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MCCOMB SCHOOL DISTRICT
Audited Financial Statements
For the Year Ended June 30, 2011

MCCOMB SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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INDEPENDENT AUDITOR'S REPORT

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, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the McComb School District, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2012, on our consideration of the McComb School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted

of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the McComb School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Patrick E. Lowery and Associates

Patrick E. Lowery and Associates

January 16, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS



Pursuing Perfection, Expecting Excellence

The following discussion and analysis of McComb School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 increased \$3,447,757, including a prior period adjustment of \$897, which represents a 23% increase from fiscal year 2010. Total net assets for 2010 increased \$1,798,782, which represents a 14% increase from fiscal year 2009.
- General revenues amounted to \$21,157,922 and \$21,266,389, or 73% and 73% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,961,931, or 27% of total revenues for 2011, and \$7,983,109, or 27% of total revenues for 2010.
- The District had \$25,672,993 and \$27,450,716 in expenses for fiscal years 2011 and 2010; only \$7,961,931 for 2011 and \$7,983,109 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$21,157,922 for 2011 and \$21,266,389 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,809,318 in revenues and \$16,235,407 in expenditures for 2011, and \$18,596,096 in revenues and \$17,759,226 in expenditures in 2010. The General Fund's fund balance increased by \$1,848,643, including a prior period adjustment of \$22,969, from 2010 to 2011, and increased by \$512,415, net of a prior period adjustment of \$(23,340), from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$276,730 for 2011 and decreased by \$364,203 for 2010. The decrease for 2011 was due primarily to the disposal of three school buses coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$511,372 for 2011 and decreased by \$450,275 for 2010. The decrease for 2011 was due primarily to the principal payments on outstanding long-term debt. The District received proceeds from the issuance of a shortfall note in the amount of \$269,366 during the fiscal year. The liability for compensated absences increased by \$23,487 for 2011 and decreased by \$5,086 for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

Governmental funds – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

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

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

statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund as required by the Governmental Accounting Standards Board.

Supplemental Information

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

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

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$18,174,707 as of June 30, 2011.

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.

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	June 30, 2011	June 30, 2010	Percentage Change
Current assets	\$ 9,479,390	\$ 7,596,882	24.78 %
Restricted assets	4,333,493	3,272,788	32.41 %
Capital assets, net	10,660,562	10,937,292	-2.53 %
Total assets	24,473,445	21,806,962	12.23 %
Current liabilities	204,963	498,352	-58.87 %
Long-term debt outstanding	6,093,775	6,581,660	-7.41 %
Total liabilities	6,298,738	7,080,012	-11.03 %
Net assets:			
Invested in capital assets, net of related debt	6,468,432	6,138,482	5.38 %
Restricted	7,355,814	6,089,265	20.80 %
Unrestricted	4,350,461	2,499,203	74.07 %
Total net assets	\$ 18,174,707	\$ 14,726,950	23.41 %

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

- Decrease in net capital assets in the amount of \$276,730.
- The principal retirement of \$780,718 of long-term debt.
- Proceeds received from the issuance of a shortfall note in the amount of \$269,366.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$29,119,853 and \$29,249,498, respectively. The total cost of all programs and services was \$25,672,993 for 2011 and \$27,450,716 for 2010.

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

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

**Table 2
Changes in Net Assets**

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 446,209	\$ 483,652	(7.74) %
Operating grants and contributions	7,515,722	7,499,457	0.22 %
General revenues:			
Property taxes	7,107,114	7,114,285	(0.10) %
Grants and contributions not restricted	12,553,895	12,923,681	(2.86) %
Investment earnings	458,668	344,305	33.22 %
Sixteenth section sources	857,905	726,725	18.05 %
Other	180,340	157,393	14.58 %
Total revenues	<u>29,119,853</u>	<u>29,249,498</u>	(0.44) %
Expenses:			
Instruction	13,622,380	15,278,389	(10.84) %
Support services	9,753,993	10,018,563	(2.64) %
Non-instructional	2,066,094	1,953,029	5.79 %
Sixteenth section	8,032	10,754	(25.31) %
Interest and other expenses on long-term liabilities	222,494	189,981	17.11 %
Total expenses	<u>25,672,993</u>	<u>27,450,716</u>	(6.48) %
Increase (Decrease) In net assets	<u>3,446,860</u>	<u>1,798,782</u>	91.62 %
Net Assets, July 1, as originally reported	<u>14,726,950</u>	<u>12,928,168</u>	13.91 %
Prior Period Adjustment	<u>897</u>	<u>-</u>	N/A %
Net Assets, July 1, as restated	<u>14,727,847</u>	<u>12,928,168</u>	13.92 %
Net Assets, June 30	<u>\$ 18,174,707</u>	<u>\$ 14,726,950</u>	23.41 %

Governmental activities

The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section, and interest on long-term debt. The table also shows each functional activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost presents the financial burden that was placed on the State and District's taxpayers by each of these functions.

