,032,638</b>	<b>16,157,329</b>	<b>24.0 %</b>
Current liabilities	2,083,817	1,313,889	58.6 %
Long-term debt outstanding	7,993,762	6,647,238	20.3 %
<b>Total liabilities</b>	<b>10,077,579</b>	<b>7,961,127</b>	<b>26.6 %</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	4,668,952	4,112,611	13.5 %
Restricted	4,933,879	2,541,989	94.1 %
Unrestricted	352,228	1,541,602	(77.2) %
<b>Total net assets</b>	<b>\$ 9,955,059</b>	<b>8,196,202</b>	<b>21.5 %</b>

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FOR THE YEAR ENDED JUNE 30, 2006

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

- Current assets increased from the previous fiscal year due primarily to an increase in cash and cash equivalents and amounts due from other governments. The increase in cash and cash equivalents is due primarily to cash on hand at the end of the fiscal year after proceeds received from the issuance of the QZAB debt. The increase in amounts due from other governments is due primarily to an increase in amounts due from federal sources related to the Displaced Student Grant. This was a new grant for the fiscal year resulting from the students displaced by Hurricane Katrina.
- Other assets increased from the previous fiscal year due primarily to an increase in investments in the 16<sup>th</sup> Section Principal Fund and the reporting of investments in the MAEP Retirement Fund as restricted assets. Cash and cash equivalents and investments in the 16<sup>th</sup> Section Principal Fund and the MAEP Retirement Fund are reported as restricted assets on the Statement of Net Assets.
- Current liabilities increased from the previous fiscal year due primarily to an increase in accounts payable and accrued liabilities.
- Long-term debt outstanding increased from the previous fiscal year due primarily to the issuance of QZAB debt 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 various capital assets and building improvements made during the fiscal year and the reduction of debt related to the capital assets.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities. This increase is related to the fund balance in the QZAB Project Fund resulting from cash on hand remaining at the end of the fiscal year after proceeds received from the issuance of debt.
- Unrestricted net assets decreased from the previous fiscal year. This decrease is due primarily to the increase in non-capital debt (QZAB) during the fiscal year. Non-capital debt at year end is netted against the expendable, unrestricted funds in the General Fund and Permanent Fund to arrive at unrestricted net assets on the Statement of Net Assets.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2006 were \$28,113,188. The total cost of all programs and services was \$26,354,331. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

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	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2006</u>	<u>June 30, 2005</u>	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 449,305	\$ 494,095	(9.1) %
Operating grants and contributions	7,765,707	6,465,096	20.1 %
General revenues:			
Property taxes	6,057,889	5,654,922	7.1 %
Grants and contributions not restricted	12,739,355	11,987,388	6.3 %
Other	<u>1,100,932</u>	<u>900,470</u>	22.3 %
<b>Total revenues</b>	<b><u>28,113,188</u></b>	<b><u>25,501,971</u></b>	10.2 %
<b>Expenses:</b>			
Instruction	14,575,336	13,739,316	6.1 %
Support services	9,235,402	7,925,541	16.5 %
Non-instructional	2,246,118	1,959,045	14.7 %
Sixteenth section	4,248	11,358	(62.6) %
Interest and other expenses on long-term liabilities	<u>293,227</u>	<u>313,828</u>	(6.6) %
<b>Total expenses</b>	<b><u>26,354,331</u></b>	<b><u>23,949,088</u></b>	10.0 %
 <b>Increase (Decrease) in net assets</b>	 1,758,857	 1,552,883	 13.3 %
 <b>Net Assets, July 1</b>	 8,196,202	 6,655,771	 23.1 %
<b>Prior Period Adjustments</b>	<u>0</u>	<u>(12,452)</u>	
<b>Net Assets Restated, July 1</b>	<b><u>8,196,202</u></b>	<b><u>6,643,319</u></b>	
 <b>Net Assets, June 30</b>	 <b><u>\$ 9,955,059</u></b>	 <b><u>\$ 8,196,202</u></b>	 21.5 %

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

- Operating grants and contributions increased from the previous fiscal year due primarily to an increase in federal sources received related to the Displaced Students Grant. This was a new grant for the fiscal year resulting from the students displaced by Hurricane Katrina.
- Other revenues increased from the previous fiscal year due primarily to an increase in earnings on investments during the fiscal year and insurance loss recoveries related to damages caused by Hurricane Katrina.
- Instruction expenses increased from the previous fiscal year due primarily to the 8% increase in teacher salaries.

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- Support services expenses increased from the previous fiscal year due primarily to the 8% increase in teacher salaries and expenditures related to the renovation or repair of school facilities.

**Governmental activities.** The following table presents, for the fiscal year ended June 30, 2006 and comparative data 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.

