

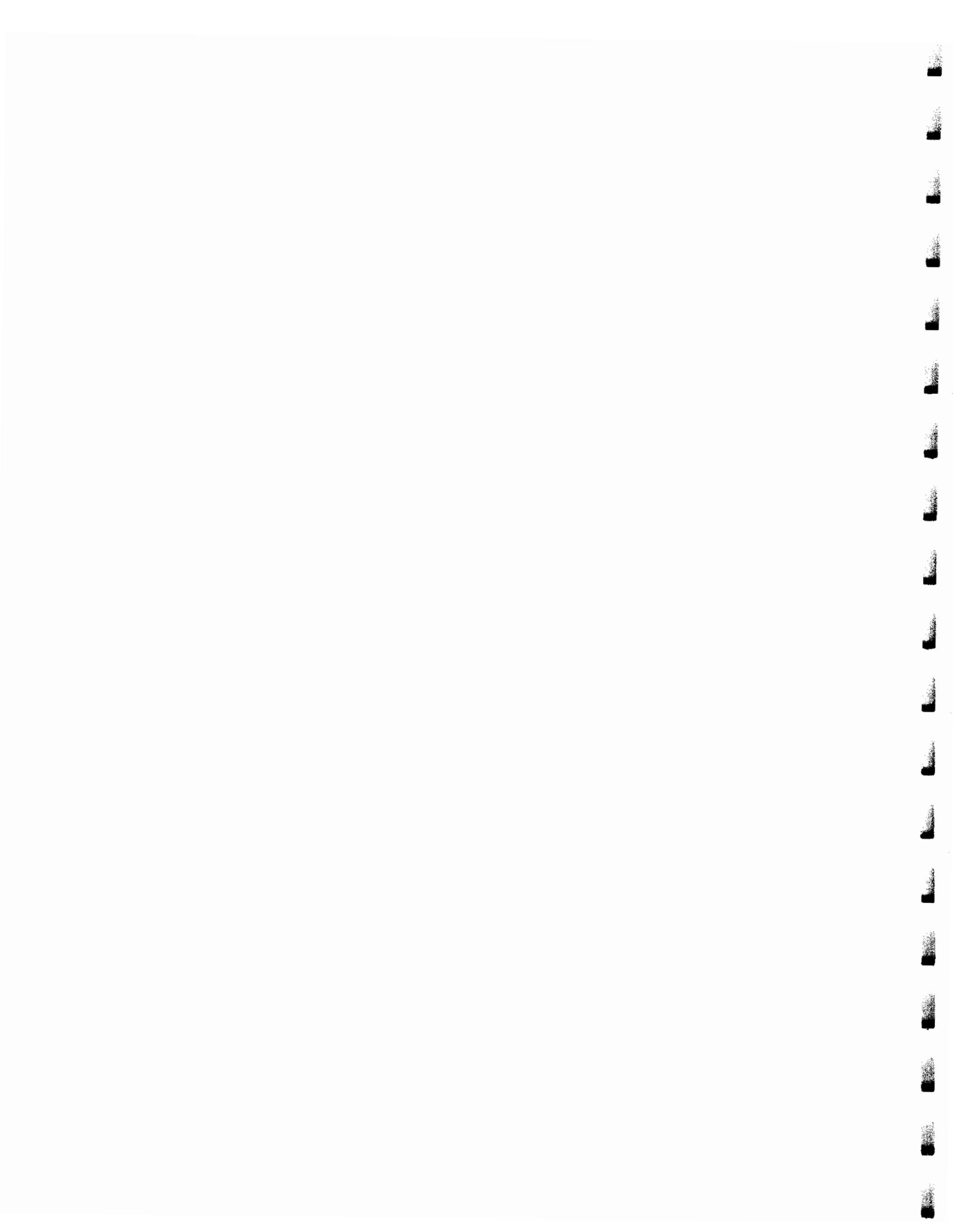


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COVINGTON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2005

Presented by:
Dribben & Associates, Ltd.
P. O. Box 1411
113 North Broadway Avenue
McComb, MS 39649-1411



COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

COVINGTON COUNTY SCHOOL DISTRICT

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

January 27, 2006

Superintendent and School Board
Covington County School District

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

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

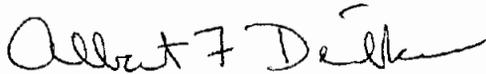
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District, as of June 30, 2005, and the respective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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2006, on our consideration of the Covington County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that reporting is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 11 through 17 and the Budgetary Comparison Schedule and corresponding notes on pages 45 through 50 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY SCHOOL DISTRICT

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BOARD OF
EDUCATION

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SUPERINTENDENT
OF EDUCATION
I. S. "Ike" Sanford, Jr.