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

Table 3
Net Cost of Governmental Activities

	Total Expenses		Percentage Change
	2011	2010	
Instruction	\$ 13,622,380	\$ 15,278,389	(10.84) %
Support services	9,753,993	10,018,563	(2.64) %
Non-instructional	2,066,094	1,953,029	5.79 %
Sixteenth section	8,032	10,754	(25.31) %
Interest on long-term liabilities	222,494	189,981	17.11 %
Total expenses	\$ 25,672,993	\$ 27,450,716	(6.48) %

	Net (Expense) Revenue		Percentage Change
	2011	2010	
Instruction	\$ (9,494,956)	\$ (10,660,992)	(10.94) %
Support services	(7,874,237)	(8,427,465)	(6.56) %
Non-instructional	(111,343)	(178,425)	(37.60) %
Sixteenth section	(8,032)	(10,754)	(25.31) %
Interest on long-term liabilities	(222,494)	(189,981)	17.11 %
Total net (expense) revenue	\$ (17,711,062)	\$ (19,467,607)	(9.02) %

Net cost of governmental activities (\$17,711,062 for 2011 and \$19,467,607 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$7,107,114 for 2011 and \$7,114,285 for 2010) and state and federal revenues (\$12,553,895 for 2011 and \$12,923,681 for 2010). In addition, there was \$857,905 and \$726,725 in Sixteenth Section sources for 2011 and 2010, respectively.

Investment earnings amounted to \$458,668 for 2011 and \$344,305 for 2010.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$13,661,360, an increase of \$3,232,697, which includes a prior period adjustment of \$877 and a decrease in reserve for inventory of \$4,442. \$5,211,898, or 38%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$8,449,462, or 62%, is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,848,643, including a prior period adjustment of \$22,969. The fund balance of Other Governmental Funds showed an increase in the amount of \$454,651, which includes a prior period adjustment of \$(22,092) and a decrease in reserve for inventory of \$4,442. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Sixteenth Section Principal Fund	\$ 929,403

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Significant budget revisions made during the fiscal year are explained as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased during the fiscal year to reflect an increase in advalorem receipts. Amounts originally budgeted were understated.
- Budgeted amounts for revenue from state sources in the General Fund were decreased during the fiscal year to reflect a decrease in Mississippi Adequate Education Program (MAEP) funds resulting from budget cuts. However, the District did receive approximately \$740,000 in Budget Stabilization funds that were reported in a special revenue fund. The budget was also revised to reflect the federal revenue received and reported in the Budget Stabilization Fund.
- Budgeted amounts for instruction expenditures in the General Fund were decreased during the fiscal year. This decrease is primarily a result of the reclassification of expenditures normally incurred in the General Fund to the Budget Stabilization Fund (special revenue fund) and federal funds were received to cover those expenditures. The budget was also revised to reflect the federal revenue received and expenditures incurred in the Budget Stabilization Fund.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$18,880,738, including land, school buildings, building improvements and other improvements, buses, other school vehicles and furniture and equipment. This amount represents a gross increase of \$72,476 from 2010. Total accumulated depreciation as of June 30, 2011, was \$8,220,174, and total depreciation expense for the year was \$439,206, resulting in total net capital assets of \$10,660,562.

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

Table 4
Capital Assets, Net of Accumulated Depreciation

	June 30, 2011	June 30, 2010	Percentage Change
Land	\$ 123,362	\$ 123,362	0.00 %
Buildings	7,929,428	8,109,351	(2.22) %
Building improvements	1,695,873	1,786,218	(5.06) %
Improvements other than buildings	223,020	234,534	(4.91) %
Mobile equipment	456,060	471,758	(3.33) %
Furniture and equipment	232,819	212,069	9.78 %
Total	\$ 10,660,562	\$ 10,937,292	(2.53) %

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

Debt Administration. At June 30, 2011, the District had \$6,093,775 in outstanding long-term debt, of which \$794,876 is due within one year. During the fiscal year, the District made principal payments in the amount of \$780,718 on outstanding long-term debt. The District also received proceeds from the issuance of a shortfall note in the amount of \$269,366. The liability for compensated absences increased \$23,487 from the prior year.

Table 5
Outstanding Long-Term Debt

	June 30, 2011	June 30, 2010	Percentage Change
Limited obligation bonds payable	\$ 2,700,000	\$ 3,010,000	(10.30) %
Three mill notes payable	292,130	572,084	(48.94) %
Shortfall notes payable	447,100	351,792	27.09 %
Qualified zone academy bonds payable	2,500,000	2,500,000	0.00 %
Other loans payable	-	16,726	(100.00) %
Compensated absences payable	154,545	131,058	17.92 %
Total	\$ 6,093,775	\$ 6,581,660	(7.41) %

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

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 District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state and federal revenues.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

MCCOMB SCHOOL DISTRICT

Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 8,312,617
Due from other governments	1,132,662
Inventories	34,111
Restricted assets	4,333,493
Capital assets, non-depreciable:	
Land	123,362
Capital assets, net of accumulated depreciation:	
Buildings	7,929,428
Building improvements	1,695,873
Improvements other than buildings	223,020
Mobile equipment	456,060
Furniture and equipment	232,819
Total Assets	24,473,445
Liabilities	
Accounts payable and accrued liabilities	113,596
Unearned revenue	37,927
Interest payable on long-term liabilities	53,440
Long-term liabilities, due within one year:	
Capital related liabilities	612,130
Non-capital related liabilities	182,746
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,580,000
Non-capital related liabilities	1,718,899
Total Liabilities	6,298,738
Net Assets	
Invested in capital assets, net of related debt	6,468,432
Restricted for:	
Expendable:	
School-based activities	1,324,819
Debt service	1,253,862
Forestry improvements	25,037
Unemployment benefits	68,400
Non-expendable:	
Sixteenth section	4,683,696
Unrestricted	4,350,461
Total Net Assets	\$ 18,174,707