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 14,575,336	\$ (9,837,860)	\$ 13,739,316	\$ (9,888,352)
Support services	9,235,402	(7,634,807)	7,925,541	(6,486,196)
Non-instructional	2,246,118	(369,177)	1,959,045	(318,784)
Sixteenth section	4,248	(4,248)	11,358	17,263
Interest and other expenses on long-term liabilities	<u>293,227</u>	<u>(293,227)</u>	<u>313,828</u>	<u>(313,828)</u>
<b>Total expenses</b>	<u>\$ 26,354,331</u>	<u>\$ (18,139,319)</u>	<u>\$ 23,949,088</u>	<u>\$ (16,989,897)</u>

- The net cost of governmental activities for fiscal year 2006 in the amount of \$18,139,319 was financed by general revenue, which is made up of primarily property taxes of \$6,057,889 and state revenue of \$12,345,206.
- Investment earnings accounted for \$241,179 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, 2006, its governmental funds reported a combined fund balance of \$8,180,271. The net change in fund balance for the fiscal year was an increase of \$3,676,156 due primarily to the receipt of more advalorem and MAEP funds than originally expected, an increase in federal funds received during the fiscal year related to the Displaced Student Grant, insurance loss recoveries resulting from damages caused by Hurricane Katrina

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and proceeds of loans resulting from the issuance of debt during the fiscal year. \$6,119,616, or 75%, 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 portion of the fund balance reported in the Permanent Funds is earnings on investments in the 16<sup>th</sup> Section Principal Fund that can be transferred to governmental funds for use in school operations. The remaining fund balance of \$2,060,655, or 25%, 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 \$864,643 due primarily to the receipt of more advalorem and MAEP funds than originally expected. In addition, salary related expenditures normally incurred in the General Fund were reported in the Displaced Student Grant Funds and federal sources were received to cover those expenditures. The net change in fund balance for the QZAB Project Fund for the fiscal year was an increase of \$2,182,941 due to proceeds received from the issuance of debt that remained unspent at year end. The net change in fund balance for the 16<sup>th</sup> Section Principal Fund for the fiscal year was an increase of \$403,500 due to revenue generated from oil and gas royalties and earnings on investments. The net change in fund balance for the Other Governmental Funds for the fiscal year was an increase of \$225,072 due primarily to the excess of revenues and other financing sources over expenditures and other financing uses in the School Food Service Fund, EEF Buildings and Buses Fund, Medicaid Admin Fund and Shortfall Note Fund.

### **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.
- Budgeted amounts for instruction expenditures in the General Fund were decreased during the fiscal year because salary related expenditures normally incurred in the General Fund were reported in the Displaced Student Grant Funds and federal sources were received to cover those expenditures.
- Budgeted amounts for support services expenditures in the General Fund were increased during the fiscal year to reflect the increase in building maintenance and repair costs.
- Budgeted amounts for facilities acquisition and construction expenditures in the General Fund were increased during the fiscal year to reflect the addition of the new bus barn.

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- Budgeted amounts for insurance loss recoveries in the General Fund were increased to reflect those received during the fiscal year resulting from damages caused by Hurricane Katrina.
- Budgeted amounts for transfers into and out of the General Fund were revised to reflect actual transfers made during the fiscal year.
- Budgeted amounts for federal sources and instruction expenditures in the Displaced Students Fund were increased during the fiscal year to reflect actual revenue to be received from the federal government and expenditures incurred related to educating students displaced by Hurricane Katrina.
- Budgeted amounts for federal sources and instruction expenditures in the Early Reading Fund were increased during the fiscal year. When preparing the original budget, the amount of carryover from the previous fiscal year for this federal grant is unknown. Therefore, only salary related expenditures for three months are included in the original budget. The budget is amended after the carryover amount is determined.
- Budgeted amounts for local sources, support services expenditures and proceeds of loans in the QZAB Project Fund were increased during the fiscal year. The issuance of debt for the renovation and/or repair of various school facilities was done after the original budget was prepared. Budget revisions were made to reflect the proceeds received from the issuance of debt, interest earned and expenditures incurred during the fiscal year.

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

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the District's total capital assets, before depreciation, were \$16,995,885, including land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$271,319 from the previous year. During the fiscal year, the district purchased two buses, a truck, a bus barn building, various items of furniture and equipment and completed building improvements. The district also disposed of various items of furniture and equipment. Total depreciation expense for the year was \$363,314. Total accumulated depreciation as of June 30, 2006 was \$6,521,753, resulting in total net capital assets of \$10,474,132.