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

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

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented and is included in this discussion and analysis.

FINANCIAL HIGHLIGHTS

- Total net assets, including the effect of prior period adjustments, increased \$446,743, which represents a 3% increase from fiscal year 2004.
- General revenues accounted for \$16,477,414 in revenue, or 70% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,059,582, or 30% of total revenues.
- The District had \$23,270,106 in expenses; only \$7,059,582 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,477,414 were adequate to provide for these programs.
- Among major funds, the General Fund had \$16,962,212 in revenues and \$16,379,870 in expenditures. After net other financing uses of \$872,349, the General Fund's fund balance, including the effect of prior period adjustments of \$12,038, decreased \$302,045 from the prior year. This decrease in fund balance resulted primarily from transfers from the General Fund to various other funds for school operations.
- Capital assets, net of accumulated depreciation, increased by \$71,740.
- Long-term debt decreased by \$280,077 due primarily to principal payments made during the fiscal year on existing long-term debt.

OVERVIEW OF FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund

balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

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

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

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major Special Revenue fund.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$12,958,532 as of June 30, 2005.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$6,356,750 of the District's net assets (49%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$6,451,990 of the District's net assets (49%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$149,792 of the District's net assets (2%) reflects its unrestricted net assets.

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

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

	June 30, 2005	June 30, 2004
Current assets	\$ 3,690,908	4,013,599
Other assets	3,448,789	3,232,646
Capital assets, net	8,379,975	8,308,235
Total assets	15,519,672	15,554,480
Current liabilities	78,227	279,701
Long-term debt outstanding	2,482,913	2,762,990
Total liabilities	2,561,140	3,042,691
Net assets:		
Invested in capital assets, net of related debt	6,356,750	6,000,261
Restricted	6,451,990	4,900,798
Unrestricted	149,792	1,610,730
Total net assets	\$ 12,958,532	12,511,789

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in cash and cash equivalents.
- Current liabilities decreased from the previous fiscal year due primarily to a decrease in deferred revenue.
- Long-term debt outstanding decreased from the previous fiscal year due primarily to principal payments made on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the previous fiscal year due primarily to the decrease in long-term debt related to the capital assets.
- Restricted net assets increased from the previous fiscal year due primarily to an increase in amounts restricted for school based activities. In the current fiscal year, 16th Section Interest Funds were reported as restricted and expendable for school based activities but were reported as unrestricted in the prior year.
- Unrestricted net assets decreased from the previous fiscal year due primarily to the change in reporting of 16th Section Interest Funds as discussed above.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$23,536,996. The total cost of all programs and services was \$23,270,106. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	June 30, 2005	June 30, 2004
Revenues:		
Program revenues	\$ 7,059,582	\$ 5,883,284
General revenues	16,477,414	17,070,371
Total revenues	23,536,996	22,953,655
Expenses:		
Instruction	13,657,731	13,511,531
Support services	7,778,748	7,062,744
Non-instructional	1,630,527	1,530,437
Sixteenth section	88,268	54,006
Interest on long-term liabilities	114,832	121,938
Total expenses	23,270,106	22,280,656
Prior period adjustment	179,853	68,500
Increase in net assets	\$ 446,743	\$ 741,499

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

- Program revenues increased from the previous fiscal year due primarily to an increase in operating grants and contributions.
- General revenues decreased from the previous fiscal year due primarily to a decrease in unrestricted state grants and contributions.
- Support services expenses increased from the previous fiscal year due primarily to an increase in insurance costs and transportation costs.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 13,657,731	(10,364,735)	\$ 13,511,531	(10,762,101)
Support services	7,778,748	(5,860,183)	7,062,744	(5,492,451)
Non-instructional	1,630,527	188,689	1,530,437	17,779
Sixteenth section	88,268	(59,463)	54,006	(38,661)
Interest on long-term liabilities	114,832	(114,832)	121,938	(121,938)
Total expenses	\$ 23,270,106	(16,210,524)	\$ 22,280,656	(16,397,372)

- The net cost of governmental activities for fiscal year 2005 in the amount of \$16,210,524 was financed by general revenue, which is made up of primarily property taxes of \$3,796,578 and state revenue of \$11,888,500.
- Investment earnings accounted for \$114,841 of funding.