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, 2011**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 13,622,380	\$ 312,681	\$ 3,814,743	\$ -	\$ (9,494,956)	
Support services	9,753,993	19,691	1,860,065	-	(7,874,237)	
Non-instructional	2,066,094	113,837	1,840,914	-	(111,343)	
Sixteenth section	8,032	-	-	-	(8,032)	
Interest on long-term liabilities	222,494	-	-	-	(222,494)	
Total Governmental Activities	\$ 25,672,993	\$ 446,209	\$ 7,515,722	\$ -	\$ (17,711,062)	

General Revenues:

Taxes:

General purpose levies	6,616,310
Debt purpose levies	490,804

Unrestricted grants and contributions:

State	11,380,042
Federal	1,173,853
Unrestricted investment earnings	458,668
Sixteenth section sources	857,905
Other	180,340
Total General Revenues	21,157,922

Change in Net Assets 3,446,860

Net Assets - Beginning, as originally reported 14,726,950
 Prior Period Adjustments 897

Net Assets - Beginning, as restated 14,727,847

Net Assets - Ending \$ 18,174,707

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

MCCOMB SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2011

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Assets				
Cash and cash equivalents	\$ 6,316,032	\$ 3,718,008	\$ 1,996,585	\$ 12,030,625
Cash with fiscal agents	-	-	96	96
Investments	-	-	615,389	615,389
Due from other governments	286,826	-	828,747	1,115,573
Due from other funds	673,621	-	-	673,621
Advance to other funds	-	1,871,076	-	1,871,076
Inventories	-	-	34,111	34,111
Total assets	\$ 7,276,479	\$ 5,589,084	\$ 3,474,928	\$ 16,340,491
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 61,099	\$ -	\$ 52,497	\$ 113,596
Due to other funds	-	-	656,532	656,532
Advances from other funds	1,871,076	-	-	1,871,076
Unearned revenue	-	-	37,927	37,927
Total Liabilities	1,932,175	-	746,956	2,679,131
Fund Balances:				
Nonspendable:				
Inventory	-	-	34,111	34,111
Permanent fund principal	-	2,812,620	-	2,812,620
Advances	-	1,871,076	-	1,871,076
Restricted:				
Debt service	-	-	1,307,302	1,307,302
Forestry improvement purposes	-	-	25,037	25,037
Unemployment benefits	-	-	68,400	68,400
Food service	-	-	871,691	871,691
Other commitments	-	905,388	210,499	1,115,887
Assigned:				
Activity funds	132,406	-	-	132,406
Capital improvements	-	-	2,414	2,414
Other purposes	-	-	208,518	208,518
Unassigned	5,211,898	-	-	5,211,898
Total Fund Balances	5,344,304	5,589,084	2,727,972	13,661,360
Total Liabilities and Fund Balances	\$ 7,276,479	\$ 5,589,084	\$ 3,474,928	\$ 16,340,491

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

MCCOMB SCHOOL DISTRICT

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

Exhibit C-1

June 30, 2011

Total fund balances for governmental funds \$ 13,661,360

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

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	123,362	
Buildings		13,657,639	
Building improvements		2,258,622	
Improvements other than buildings		352,202	
Mobile equipment		1,432,880	
Furniture and equipment		1,056,031	
Accumulated depreciation		<u>(8,220,174)</u>	10,660,562

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Limited obligation bonds		(2,700,000)	
Other bonds payable		(2,500,000)	
Notes payable		(739,230)	
Compensated absences		(154,545)	
Accrued interest payable		<u>(53,440)</u>	(6,147,215)