**MCCOMB SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Capital Assets, Net of Depreciation</u>		Percentage Change
	<u>2006</u>	<u>2005</u>	
Land	\$ 123,362	\$ 123,362	0 %
Construction in progress	0	57,646	(100.0) %
Buildings	8,785,839	8,690,334	1.1 %
Building improvements	782,566	765,880	2.2 %
Improvements other than buildings	145,754	152,082	(4.2) %
Mobile equipment	466,965	434,895	7.4 %
Furniture and equipment	<u>169,646</u>	<u>209,643</u>	(19.1) %
<b>Total</b>	<b><u>\$10,474,132</u></b>	<b><u>\$ 10,433,842</u></b>	<b>4 %</b>

**Debt Administration.** At June 30, 2006, the District had \$8,601,561 in limited obligation bonds and other long-term debt outstanding, of which \$607,799 is due within one year. During the fiscal year, the district received proceeds of \$2,500,000 from the issuance of Qualified Zone Academy Bonds (QZAB) and the proceeds will be used for the renovation and/or repair of various school facilities. The district also obtained a shortfall note in the amount of \$99,805. During the fiscal year, the district made principal payments on long-term debt in the amount of \$634,899.

	<u>Outstanding Debt</u>		Percentage Change
	<u>2006</u>	<u>2005</u>	
Limited obligation bonds payable	\$ 3,980,000	\$ 4,215,000	(5.6) %
Three mill notes payable	1,579,961	1,806,230	(12.5) %
Shortfall notes payable	136,630	155,673	(12.2) %
Other loans payable	245,219	300,001	(18.3) %
Qualified zone academy bonds payable	2,500,000	0	
Compensated absences payable	<u>159,751</u>	<u>170,334</u>	(6.2) %
<b>Total</b>	<b><u>\$ 8,601,561</u></b>	<b><u>\$ 6,647,238</u></b>	<b>29.4 %</b>

**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. In addition, 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.

**MCCOMB SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006**

**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  
Statement of Net Assets  
June 30, 2006

Exhibit A

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
<b>Assets</b>	
Cash and cash equivalents (Note 3)	\$ 4,166,725
Cash with fiscal agent (Note 3)	175,101
Due from other governments	1,841,969
Accrued Interest Receivable	22,572
Inventories and prepaid items	85,136
Restricted assets	3,267,003
Capital assets, not being depreciated:	
Land	123,362
Capital assets, net of accumulated depreciation:	
Buildings	8,785,839
Building improvements	782,566
Improvements other than buildings	145,754
Mobile equipment	466,965
Furniture and equipment	<u>169,646</u>
<b>Total Assets</b>	<b>\$ <u>20,032,638</u></b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 1,352,617
Deferred Revenue	25,618
Interest payable on long-term liabilities	97,783
Long-term liabilities, due within one year (Note 6)	
Capital related liabilities	536,864
Non-capital related liabilities	70,935
Long-term liabilities, due beyond one year (Note 6)	
Capital related liabilities	5,268,316
Non-capital related liabilities	<u>2,725,446</u>
<b>Total Liabilities</b>	<b>\$ <u>10,077,579</u></b>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	\$ 4,668,952
Restricted net assets:	
Expendable:	
School - based activities	3,058,159
Debt service	482,516
Forestry improvements	29,806
Unemployment benefits	77,140
Non-expendable:	
Sixteenth section	1,250,434
Permanent Funds	35,824
Unrestricted	<u>352,228</u>
<b>Total Net Assets</b>	<b>\$ <u>9,955,059</u></b>

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, 2006

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 Government
					Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 14,575,336	305,536	4,431,940	-	(9,837,860)
Support services	9,235,402	-	1,600,595	-	(7,634,807)
Non-instructional	2,246,118	143,769	1,733,172	-	(369,177)
Sixteenth section	4,248	-	-	-	(4,248)
Interest on long-term liabilities	293,227	-	-	-	(293,227)
<b>Total governmental activities</b>	<b>\$ 26,354,331</b>	<b>449,305</b>	<b>7,765,707</b>	<b>-</b>	<b>(18,139,319)</b>

General Revenues:

Taxes:

General purpose levies	5,616,888
Debt purpose levies	441,001

Unrestricted grants and contributions:

State	12,345,206
Federal	394,149
Unrestricted investment earnings	241,179
Sixteenth section sources	378,035
Other	481,718
<b>Total General Revenues</b>	<b>19,898,176</b>

Change in Net Assets	1,758,857
Net Assets-Beginning	8,196,202
Net Assets - Ending	<u>\$ 9,955,059</u>