- Sixteenth section sources in the amount of \$611,156 were generated during the fiscal year primarily from sixteenth section leases, oil and gas royalties and the sale of timber.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$7,076,344. The net change in fund balance for the fiscal year was an increase of \$48,082. Prior period adjustments of \$73,596 also increased the fund balance of the district. A decrease in the reserve for inventory of \$28,689 decreased the fund balance at the end of the fiscal year. \$3,171,184, or 45%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be used for school based activities. The portion of the fund balance reported in the Capital Project Funds is a result of transfers from the General Fund in a previous fiscal year and will be used for capital improvements. The remaining fund balance of \$3,905,160, or 55%, is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, forestry improvements, capital project purposes, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The net change in fund balance for the General Fund for the fiscal year, before prior period adjustments, was a decrease of \$290,007 due primarily to transfers to various other funds for school operations. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was an increase of \$241,994 due to the excess of sixteenth section sources and transfers from other funds over sixteenth section expenditures and transfers to other funds. The net change in fund balance for the Local Building Project Fund for the fiscal year was a decrease of \$405,514 due to the renovation and construction of school facilities. The net change in fund balance for the 16th Section Principal Fund for the fiscal year was an increase of \$216,143 due to the excess of sixteenth section sources over transfers to other funds. The net change in fund balance for the Other Governmental Funds for the fiscal year, before prior period adjustments and the decrease in the reserve for inventory, was an increase of \$285,466 due primarily to transfers from the General Fund to various governmental funds for school operations.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for transfers out of the General Fund were increased to more accurately reflect actual transfers made during the fiscal year.
- Budgeted amounts for transfers in and transfers out of the 16th Section Interest Fund were decreased to reflect actual transfers during the fiscal year.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets, before depreciation, were \$16,125,084, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$526,978 from the previous year. During the fiscal year, the district began some renovation and construction of school facilities and purchased several items of furniture and equipment. The district also disposed of a school bus and several items of furniture and equipment. Adjustments were also made to properly record land as capital assets and to properly record furniture and equipment at the end of the fiscal year. Total depreciation expense for the year was \$433,187. Total accumulated depreciation as of June 30, 2005 was \$7,745,109, resulting in total net assets of \$8,379,975.

Debt Administration. At June 30, 2005, the District had \$2,482,913 in limited obligation bonds and other long-term debt outstanding, of which \$305,277 is due within one year. During the fiscal year, the district made principal payments in the amount of \$282,000 on existing long-term debt.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage rate did not increase or decrease significantly from the previous fiscal year. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District did not increase or decrease significantly from the previous fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Covington County School District, P. O. Box 1269, Collins, MS 39428.

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

COVINGTON COUNTY SCHOOL DISTRICT

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Covington County School District
Statement of Net Assets
June 30, 2005

Exhibit A

<u>Assets</u>	<u>Primary Government Governmental Activities</u>
Cash and Cash Equivalents	\$ 3,416,814
Due from other governments	240,762
Inventories and prepaid items	33,332
Restricted assets	3,448,789
Capital Assets, net	8,379,975
Total Assets	15,519,672
<u>Liabilities</u>	
Accounts payable and accrued liabilities	48,181
Deferred revenue	15,172
Interest payable on long-term liabilities	14,874
Long-term liabilities (Due within 1 year)	
Capital related liabilities	297,000
Non-capital related liabilities	8,277
Long-term liabilities (Due beyond 1 year)	
Capital related liabilities	1,910,000
Non-capital related liabilities	267,636
Total Liabilities	2,561,140
<u>Net Assets</u>	
Investment in capital assets (net of related debt)	6,356,750
Restricted net assets for:	
Expendable:	
School-based activities	2,181,370
Debt service	
Capital improvements	594,625
Forestry improvements	168,316
Unemployment benefits	58,890
Non-expendable:	
Sixteenth section	3,448,789
Unrestricted	149,792
Total Net assets	\$ 12,958,532