Net assets of governmental activities \$ 18,174,707

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

MCCOMB SCHOOL DISTRICT

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2011

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 7,249,198	\$ -	\$ 758,002	\$ 8,007,200
State sources	10,425,780	-	1,614,997	12,040,777
Federal sources	134,340	-	7,894,500	8,028,840
Sixteenth section sources	-	929,403	106,722	1,036,125
Total Revenues	17,809,318	929,403	10,374,221	29,112,942
Expenditures:				
Instruction	8,209,201	-	5,114,438	13,323,639
Support services	7,791,603	-	1,955,142	9,746,745
Noninstructional services	144,903	-	1,927,147	2,072,050
Sixteenth section	-	-	8,032	8,032
Debt service:				
Principal	16,726	-	763,992	780,718
Interest	72,974	-	152,390	225,364
Other	-	-	1,035	1,035
Total Expenditures	16,235,407	-	9,922,176	26,157,583
Excess (Deficiency) of Revenues over (under) Expenditures	1,573,911	929,403	452,045	2,955,359
Other Financing Sources (Uses):				
Bonds and notes issued	269,366	-	-	269,366
Insurance recovery	6,911	-	-	6,911
Payment held by escrow agent	-	-	75,000	75,000
Payment to Qualified Zone Academy debt escrow agent	-	-	(75,000)	(75,000)
Sale of transportation equipment	4,626	-	-	4,626
Operating transfers in	167,744	-	215,655	383,399
Other financing sources	-	-	1,625	1,625
Operating transfers out	(196,884)	-	(186,515)	(383,399)
Other financing uses	-	-	(1,625)	(1,625)
Total Other Financing Sources (Uses)	251,763	-	29,140	280,903
Net Change in Fund Balances	1,825,674	929,403	481,185	3,236,262
Fund Balances:				
July 1, 2010, as originally reported *	3,495,661	4,659,681	2,273,321	10,428,663
Prior period adjustments	22,969	-	(22,092)	877
July 1, 2010, as restated *	3,518,630	4,659,681	2,251,229	10,429,540
Increase (Decrease) in reserve for inventory	-	-	(4,442)	(4,442)
June 30, 2011	\$ 5,344,304	\$ 5,589,084	\$ 2,227,972	\$ 13,661,360

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

MCCOMB SCHOOL DISTRICT

Governmental Funds

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

Exhibit D-1

Net change in fund balances - total governmental funds \$ 3,236,262

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

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 172,476	
Depreciation expense	<u>(439,206)</u>	(266,730)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (10,000)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Bonds and notes issued	(269,366)	
Payments of debt principal	780,718	
Accrued interest payable	<u>3,905</u>	515,257

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(23,487)	
Change in inventory reserve	<u>(4,442)</u>	(27,929)

Change in net assets of governmental activities \$ 3,446,860

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

MCCOMB SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Net Assets

Exhibit E

June 30, 2011

	Private-Purpose Trust Funds	Agency Funds
Assets		
Cash and cash equivalents	\$ 36,695	\$ 970,230
Total Assets	<u>36,695</u>	<u>\$ 970,230</u>
Liabilities		
Accounts payable and accrued liabilities	-	\$ 944,628
Due to other funds	-	17,089
Due to student clubs	-	8,513
Total Liabilities	<u>-</u>	<u>\$ 970,230</u>
Net Assets		
Reserved for endowments	28,000	
Held in trust	<u>8,695</u>	
Total Net Assets	<u>\$ 36,695</u>	

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

MCCOMB SCHOOL DISTRICT

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets
For the Year Ended June 30, 2011

Exhibit F

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ 1,224
Total Additions	<u>1,224</u>
Deductions	
Scholarships awarded	<u>1,750</u>
Total Deductions	<u>1,750</u>
Change in Net Assets	<u>(526)</u>
Net Assets	
June 30, 2010	<u>37,221</u>
June 30, 2011	<u>\$ 36,695</u>

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

MCCOMB SCHOOL DISTRICT

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

Note 1 – Summary of Significant Accounting Policies

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

A. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of 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.

For financial reporting purposes, McComb School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

MCCOMB SCHOOL DISTRICT

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

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

16th Section Principal Fund - This is a permanent fund used to account for the nonexpendable resources generated from the sale of non-renewable resources on sixteenth section land.

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

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include the following:

Agency funds - these funds are composed of club funds and clearing funds.

Private purpose trust funds - these funds are composed of scholarship funds.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial

MCCOMB SCHOOL DISTRICT

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

resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

FIDUCIARY FUNDS

Private-purpose Trust Funds - Private-purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, in which the principal and income benefit individuals, private organizations or other governments.

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

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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

MCCOMB SCHOOL DISTRICT

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

collected by the tax levying authority.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003*, issued by the U.S. Department of Education.

E. Encumbrances

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

F. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Investments

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

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

Investments for the district are reported at fair market value.

MCCOMB SCHOOL DISTRICT

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

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

MCCOMB SCHOOL DISTRICT

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

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. **Compensated Absences**

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

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

8. **Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. **Fund Balances**

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

MCCOMB SCHOOL DISTRICT

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

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and Finance Director pursuant to authorization established by board policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note 2 – 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 district's deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposit or interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United

MCCOMB SCHOOL DISTRICT

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

States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, not to exceed fifty percent of all monies invested with maturities of thirty days or longer ; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

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 \$12,030,625 and \$1,006,925, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2011, none of the district's bank balance of \$13,971,725 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 \$96.

Investments

As of June 30, 2011, the district had the following investments:

Investment Type	Rating	Maturities (in years)	Fair Value
Federal Home Loan Bank Agency Obligation	Not rated	Less than one year	\$ 431,774
Federal US Treasury Cash Reserves	AAAm-G	Less than one year	183,615
Total			<u>\$ 615,389</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.