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

McComb School District  
 Balance Sheet - Governmental Funds  
 June 30, 2006

Exhibit C

	Major Funds						
	General Fund	Displaced Students Fund	Early Reading Fund	QZAB Project Fund	16th Section Principal Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash and cash equivalents (Note 3)	\$ 2,939,544	-	-	2,196,205	470,798	1,227,181	6,833,728
Cash with fiscal agent (Note 3)	-	-	-	-	-	175,101	175,101
Investments (Note 3)	-	-	-	-	600,000	-	600,000
Due from other governments	235,366	464,092	355,300	-	-	787,211	1,841,969
Accrued Interest Receivable	-	-	-	-	22,572	-	22,572
Due from other funds (Note 4)	1,056,433	-	-	-	-	11,795	1,068,228
Advance to other funds (Note 4)	-	-	-	-	573,356	-	573,356
Inventories and prepaid items	54,852	-	-	-	-	30,284	85,136
<b>Total Assets</b>	<b>\$ 4,286,195</b>	<b>464,092</b>	<b>355,300</b>	<b>2,196,205</b>	<b>1,666,726</b>	<b>2,231,572</b>	<b>11,200,090</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 972,538	-	103,908	13,264	-	262,907	1,352,617
Due to other funds (Note 4)	10,000	464,092	251,392	-	-	342,744	1,068,228
Advances from other funds (Note 4)	573,356	-	-	-	-	-	573,356
Deferred Revenue	-	-	-	-	-	25,618	25,618
<b>Total Liabilities</b>	<b>1,555,894</b>	<b>464,092</b>	<b>355,300</b>	<b>13,264</b>	<b>-</b>	<b>631,269</b>	<b>3,019,819</b>
<b>Fund Balances:</b>							
<b>Reserved for:</b>							
Inventory	-	-	-	-	-	30,284	30,284
Advances	-	-	-	-	573,356	-	573,356
Prepaid Items	54,852	-	-	-	-	-	54,852
Unemployment benefits	-	-	-	-	-	77,140	77,140
Forestry improvements	-	-	-	-	-	29,806	29,806
Capital Projects funds	-	-	-	-	-	2,016	2,016
Debt Service funds	-	-	-	-	-	580,299	580,299
Permanent funds	-	-	-	-	677,078	35,824	712,902
<b>Unreserved:</b>							
<b>Undesignated, reported in:</b>							
General fund	2,675,449	-	-	-	-	-	2,675,449
Special Revenue funds	-	-	-	2,182,941	-	844,934	3,027,875
Permanent funds	-	-	-	-	416,292	-	416,292
<b>Total Fund Balances</b>	<b>2,730,301</b>	<b>-</b>	<b>-</b>	<b>2,182,941</b>	<b>1,666,726</b>	<b>1,600,303</b>	<b>8,180,271</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,286,195</b>	<b>464,092</b>	<b>355,300</b>	<b>2,196,205</b>	<b>1,666,726</b>	<b>2,231,572</b>	<b>11,200,090</b>

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, 2006

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 8,180,271
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 \$6,521,753 (Note 5)	10,474,132
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 6)	(8,601,561)
Accrued interest on debt	<u>(97,783)</u>
Total Net Assets - Governmental Activities	<u>\$ 9,955,059</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, 2006

	Major Funds						Total Governmental Funds
	General	Displaced Students	Early Reading	QZAB Project	16th Section Principal	Other Governmental	
	Fund	Funds	Fund	Fund	Fund	Funds	
<b>Revenues:</b>							
Local sources	\$ 6,096,837	-	-	67,848	-	681,401	6,846,086
State sources	11,924,420	-	-	-	-	1,157,783	13,082,203
Federal sources	144,878	886,042	1,057,699	-	-	5,334,240	7,422,859
Sixteenth section sources	-	-	-	-	403,500	27,140	430,640
<b>Total Revenues</b>	<b>18,166,135</b>	<b>886,042</b>	<b>1,057,699</b>	<b>67,848</b>	<b>403,500</b>	<b>7,200,564</b>	<b>27,781,788</b>
<b>Expenditures:</b>							
Instruction	9,588,825	886,042	902,068	-	-	2,986,324	14,363,259
Support services	7,199,043	-	-	384,907	-	1,640,803	9,224,753
Noninstructional services	199,632	-	-	-	-	2,034,286	2,233,918
Sixteenth section	-	-	-	-	-	4,248	4,248
Facilities acquisition and construction	278,843	-	-	-	-	-	278,843
<b>Debt service:</b>							
Principal	54,782	-	-	-	-	580,117	634,899
Interest	28,682	-	-	-	-	267,477	296,159
Other	-	-	-	-	-	758	758
<b>Total Expenditures</b>	<b>17,349,807</b>	<b>886,042</b>	<b>902,068</b>	<b>384,907</b>	<b>-</b>	<b>7,514,013</b>	<b>27,036,837</b>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>							
	816,328	-	155,631	(317,059)	403,500	(313,449)	744,951
<b>Other Financing Sources (Uses):</b>							
Proceeds of loans	93,432	-	-	2,500,000	-	6,373	2,599,805
Insurance loss recoveries	328,090	-	-	-	-	-	328,090
Sale of transportation equipment	600	-	-	-	-	-	600
Sale of other property	-	-	-	-	-	2,710	2,710
Operating transfers in	2,210,718	-	-	-	-	759,793	2,970,511
Operating transfers out	(2,584,525)	-	(155,631)	-	-	(230,355)	(2,970,511)
<b>Total Other Financing Sources (Uses)</b>	<b>48,315</b>	<b>-</b>	<b>(155,631)</b>	<b>2,500,000</b>	<b>-</b>	<b>538,521</b>	<b>2,931,205</b>
<b>Net Change in Fund Balances</b>	<b>864,643</b>	<b>-</b>	<b>-</b>	<b>2,182,941</b>	<b>403,500</b>	<b>225,072</b>	<b>3,676,156</b>
<b>Fund Balances:</b>							
July 1, 2005	1,865,658	-	-	-	1,263,226	1,382,187	4,511,071
Increase (Decrease) in reserve for inventory	-	-	-	-	-	(6,956)	(6,956)
<b>June 30, 2006</b>	<b>\$ 2,730,301</b>	<b>-</b>	<b>-</b>	<b>2,182,941</b>	<b>1,666,726</b>	<b>1,600,303</b>	<b>8,180,271</b>