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

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

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities					
Instruction	\$ 13,657,731	467,799	2,825,197	-	(10,364,735)
Support services	7,778,748	-	1,918,565	-	(5,860,183)
Non-instructional	1,630,527	224,195	1,595,021	-	188,689
Sixteenth section	88,268	28,805	-	-	(59,463)
Interest and other expenses on long-term liabilities	114,832	-	-	-	(114,832)
Total governmental activities	\$ 23,270,106	720,799	6,338,783	-	(16,210,524)
General revenue:					
Taxes					
General purpose levies					3,543,614
Debt service levies					252,964
Unrestricted grant and contributions:					
State					11,888,500
Federal					12,467
Unrestricted investment earnings:					
Sixteenth section					114,841
Other					611,156
					53,872
Total General Revenues					16,477,414
Changes in net assets					266,890
Net assets - beginning					12,511,789
Prior Period Adjustments					179,853
Net assets - restated					12,691,642
Net Assets - Ending					\$ 12,958,532

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

Covington County School District
 Balance Sheet - Governmental Funds
 For the Year Ended June 30, 2005

Exhibit C

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	16th Section Interest Fund	Rural/Low Income Grant Fund	Local Building Project Fund	16th Section Principal Fund		
Assets:							
Cash and cash equivalents	\$ 257,177	1,402,728	15,172	616,164	3,448,789	1,125,573	6,865,603
Due from other governments	188,375	-	-	-	-	51,059	239,434
Due from other funds	1,328	-	-	-	-	-	1,328
Inventories and prepaid items	-	-	-	-	-	33,332	33,332
	<u>446,880</u>	<u>1,402,728</u>	<u>15,172</u>	<u>616,164</u>	<u>3,448,789</u>	<u>1,209,964</u>	<u>7,139,697</u>
Liabilities & Fund Balances:							
Liabilities:							
Accounts payable and accrued liabilities	18,359	6,580	-	21,539	-	1,703	48,181
Deferred revenue	-	-	15,172	-	-	-	15,172
Total liabilities	<u>18,359</u>	<u>6,580</u>	<u>15,172</u>	<u>21,539</u>	<u>-</u>	<u>1,703</u>	<u>63,353</u>
Fund balances:							
Reserved for:	-	-	-	-	-	33,332	33,332
Inventory	-	-	-	-	-	58,890	58,890
Unemployment benefits	-	-	-	-	-	168,316	168,316
Capital projects purposes	-	-	-	-	-	183,775	183,775
Debt service purposes	-	-	-	-	-	12,058	12,058
Permanent fund purposes	-	-	-	-	3,448,789	-	3,448,789
Unreserved:							
Undesignated, reported in:	-	-	-	-	-	-	-
General fund	428,521	-	-	-	-	-	428,521
Special revenue funds	-	1,396,148	-	-	-	751,890	2,148,038
Permanent funds	-	-	-	594,625	-	-	594,625
Total fund balances	<u>428,521</u>	<u>1,396,148</u>	<u>-</u>	<u>594,625</u>	<u>3,448,789</u>	<u>1,208,261</u>	<u>7,076,344</u>
Total liabilities & fund balances	<u>\$ 446,880</u>	<u>1,402,728</u>	<u>15,172</u>	<u>616,164</u>	<u>3,448,789</u>	<u>1,209,964</u>	<u>7,139,697</u>

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

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

Exhibit C-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 7,076,344
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	
Capital assets	16,125,084
Less accumulated depreciation	<u>(7,745,109)</u>
	8,379,975
Liabilities not due and payable in the current period are not reported in the funds, as follows	
Long-term liabilities	(2,482,913)
Accrued interest on debt	<u>(14,874)</u>
	(2,497,787)
Total Net Assets	<u><u>\$ 12,958,532</u></u>