MCCOMB SCHOOL DISTRICT

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This 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, 2011, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Federal Home Loan Bank Agency Obligation	\$ 431,774	70%

Note 3 – Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other governmental funds	\$ 656,532
	Fiduciary funds	17,089
Total		<u>\$ 673,621</u>

The primary reason for the interfund loans was to close out federal programs at year end.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
16th Section Principal fund	General Fund	\$ 1,871,076
Total		<u>\$ 1,871,076</u>

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are 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 are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

MCCOMB SCHOOL DISTRICT

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

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 107,307	\$ 74,843	\$ 182,150
2013	109,307	70,551	179,858
2014	110,307	66,179	176,486
2015	112,307	61,766	174,073
2016	113,307	57,274	170,581
2017 - 2021	591,535	217,026	808,561
2022 - 2026	419,535	108,399	527,934
2027 - 2031	307,471	31,373	338,844
Total	\$ 1,871,076	\$ 687,411	\$ 2,558,487

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 196,884
Other governmental funds	General Fund	167,744
	Other governmental funds	18,771
Total		\$ 383,399

Note 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$ 3,718,008 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent the cash and investment balance, totaling \$96 and \$431,774, respectively, of the QZAB Bond Retirement Fund. In addition, the restricted assets represent the investment balance, totaling \$183,615 of the MAEP Limited Obligation Bond/Note Fund.

MCCOMB SCHOOL DISTRICT

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

Note 5 – Capital Assets

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

	Balance 7/1/2010	Increases	Decreases	Balance 6/30/2011
Governmental Activities:				
<u>Non-depreciable capital assets:</u>				
Land	\$ 123,362	\$	\$	\$ 123,362
Total non-depreciable capital assets	123,362	-	-	123,362
<u>Depreciable capital assets:</u>				
Buildings	13,657,639			13,657,639
Building improvements	2,258,622			2,258,622
Improvements other than buildings	352,202			352,202
Mobile equipment	1,453,741	79,139	100,000	1,432,880
Furniture and equipment	962,694	93,337		1,056,031
Total depreciable capital assets	18,684,898	172,476	100,000	18,757,374
<u>Less accumulated depreciation for:</u>				
Buildings	5,548,288	179,923		5,728,211
Building Improvements	472,404	90,345		562,749
Improvements other than buildings	117,668	11,514		129,182
Mobile equipment	981,983	84,837	90,000	976,820
Furniture and equipment	750,625	72,587		823,212
Total accumulated depreciation	7,870,968	439,206	90,000	8,220,174
Total depreciable capital assets, net	10,813,930	(266,730)	10,000	10,537,200
Governmental activities capital assets, net	\$ 10,937,292	\$ (266,730)	\$ 10,000	\$ 10,660,562

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 304,378
Support services	108,118
Non-instructional	26,710
Total depreciation expense - Governmental activities	\$ 439,206

MCCOMB SCHOOL DISTRICT

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

Note 6 – Long-term Liabilities

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

	Balance 7/1/2010	Additions	Reductions	Adjustments	Balance 6/30/2011	Amounts due within one year
A. Limited obligation bonds payable	\$ 3,010,000	\$	\$ 310,000	\$	\$ 2,700,000	\$ 320,000
B. Three mill notes payable	572,084		279,954		292,130	292,130
C. Shortfall notes payable	351,792	269,366	174,038	(20)	447,100	175,019
D. Qualified zone academy bonds payable	2,500,000				2,500,000	
E. Other loans payable	16,726		16,728		-	
F. Compensated absences payable	131,058	23,487			154,545	7,727
Total	\$ 6,581,660	\$ 292,853	\$ 780,718	(20)	\$ 6,093,775	\$ 794,876

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
1. State aid capital improvement	4%	9/14/2006	2/1/2018	\$ 3,730,000	\$ 2,700,000
Total				\$ 3,730,000	\$ 2,700,000

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

Limited obligation bond issue of 9/14/06:

Year Ending June 30	Principal	Interest	Total
2012	\$ 320,000	\$ 101,600	\$ 421,600
2013	335,000	88,500	423,500
2014	350,000	74,800	424,800
2015	360,000	60,600	420,600
2016	375,000	45,900	420,900
2017 – 2021	960,000	45,300	1,005,300
Total	\$ 2,700,000	\$ 416,700	\$ 3,116,700

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

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi

MCCOMB SCHOOL DISTRICT

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

Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage.

B. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Limited tax note, Series 2002	4.35%	6/3/2002	4/1/2012	\$ 2,430,000	\$ 292,130
Total				<u>\$ 2,430,000</u>	<u>\$ 292,130</u>

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

1. Three mill notes payable issue of June 3, 2002:

Year Ending June 30	Principal	Interest	Total
2012	\$ 292,130	\$ 12,708	\$ 304,838
Total	<u>\$ 292,130</u>	<u>\$ 12,708</u>	<u>\$ 304,838</u>

This debt will be retired from the EEF Buildings and Buses Fund (Special Revenue Fund).

C. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Shortfall note - 11/30/2009	3.87%	11/30/2009	6/30/2013	261,640	177,734
2. Shortfall note - 11/10/2010	3.23%	11/10/2010	3/1/2014	269,366	269,366
Total				<u>\$ 531,006</u>	<u>\$ 447,100</u>

MCCOMB SCHOOL DISTRICT

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

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

1. Shortfall notes payable issue of 11/30/2009:

Year Ending June 30	Principal	Interest	Total
2012	\$ 87,177	\$ 6,974	\$ 94,151
2013	90,557	3,574	94,131
Total	\$ 177,734	\$ 10,548	\$ 188,282

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

2. Shortfall notes payable issue of 11/10/2010:

Year Ending June 30	Principal	Interest	Total
2012	\$ 87,842	\$ 3,214	\$ 91,056
2013	90,801	2,863	93,664
2014	90,723	5,942	96,665
Total	\$ 269,366	\$ 12,019	\$ 281,385

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

Total shortfall notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
2012	\$ 175,019	\$ 10,188	\$ 185,207
2013	181,358	6,437	187,795
2014	90,723	5,942	96,665
Total	\$ 447,100	\$ 22,567	\$ 469,667

D. Qualified zone academy bonds payable

As more fully explained in Note 13, 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
1. Qualified Zone Academy Bonds, Series 2005		8/15/2005	8/15/2015	\$ 2,500,000	\$ 2,500,000
Total				\$ 2,500,000	\$ 2,500,000

MCCOMB SCHOOL DISTRICT

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

E. Other loans payable

The school district has issued debt instruments granted under the authority of Section 57-39-39, Miss. Code Ann. (1972).

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. MS Development Authority					
Energy Investment Program	3%	4/8/2005	5/1/2011	\$ 95,245	\$ -
Total				\$ 95,245	\$ -

F. Compensated absences payable

As more fully explained in Note 1(F)(7), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

Note 7 – Other Commitments

Commitments under re-roofing and renovation contracts amount to \$107,858.

Operating leases:

The school district has operating leases for the following:

1. Pitney Bowes postage machine
2. Xerox copier

Lease expenditures for the year ended June 30, 2011, amounted to \$22,020.

Future lease payments for these leases are as follows:

Year Ending June 30	Amount
2012	\$ 20,991
2013	20,991
2014	16,166
Total	\$ 58,148

Note 8 – Defined Benefit Pension Plan

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

MCCOMB SCHOOL DISTRICT

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

Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2011, 2010 and 2009 were \$1,591,179, \$1,823,679 and \$1,834,791, respectively, which equaled the required contributions for each year.

Note 9 – Sixteenth Section Lands

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

<u>Year Ending</u> <u>June 30</u>	<u>Amount</u>
2012	\$ 7,122
2013	5,562
2014	3,746
2015	3,746
2016	3,278
2017 – 2021	16,390
2022 – 2026	15,380
2027 – 2031	15,380
2032 – 2036	9,718
Total	<u>\$ 80,322</u>

Note 10 – Prior Period Adjustments

A summary of significant fund balance adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
1. To reclassify a revenue or expense	\$ 897
Total	<u>\$ 897</u>

MCCOMB SCHOOL DISTRICT

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

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

Fund	Explanation	Amount
General Fund	To reclassify an expense	\$ 22,969
Other governmental funds	To reclassify an expense	(22,092)
Total		<u>\$ 877</u>

Note 11 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

Litigation – The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to the various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 12 – Risk Management

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

Note 13 – 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 at 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, has entered into such an arrangement date February 4, 2005. Southern Professional Properties, LLC, donated a building that was renovated into an activity center for the district.

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 on deposit at June 30, 2011 was \$375,000. 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 annual deposits to be made to the sinking fund by the school district.

MCCOMB SCHOOL DISTRICT

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

Year Ending June 30	Amount
2012	\$ 75,000
2013	75,000
2014	380,000
2015	380,000
2016	380,000
Total	<u>\$ 1,290,000</u>

Note 14 - Insurance loss recoveries

The McComb School District received \$6,911 in insurance loss recoveries related to damage to the baseball dugout during the 2010-2011 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

Insurance Loss Recoveries	Percentage	Expense Function
\$ 6,911	100%	Support services
<u>\$ 6,911</u>	<u>100%</u>	

Note 15 - Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the McComb School District evaluated the activity of the district through January 16, 2012, and determined that no subsequent events have occurred that require disclosure.

REQUIRED SUPPLEMENTAL INFORMATION

MCCOMB SCHOOL DISTRICT
Required Supplemental Information

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

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 6,769,300	\$ 7,249,198	\$ 7,249,198	\$ 479,898	\$ 0
State sources	11,818,228	10,425,780	10,425,780	(1,392,448)	0
Federal sources	106,000	134,340	134,340	28,340	0
Total Revenues	18,693,528	17,809,318	17,809,318	(884,210)	0
Expenditures:					
Instruction	10,166,755	8,209,201	8,209,201	1,957,554	0
Support services	7,434,015	7,791,603	7,791,603	(357,588)	0
Noninstructional services	149,081	144,903	144,903	4,178	0
Debt service:					
Principal	117,213	16,726	16,726	100,487	0
Interest	74,317	72,974	72,974	1,343	0
Total Expenditures	17,941,381	16,235,407	16,235,407	1,705,974	0
Excess (Deficiency) of Revenues over (under) Expenditures	752,147	1,573,911	1,573,911	821,764	0
Other Financing Sources (Uses):					
Bonds and notes issued		269,366	269,366	269,366	0
Insurance recovery		6,911	6,911	6,911	0
Sale of transportation equipment		4,626	4,626	4,626	0
Operating transfers in	2,450,658	2,242,816	167,744	(207,842)	(2,075,072)
Operating transfers out	(3,202,805)	(2,271,956)	(196,884)	930,849	2,075,072
Total Other Financing Sources (Uses)	(752,147)	251,763	251,763	1,003,910	0
Net Change in Fund Balances	0	1,825,674	1,825,674	1,825,674	0
Fund Balances:					
July 1, 2010, as originally reported	1,333,000	3,518,989	3,495,661	2,185,989	(23,328)
Prior period adjustments		(359)	22,969	(359)	23,328
July 1, 2010, as restated	1,333,000	3,518,630	3,518,630	2,185,630	0
Increase (Decrease) in reserve for inventory				0	0
June 30, 2011	\$ 1,333,000	\$ 5,344,304	\$ 5,344,304	\$ 4,011,304	\$ 0