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, 2006

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 3,676,156
Amounts reported for governmental activities in the statement of activities (Exhibit B) 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 \$404,941 and the depreciation expense amounted to \$363,314. (Note 5)	41,627
2. Proceeds of long-term liabilities are reported in the governmental funds, but not in the statement of activity. (Note 5)	(2,599,805)
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)	634,899
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	10,583
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.	3,690
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: Losses on the sale of capital assets	(1,337)
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>(6,956)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,758,857</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, 2006

Exhibit E

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents (Note 2)	\$ <u>87,277</u>
<b>Total Assets</b>	<b>\$ <u><u>87,277</u></u></b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 63,244
Due to student clubs	<u>24,033</u>
<b>Total Liabilities</b>	<b>\$ <u><u>87,277</u></u></b>

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, 2006

### (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, 2006

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 as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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.

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

Displaced Student Fund - This fund accounts for the Hurricane Education Recovery grant funds received as a result of the district enrolling new students who were displaced by Hurricane Katrina.

Early Reading Fund - This fund accounts for grant funds received under the Early Reading First grant used to establish reading programs in day care facilities in the community.

Qualified Zone Academy Bond Fund -- This fund accounts for the proceeds of Qualified Zone Academy Bonds and related expenditures.

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

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.

# McCOMB SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

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.

### 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 broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 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.

Investments are reported at fair value.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

H. Inventories and Prepaid Items.

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

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

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

I. Capital Assets.

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

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 5 for details.

# McCOMB SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

### 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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 6 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 appropriation.

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.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 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

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

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.

Reserved for capital projects - An account that represents that portion of fund balance in the Capital projects fund which was legally restricted and not available for spending for any other purpose that that for which it is restricted.

Reserved for debt service - An account that represents that portion of fund balance in the debt service fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

# McCOMB SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

### (2) Changes in Accounting Standards

As required, the School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors, technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

### (3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' 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.

**Investments.** Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (e), Miss. Code Ann. (1972). This section permits the following types of investment: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

#### Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$6,833,728 and \$87,277 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$4,166,725 and Restricted Assets \$3,267,003. The Restricted Assets represents the cash and investment balances of the 16<sup>th</sup> section Principal Funds (Permanent Funds) and cash in the QZAB Project fund which are legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$8,164,654.

**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.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2006, none of the district's bank balance of \$8,164,654 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$175,101.

Investments.

As of June 30, 2006, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of deposit	1 to 5	<u>600,000</u>	
Subtotal		<u>600,000</u>	
Total Investments		<u>\$ 600,000</u>	

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

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

*Concentration of Credit Risk.* Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. The requirement does not apply to investments issued or explicitly guaranteed by the U. S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Certificates of deposit	<u>600,000</u>	100%
Total Investments	<u>\$ 600,000</u>	

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 1,056,433	10,000
Displaced Student fund		464,092
Early Reading fund		251,392
Other Governmental Funds	<u>11,795</u>	<u>342,744</u>
Total Funds	<u>\$ 1,068,228</u>	<u>1,068,228</u>

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:

	<u>Advances To</u>	<u>Advances From</u>
Major funds:		
General fund	\$	573,356
16 <sup>th</sup> Section Principal Fund	573,356	
Other Governmental funds	<u>0</u>	<u>0</u>
Total Funds	<u>\$ 573,356</u>	<u>573,356</u>

[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, 2006

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
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	31,000	20,000	51,000
2012 – 2016	176,000	73,320	249,320
2017 – 2021	215,000	35,040	250,040
2022	43,000	1,720	44,720
Total	\$ 573,356	216,696	790,052