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

Covington County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances for Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	16th Section Interest Fund	Rural/Low Income Grant Funds	Local Building Project Fund	16th Section Principal Fund		
Revenues:							
Local sources	\$ 4,084,880	-	-	10,501	-	487,324	4,582,705
State sources	12,864,865	-	-	-	-	655,641	13,520,506
Federal sources	12,467	-	134,170	-	-	4,572,607	4,719,244
Sixteenth section sources	-	343,229	-	-	293,793	66,287	703,309
Total revenues	16,962,212	343,229	134,170	10,501	293,793	5,781,859	23,525,764
Expenditures:							
Instruction	10,881,192	-	97,141	-	-	2,535,458	13,513,791
Support services	5,498,678	-	36,183	38,258	-	1,943,874	7,516,993
Non-instructional services	-	-	-	-	-	1,593,222	1,593,222
Sixteenth section	-	67,264	-	-	-	21,004	88,268
Facilities acquisition and construction	-	-	-	367,256	-	-	367,256
Debt Service:							
Principal	-	-	-	-	-	282,000	282,000
Interest	-	-	-	-	-	116,769	116,769
Total expenditures	16,379,870	67,264	133,324	405,514	-	6,492,327	23,478,299
Excess (deficiency) of revenues over expenditures	582,342	275,965	846	(395,013)	293,793	(710,468)	47,465
Other Financing Sources (Uses):							
Operating Transfers in	2,231,878	81,213	-	-	-	1,288,921	3,602,012
Other financing sources	768	-	-	-	-	10,464	11,232
Operating Transfers out	(3,102,207)	(115,184)	(846)	(10,501)	(77,650)	(295,624)	(3,602,012)
Other financing uses	(2,788)	-	-	-	-	(7,827)	(10,615)
Total Other Financing Sources (uses)	(872,349)	(33,971)	(846)	(10,501)	(77,650)	995,934	617
Net Change in Fund Balances	(290,007)	241,994	-	(405,514)	216,143	285,466	48,082
Fund balances:							
July 1, 2004, as previously reported	730,566	1,154,154	7	1,000,139	3,232,646	865,843	6,983,355
Prior Period adjustments & reclassifications	(12,038)	-	(7)	-	-	85,641	73,596
July 1, 2004, as restated	718,528	1,154,154	-	1,000,139	3,232,646	951,484	7,056,951
Decrease for inventory	-	-	-	-	-	(28,689)	(28,689)
June 30, 2005	\$ 428,521	1,396,148	-	594,625	3,448,789	1,208,261	7,076,344

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

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

Exhibit D-1

	<u>Amount</u>
Net change in fund balances	\$ 48,082
Amounts reported in the Statement of Net Activities (Exhibit B) are different because:	
Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the statement of activities. Instead, costs associated with capital assets are capitalized in the Statement of Net Assets, as follows.	407,117
Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the Statement of Activities.	(433,187)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas, in governmental funds, proceeds for the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Losses on the sale of capital assets	(8,447)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	282,000
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis of accounting, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Compensated absences decreases	(1,923)
Accrued interest on debt increases	1,937
A decrease in the reserve for inventory is reported as a direct decrease to the fund balance in the governmental funds but is a decrease in noninstructional service expenses in the Statement of Activities.	(28,689)
Change in net assets of governmental activities	<u>\$ 266,890</u>

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

Covington County School District
Statement of Fiduciary Net Assets
June 30, 2005

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 287,026	37,868
Total Assets	<u>287,026</u>	<u>37,868</u>
Liabilities		
Due to other funds	-	1,328
Due to student clubs	-	36,540
Total Liabilities	<u>-</u>	<u>37,868</u>
Net Assets		
Reserved for scholarships	343	
Held in trust	286,683	
Total Net Assets	<u>\$ 287,026</u>	

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

Covington County School District
 Statement of Changes in Fiduciary Net Assets
 June 30, 2005

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions	
Interest on Investments	3,709
Contributions and donations from private sources	\$ 66,951
Total Assets	<u>66,951</u>
Deductions	
Scholarships awarded	<u>500</u>
Total Liabilities	<u>500</u>
Change in net assets	70,160
Net Assets	
July 1, 2004	216,866
June 30, 2005	<u>\$ 287,026</u>

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

COVINGTON COUNTY SCHOOL DISTRICT

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

Notes to Financial Statements

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board, which each member was elected by the citizens of each defined county district.