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

MCCOMB SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2011

Budgetary Comparison Schedule

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

MCCOMB SCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 438,870
National school lunch program	10.555	1,180,804
Summer food service program for children	10.559	22,668
Total child nutrition cluster		<u>1,642,142</u>
Total passed-through Mississippi Department of Education		<u>1,642,142</u>
Total U.S. Department of Agriculture		<u>1,642,142</u>
<u>U.S. Department of Defense</u>		
Direct Program:		
Reserve Officers' Training Corps	12.xxx	62,864
Total U.S. Department of Defense		<u>62,864</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	128,966
Total Federal Communications Commission		<u>128,966</u>
<u>U.S. Department of Education</u>		
<u>Direct Program:</u>		
Impact aid	84.041	4,240
Total		<u>4,240</u>
Passed through Mississippi Board for Community and Junior Colleges:		
Adult education-basic grants to states	84.002	175,263
Total		<u>175,263</u>
Passed through Mississippi Department of Rehabilitation Services:		
Rehabilitation services-vocational training grants to states	84.128	1,134
Total		<u>1,134</u>
Passed-through Mississippi Department of Education:		
Career and technical education - basic grants to states	84.048	46,902
Safe and drug-free schools and communities- state grants	84.186	19,452
Twenty-first century community learning centers	84.287	218,027
Education technology state grants	84.318	11,721
Education jobs fund	84.410	554,608
Fund for the improvement of education	84.215	213,144
Rural education	84.358	119,121
Improving teacher quality state grants	84.367	337,123
Subtotal		<u>1,520,096</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	2,113,301
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	117,871
Total Title I cluster		<u>2,231,172</u>

MCCOMBSCHOOL DISTRICT

Supplemental Information

**Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance No.	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	960,435
Special education - preschool grants	84.173	43,358
ARRA - Special education grants to states, Recovery Act	84.391	160,534
ARRA - Special education - preschool grants, Recovery Act	84.392	31,425
Total special education cluster		<u>1,195,752</u>
State Fiscal Stabilization Fund cluster:		
ARRA - State Fiscal Stabilization Fund - Education state grants, Recovery Act	84.394	742,704
Total State Fiscal Stabilization Fund cluster		<u>742,704</u>
Total passed-through Mississippi Department of Education		<u>5,689,724</u>
Total U.S. Department of Education		<u>5,870,361</u>
 <u>U. S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Health and Human Services:		
Abstinence education program	93.235	7,357
Temporary assistance for needy families	93.558	175,958
Total passed-through Mississippi Department of Health and Human Services		<u>183,315</u>
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	125,731
Total passed-through Mississippi Department of Education		<u>125,731</u>
Total U.S. Department of Health and Human Services		<u>309,046</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	15,460
Total passed-through Mississippi Department of Education		<u>15,460</u>
Total Corporation for National and Community Service		<u>15,460</u>
 Total for All Federal Awards		 \$ <u>8,028,839</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

Supplemental Information

**Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2011**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 18,928,682	14,127,552	914,044	1,492,719	2,392,367
Other	7,230,901	2,317,963	230,644	105,858	4,576,436
Total	\$ 26,157,583	16,445,515	1,144,688	1,598,577	6,968,803
Total number of students *	2,471				
Cost per student	\$ 10,585	6,655	463	647	2,820

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.

General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - includes expenditures for the following function: Support Services - School Administration.

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

* includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

OTHER INFORMATION

MCCOMB SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 7,249,198	\$ 7,171,991	\$ 6,888,714	\$ 6,214,571
State sources	10,425,780	11,325,255	13,021,812	13,838,677
Federal sources	134,340	98,850	118,185	109,603
Total Revenues	17,809,318	18,596,096	20,028,711	20,162,851
Expenditures:				
Instruction	8,209,201	9,279,889	11,367,464	11,871,068
Support services	7,791,603	8,163,231	7,703,762	7,485,447
Noninstructional services	144,903	235,893	229,904	249,850
Facilities acquisition and construction				9,980
Debt service:				
Principal	16,726	58,315	57,417	57,007
Interest	72,974	21,898	23,306	24,629
Total Expenditures	16,235,407	17,759,226	19,381,853	19,697,981
Excess (Deficiency) of Revenues over (under) Expenditures	1,573,911	836,870	646,858	464,870
Other Financing Sources (Uses):				
Bonds and notes issued	269,366	242,990		253,411
Insurance recovery	6,911	8,963	14,724	14,971
Sale of transportation equipment	4,626			
Sale of other property				1,973
Operating transfers in	167,744	237,088	295,848	2,889,298
Operating transfers out	(196,884)	(790,154)	(862,920)	(3,425,076)
Total Other Financing Sources (Uses)	251,763	(301,115)	(552,348)	(265,423)
Net Change in Fund Balances	1,825,674	535,755	94,510	199,447
Fund Balances:				
Beginning of period, as originally reported	3,495,661	2,983,246	2,694,652	2,499,303
Prior period adjustments	22,969	(23,340)	194,084	(4,098)
Beginning of period, as restated	3,518,630	2,959,906	2,888,736	2,495,205
End of Period	\$ 5,344,304	\$ 3,495,661	\$ 2,983,246	\$ 2,694,652