C. Transfers In/Out.

	Transfer In	Transfers Out
Major funds:		
General Fund	\$ 2,210,718	2,584,525
Early Reading Fund		155,631
Other Governmental Funds	759,793	230,355
Total Funds	\$ 2,970,511	2,970,511

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, 2006

(5) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Completed Construction	Adjustments	Balance 6-30-2006
<b>Non-depreciable capital assets:</b>						
Land	\$ 123,362	0	0	0	0	123,362
Construction in progress	57,646	271,202	0	(328,848)	0	0
Total non-depreciable capital assets	181,008	271,202	0	(328,848)	0	123,362
<b>Depreciable capital assets:</b>						
Buildings	13,382,211	0	0	275,428	0	13,657,639
Building improvements	891,645	0	0	53,420	0	945,065
Improvements other than buildings	222,554	0	0	0	0	222,554
Mobile equipment	1,158,047	107,995	0	0	0	1,266,042
Furniture and equipment	889,101	25,744	133,622	0	0	781,223
Total depreciable capital assets	16,543,558	133,739	133,622	328,848	0	16,872,523
<b>Less accumulated depreciation for:</b>						
Buildings	4,691,877	179,923	0	0	0	4,871,800
Building improvements	125,765	36,734	0	0	0	162,499
Improvements other than buildings	70,472	6,328	0	0	0	76,800
Mobile equipment	723,152	75,925	0	0	0	799,077
Furniture and equipment	679,458	64,404	132,285	0	0	611,577
Total accumulated depreciation	6,290,724	363,314	132,285	0	0	6,521,753
Total depreciable capital assets, net	10,252,834	(229,575)	1,337	328,848	0	10,350,770
Governmental activities capital assets, net	\$ 10,433,842	41,627	1,337	0	0	10,474,132

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 223,709
Support services	124,104
Non-instructional	15,501
Total depreciation expense	\$ 363,314

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

(6) Long-term liabilities.

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

	Balance 7-1-2005	Additions	Reductions	Adjustments	Balance 6-30-2006	Amounts due within one Year
A. Limited obligation bonds payable	4,215,000		235,000		3,980,000	245,000
B. Three mill notes payable	1,806,230		226,269		1,579,961	236,111
C. Shortfall notes payable	155,673	99,805	118,848		136,630	66,142
D. Other loans payable	300,001		54,782		245,219	55,753
E. QZAB bonds payable		2,500,000			2,500,000	
F. Compensated absences payable	170,334		10,583		159,751	4,793
Total	\$ 6,647,238	2,599,805	645,482	0	8,601,561	607,799

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	3,980,000
Total				\$ 5,180,000	3,980,000

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

Year Ending June 30	Principal	Interest	Total
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	295,000	126,835	421,835
2012 - 2016	1,695,000	320,633	2,015,633
2017 - 2018	935,000	50,255	985,255
Total	\$ 3,980,000	1,125,144	5,105,144

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

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	1,579,961
Total				\$ 2,430,000	1,579,961

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

Year Ending June 30	Principal	Interest	Total
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	\$ 1,579,961	249,076	1,829,037

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
	3.57%	12-10-03	03-01-07	105,000	36,825
	6.21%	10-3-05	3/1/09	99,805	99,805
Total				\$ 204,805	136,630

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

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

Year Ending June 30	Principal	Interest	Total
2007	\$ 66,430	10,172	76,602
2008	34,023	4,432	38,455
2009	36,177	2,278	38,455
Total	\$ 136,630	16,882	153,512

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

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	164,624
	2.75%	04-08-05	05-01-11	95,245	80,595
Total				\$ 339,695	245,219

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

Year Ending June 30	Principal	Interest	Total
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	\$ 245,219	10,917	256,136

This debt will be retired from the General Fund.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

E. Qualified zone academy bonds payable.

As more fully explained in Note 10, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
QZAB bonds	4.5%	08-15-05	08-15-15	\$ 2,500,000	2,500,000
Total				\$ 2,500,000	2,500,000

F. 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(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(7) Defined Benefit Pension Plan.

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 10.75% 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, 2006, 2005 and 2004 were \$1,586,952, \$1,359,783, and \$1,254,465, respectively, which equaled the required contributions for each year.

(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.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

Year Ending June 30	Amount
2007	\$ 6,726
2008	6,726
2009	6,726
2010	10,914
2011	6,414
2012-2016	18,590
2017-2021	10,278
2022-2026	9,469
2027-2031	9,268
2032-2036	6,254
2037-2041	351
<b>Total</b>	<b>\$ 91,716</b>

(9) 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 119 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 Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000 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.

(10) Qualified Zone Academy Bonds.

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Southern Professional Properties, LLC dated 2/4/05. Southern Professional Properties, LLC donated a building that is being renovated into an activity center for the district.