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

COVINGTON COUNTY SCHOOL DISTRICT

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The school district reports the following major governmental funds:

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

Rural/Low Income School Grant Fund - This is a Special Revenue Funds. Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Sixteenth Section Interest Fund - This is a Special Revenue Fund. Special revenue funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

COVINGTON COUNTY SCHOOL DISTRICT

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

Local Building 3 Mill Levy Fund – This is a Capital Projects Fund. Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

Sixteenth Section Principal Fund – This is a Permanent Fund. Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

FIDUCIARY FUNDS

Private-purpose Trust Funds – Private purpose trust funds are used to report all trust arrangements, other than those properly reported elsewhere, under 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. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

COVINGTON COUNTY SCHOOL DISTRICT

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

E. Encumbrances.

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

F. Cash and Cash Equivalents.

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

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

G. Investments.

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

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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.

I. Capital Assets.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds.

COVINGTON COUNTY SCHOOL DISTRICT

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

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

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

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 6 for details.

K. Interfund Transactions and Balances.

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

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

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

COVINGTON COUNTY SCHOOL DISTRICT

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

L. Equity Classifications.

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

Reserved for unemployment benefits - An account that represents the fund balance of the unemployment compensation revolving fund which is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements - An account that represents the fund balance of the sixteenth section forestry escrow fund which is legally restricted for improvements to sixteenth section forest lands.

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

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

COVINGTON COUNTY SCHOOL DISTRICT

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

Reserved for permanent fund purposes – An account that represents the portion of the fund balance of the sixteenth section principal fund which is legally restricted for investment purposes.

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

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

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

(2) Changes in Accounting Standards

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents.

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

COVINGTON COUNTY SCHOOL DISTRICT

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

The carrying amount of the school district's deposits with financial reported in the governmental funds and fiduciary funds was \$6,865,603 and \$324,894 respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$3,416,814 and Restricted Assets \$3,448,789. The Restricted assets represent the cash balance of the 16th section Principal Funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$5,408,844.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the even 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 institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district.

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due To</u>	<u>Due From</u>
Major funds:		
General fund		1,328
Non-major funds:	1,328	
Total Funds	<u>\$ 1,328</u>	<u>1,328</u>

This amount represents interest earned in an agency fund that is due to the general fund.

B. Transfers In/Transfers Out.

	<u>Transfer In</u>	<u>Transfer Out</u>
Major funds:		
General fund	#####	3,102,207
Rural/Low Income School		846
Sixteenth Section Interest Fund	81,213	115,184
Local Building Project Fund		10,501
Sixteenth Section Principal Fund		77,650
Non-major funds:	<u>1,288,921</u>	<u>295,624</u>
Total Funds	<u>#####</u>	<u>3,602,012</u>

The above transfers were made to close out unused funds and to transfer interest earned in the sixteenth section principal fund.

COVINGTON COUNTY SCHOOL DISTRICT

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

(5) Capital Assets.

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

	Balance 07/01/04	Additions	Retirements	Adjustments	Balance 06/30/05
<u>Non-depreciable capital assets:</u>					
Land				103,204	103,204
Construction in progress	\$ -	345,717			345,717
Total non-depreciable capital assets	-	345,717		103,204	448,921
<u>Depreciable capital assets:</u>					
Buildings	11,405,981				11,405,981
Building improvements	86,029				86,029
Improvements other than buildings	55,980				55,980
Mobile equipment	3,539,259		(40,500)		3,498,759
Furniture and equipment	510,857	61,400	(75,287)	132,444	629,414
Total depreciable capital assets	15,598,106	61,400	(115,787)	132,444	15,676,163
<u>Less accumulated depreciation for:</u>					
Buildings	4,719,729	184,405			4,904,134
Building improvements	3,441	3,441			6,882
Improvements other than buildings	2,239	2,239			4,478
Mobile equipment	2,135,829	212,703	(32,805)		2,315,727
Furniture and equipment	428,633	30,399	(74,535)	129,391	513,888
Total accumulated depreciation	7,289,871	433,187	(107,340)	129,391	7,745,109
Total depreciable capital assets, net	8,308,235	(371,787)	(8,447)	3,053	7,931,054
Governmental activities capital assets, net	\$ 8,308,235	(26,070)	(8,447)	106,257	8,379,975

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 186,575
Support Services	231,288
Non-instructional	15,324
Total depreciation expense	\$ 433,187

COVINGTON COUNTY SCHOOL DISTRICT

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

The capital assets above include significant amounts of buildings and furniture and equipment which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

Adjustment: Land and furniture and equipment were adjusted to actual.