*SOURCE - PRIOR YEAR AUDIT REPORTS

MCCOMB SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

All Governmental Funds

Last Four Years

UNAUDITED

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 8,007,200	\$ 7,944,096	\$ 7,562,798	\$ 6,829,958
State sources	12,040,777	12,697,731	14,360,428	15,223,682
Federal sources	8,028,840	7,725,407	5,322,285	5,310,420
Sixteenth section sources	1,036,125	873,301	870,022	908,286
Total Revenues	29,112,942	29,240,535	28,115,533	28,270,346
Expenditures:				
Instruction	13,323,639	15,042,887	14,817,933	15,217,388
Support services	9,746,745	9,896,014	9,231,263	9,007,995
Noninstructional services	2,072,050	1,944,247	2,129,653	2,418,231
Sixteenth section	8,032	10,754	5,053	485
Facilities acquisition and construction				499,148
Debt service:				
Principal	780,718	711,915	757,633	510,374
Interest	225,364	198,490	226,700	240,238
Other	1,035	1,000	1,000	
Total Expenditures	26,157,583	27,805,307	27,169,235	27,893,859
Excess (Deficiency) of Revenues over (under) Expenditures	2,955,359	1,435,228	946,298	376,487
Other Financing Sources (Uses):				
Bonds and notes issued	269,368	261,640		253,411
Insurance recovery	6,911	8,963	14,724	14,971
Refunding bonds issued				
Payment held by escrow agent	75,000	75,000	76,625	76,625
Payment to Qualified Zone Academy debt escrow agent	(75,000)	(75,000)	(76,625)	(76,625)
Sale of transportation equipment	4,628			
Sale of other property				1,973
Operating transfers in	383,399	1,046,812	1,168,646	3,806,355
Other financing sources	1,625	1,625		
Operating transfers out	(383,399)	(1,046,812)	(1,168,646)	(3,806,355)
Other financing uses	(1,625)	(1,625)	(1,625)	(1,625)
Total Other Financing Sources (Uses)	280,903	270,603	13,099	268,730
Net Change in Fund Balances	3,236,262	1,705,831	959,397	645,217
Fund Balances:				
Beginning of period, as originally reported	10,428,663	8,730,548	7,593,332	6,964,597
Prior period adjustments	877		157,794	(4,098)
Beginning of period, as restated	10,429,540	8,730,548	7,751,126	6,960,499
Increase (Decrease) in reserve for inventory	(4,442)	(7,716)	20,025	(12,384)
End of Period	\$ 13,661,360	\$ 10,428,663	\$ 8,730,548	\$ 7,593,332

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

PATRICK E. LOWERY AND ASSOCIATES

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF 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 McComb School District, as of and for the year ended June 30, 2011, which collectively comprise McComb School District's basic financial statements and have issued our report thereon dated January 16, 2012. 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 McComb School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of McComb School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the McComb School District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, school board, others within the entity, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Patrick E. Lowery and Associates

Patrick E. Lowery and Associates

January 16, 2012

PATRICK E. LOWERY AND ASSOCIATES

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

Superintendent and School Board

McComb School District

Compliance

We have audited McComb School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of McComb School District's major federal programs for the year ended June 30, 2011. McComb School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of McComb School District's management. Our responsibility is to express an opinion on McComb 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 McComb 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 of McComb School District's compliance with those requirements.

In our opinion, McComb School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of McComb School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered McComb School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of McComb School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, school board, others within the entity, entities with accreditation overview, 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.

Patrick E. Lowery and Associates

Patrick E. Lowery and Associates

January 16, 2012

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

PATRICK E. LOWERY AND ASSOCIATES

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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, 2011, which collectively comprise McComb School District's basic financial statements and have issued our report thereon dated January 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$12,490 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

Patrick E. Lowery and Associates

Patrick E. Lowery and Associates

January 16, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MCCOMB SCHOOL DISTRICT

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

Section J: Summary of Auditor's Results

Financial Statements:

- | | |
|--|---------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified? | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | |
|---|---------------|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Significant deficiency identified? | None reported |
| 5. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? | No |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389	Title I Cluster
84.410	Education Jobs Fund
84.394	ARRA-State Fiscal Stabilization Fund
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.367	Improving Teacher Quality State Grants
8. Dollar threshold used to distinguish between type A and type B programs:	\$300,000

- | | |
|---|----|
| 9. Auditee qualified as low-risk auditee? | No |
|---|----|

MCCOMB SCHOOL DISTRICT

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

Section II: Financial Statement Findings

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

Section III: Federal Award Findings and Questioned Costs

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