McCOMB SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before August 15, 2015. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2007	\$	75,000
2008		75,000
2009		75,000
2010		75,000
2011		75,000
2012-2016		<u>1,215,000</u>
Total	\$	<u><u>1,590,000</u></u>

McCOMB SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

McComb School District  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 5,882,994	6,096,837	6,096,837	213,843	-
State sources	12,064,464	11,924,420	11,924,420	(140,044)	-
Federal sources	143,982	144,878	144,878	896	-
Total Revenues	<u>18,091,440</u>	<u>18,166,135</u>	<u>18,166,135</u>	<u>74,695</u>	<u>-</u>
<b>Expenditures:</b>					
Instruction	10,511,355	9,588,825	9,588,825	922,530	-
Support services	6,777,562	7,199,043	7,199,043	(421,481)	-
Noninstructional services	177,272	199,632	199,632	(22,360)	-
Facilities acquisition and construction	-	278,843	278,843	(278,843)	-
<b>Debt service:</b>					
Principal	77,621	54,782	54,782	22,839	-
Interest	28,682	28,682	28,682	-	-
Total Expenditures	<u>17,572,492</u>	<u>17,349,807</u>	<u>17,349,807</u>	<u>222,685</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>518,948</u>	<u>816,328</u>	<u>816,328</u>	<u>297,380</u>	<u>-</u>
<b>Other Financing Sources (Uses):</b>					
Proceeds of loans	94,000	93,432	93,432	(568)	-
Insurance loss recoveries	-	328,090	328,090	328,090	-
Sale of transportation equipment	-	600	600	600	-
Operating transfers in	2,099,073	2,210,718	2,210,718	111,645	-
Operating transfers out	<u>(2,712,021)</u>	<u>(2,584,525)</u>	<u>(2,584,525)</u>	<u>127,496</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(518,948)</u>	<u>48,315</u>	<u>48,315</u>	<u>567,263</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>864,643</u>	<u>864,643</u>	<u>864,643</u>	<u>-</u>
<b>Fund Balances:</b>					
July 1, 2005			<u>1,865,658</u>		
June 30, 2006			<u><u>2,730,301</u></u>		

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

McComb School District  
 Budgetary Comparison Schedule  
 Displaced Students Fund  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	-	886,042	886,042	886,042	-
Total Revenues	-	886,042	886,042	886,042	-
<b>Expenditures:</b>					
Instruction	-	886,042	886,042	(886,042)	-
Support services	-	-	-	-	-
Noninstructional services	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-
<b>Debt service:</b>					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	-	886,042	886,042	(886,042)	-
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	-	-	-	-	-
<b>Other Financing Sources (Uses):</b>					
Proceeds of loans	-	-	-	-	-
Insurance loss recoveries	-	-	-	-	-
Sale of transportation equipment	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-
<b>Net Change in Fund Balances</b>					
	-	-	-	-	-
<b>Fund Balances:</b>					
July 1, 2005			-		
June 30, 2006			-		

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

McComb School District  
 Budgetary Comparison Schedule  
 Early Reading Fund  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	59,843	1,057,699	1,057,699	997,856	-
Total Revenues	59,843	1,057,699	1,057,699	997,856	-
<b>Expenditures:</b>					
Instruction	59,843	902,068	902,068	(842,225)	-
Support services	-	-	-	-	-
Noninstructional services	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-
<b>Debt service:</b>					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	59,843	902,068	902,068	(842,225)	-
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	-	155,631	155,631	155,631	-
<b>Other Financing Sources (Uses):</b>					
Proceeds of loans	-	-	-	-	-
Insurance loss recoveries	-	-	-	-	-
Sale of transportation equipment	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	(155,631)	(155,631)	(155,631)	-
Total Other Financing Sources (Uses)	-	(155,631)	(155,631)	(155,631)	-
<b>Net Change in Fund Balances</b>					
	-	-	-	-	-
<b>Fund Balances:</b>					
July 1, 2005			-		
June 30, 2006			-		

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

McComb School District  
 Budgetary Comparison Schedule  
 QZAB Project Fund  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	-	67,848	67,848	67,848	-
Total Revenues	-	67,848	67,848	67,848	-
<b>Expenditures:</b>					
Instruction	-	-	-	-	-
Support services	-	384,907	384,907	(384,907)	-
Noninstructional services	-	-	-	-	-
Facilities acquisition and construction	-	-	-	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total Expenditures	-	384,907	384,907	(384,907)	-
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	-	(317,059)	(317,059)	(317,059)	-
<b>Other Financing Sources (Uses):</b>					
Proceeds of loans	-	2,500,000	2,500,000	2,500,000	-
Insurance loss recoveries	-	-	-	-	-
Sale of transportation equipment	-	-	-	-	-
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	-	2,500,000	2,500,000	2,500,000	-
<b>Net Change in Fund Balances</b>					
	-	2,182,941	2,182,941	2,182,941	-
<b>Fund Balances:</b>					
July 1, 2005			-		
June 30, 2006			2,182,941		

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, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15th. 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, 2006

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	\$ 68,679
Child nutrition cluster:		
School breakfast program	10.553	307,276
National school lunch program	10.555	918,694
Summer food service program for children	10.559	1,764
Total child nutrition cluster		<u>1,227,734</u>
Total U.S. Department of Agriculture		<u>1,296,413</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	95,509
Total Federal Communications Commission		<u>95,509</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Early Reading First	84.359	1,057,699
Impact aid	84.041	10,247
Total		<u>1,067,946</u>
Passed-through Mississippi Board for Community and Junior Colleges:		
Adult education - state grant program	84.002	156,536
Total		<u>156,536</u>
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,593,211
Vocational education - basic grants to states	84.048	53,800
Safe and drug-free schools and communities - state grants	84.186	25,970
Twenty first century community learning centers	84.287	362,517
State grants for innovative programs	84.298	11,177
Capacity building for traditionally under served populations	84.315	31,366
Education technology state grants	84.318	45,771
Rural education	84.358	103,526
Improving teacher quality - state grants	84.367	329,299
Hurricane Education Recovery	84.938	1,171,024
Total		<u>3,727,661</u>

Special education cluster:		
Special education - grants to states	84.027	654,887
Special education - preschool grants	84.173	38,938
Total		<u>693,825</u>
Total passed-through Mississippi Department of Education		<u>4,421,486</u>
Total U.S. Department of Education		<u>5,645,968</u>
<u>Department of Health and Human Services</u>		
Passed through Mississippi Department of Human Services		
Temporary Assistance to Needy Families	93.558	298,640
Total Department of Health and Human Services		<u>298,640</u>
<u>Corporation for National and Community Service</u>		
Passed-through the Mississippi Department of Education:		
Learn and serve America - school and community based programs	94.004	9,723
Total Corporation for National and Community Service		<u>9,723</u>
<u>Other Federal Assistance</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	48,851
Total Other Federal Assistance		<u>48,851</u>
Total for All Federal Awards		<u>\$ 7,395,104</u>

NOTES TO SCHEDULE

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

McComb School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2006

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 19,506,551	14,938,139	756,801	1,418,660	2,392,951
Other	10,507,753	2,243,897	375,572	104,042	4,806,776
<b>Total</b>	<b>\$ 27,036,837</b>	<b>17,182,036</b>	<b>1,132,372</b>	<b>1,522,702</b>	<b>7,199,727</b>
Total number of students *	2,772				
Cost per student \$	9,754	6,199	409	549	2,597

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

**Instruction and Other Student Instructional Expenditures** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 functional codes)

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

**School Administration** - includes expenditures for the following function: Support Services - School Administration (2400s)

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

McCOMB SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

**PATRICK E. LOWERY AND ASSOCIATES**

**CERTIFIED PUBLIC ACCOUNTANTS**

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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, 2006 which collectively comprise the McComb School District's basic financial statements and have issued our report thereon dated December 1, 2006. 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 opinions on the financial statements and not to provide an opinion 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 reportable 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 did not note any 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 did not disclose any 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 and Associates*

Patrick E. Lowery & Associates  
Certified Public Accountants  
December 15, 2006

**PATRICK E. LOWERY AND ASSOCIATES**

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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, 2006. 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.

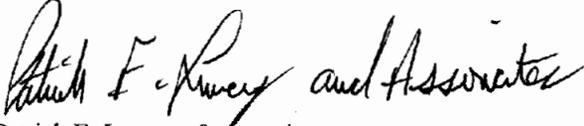
In our opinion, McComb School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

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 did not note any 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  
December 15, 2006

McComb School District

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

**PATRICK E. LOWERY AND ASSOCIATES**

**CERTIFIED PUBLIC ACCOUNTANTS**

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

Superintendent and School Board  
McComb School District

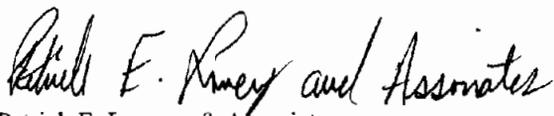
We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the McComb School District as of and for the year ended June 30, 2006 which collectively comprise McComb School District's basic financial statements and have issued our report thereon dated December 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Section 37-9-18(3), 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 \$8,405 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  
December 15, 2006

McComb School District

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

McComb School District

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

Section 1: 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.  | Early Reading First<br>CFDA # 84.359   |             |
| b.  | Hurricane Education Recovery<br>CFDA # 84.938  |             |
| 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         |
| 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          |

McComb School District

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2006

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.