(6) Long-term liabilities.

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

	Balance 07/01/04	Additions	Reductions	Balance 06/30/05	Amounts due within one year
A. Limited obligation bond payable	\$ 410,000		(95,000)	315,000	100,000
B. Three mill-ten year note payable	2,079,000		(187,000)	1,892,000	197,000
C. Compensated absences payable	273,990	1,923		275,913	8,277
Total	\$ 2,762,990	1,923	(282,000)	2,482,913	305,277

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
Limited Obligation Note Series 1998	4.70%	05/05/98	06/01/08	\$ 890,000	345,080
Total				\$ 890,000	345,080

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 114,805	100,000	214,805
2007	115,105	105,000	220,105
2008	115,170	110,000	225,170
Total	\$ 345,080	315,000	660,080

COVINGTON COUNTY SCHOOL DISTRICT

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

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

B. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mill note payable Series 2002	4.69%	05/10/02	05/10/12	\$ 2,385,000	1,892,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 197,000	88,735	285,735
2007	208,000	79,494	287,494
2008	205,000	69,740	274,740
2009	317,000	60,126	377,126
2010	333,000	45,259	378,259
2011-2015	632,000	43,430	675,430
Total	\$ 1,892,000	386,784	2,278,784

This debt will be retired from the Three Mill Note Payable Fund.

C. Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

COVINGTON COUNTY SCHOOL DISTRICT

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

report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003 were \$1,323,355, \$1,287,977 and \$1,194,617, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

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

Year Ending June 30	Amount
2006	\$ 64,532
2007	55,474
2008	52,972
2009	51,074
2010	48,209
2011-2015	180,343
2016-2020	174,223
2021-2025	174,223
2026-2030	156,587
Total	<u>\$ 957,637</u>

COVINGTON COUNTY SCHOOL DISTRICT

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

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B

<u>Explanation</u>	<u>Amount</u>
1. To correct errors in the classification of capital assets in a prior year.	\$ 106,257
2. To correct errors in recording expenditures in a prior year.	<u>73,596</u>
Total	<u>\$ 179,853</u>

Exhibit D

<u>Major funds:</u>	<u>Explanation(s):</u>	<u>Amount</u>
General Fund		\$ (12,038)
Rural/Low Income School Grant Fund		(7)
Other Governmental Funds		<u>85,641</u>
	Total	<u>\$ 73,596</u>

(10) Litigation.

Covington County School District has two cases pending in the Circuit Court of Covington County. Both cases are being defended by attorneys of the school district's insurance carrier. It is not possible to estimate the outcome of these suits at this time.

Covington County School District was party to a suit in the United States District Court for the Southern District regarding a desegregation order entered by the Court in December, 1966. This case has been finalized by the entry of a consent decree dated March 8, 2006 requiring all students residing in the Hopewell attendance zone, upon completion of the sixth grade, to attend Seminary Attendance Center, as well as other relief. There was no monetary judgment in the decree; however, there will be additional expenses to the district to carry out the terms of the decree and no estimate of the potential costs to the school district can be made at this time.

(11) Subsequent Events.

On August 15, 2005, the board approved the purchase of five new buses at a total cost of \$264,945. No debt was incurred for this purchase.

COVINGTON COUNTY SCHOOL DISTRICT

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

(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.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Bancorp South in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

COVINGTON COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

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

Schedule 1-A

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,993,593	3,602,378	4,084,880	(391,215)	482,502
State sources	12,789,467	12,864,867	12,864,865	75,400	(2)
Federal sources	55,000	12,468	12,467	(42,532)	(1)
Total revenues	<u>16,838,060</u>	<u>16,479,713</u>	<u>16,962,212</u>	<u>(358,347)</u>	<u>482,499</u>
Expenditures:					
Instruction	11,095,412	10,364,827	10,881,192	730,585	(516,365)
Support Services	5,315,721	5,396,274	5,498,678	(80,553)	(102,404)
Total expenditures	<u>16,411,133</u>	<u>15,761,101</u>	<u>16,379,870</u>	<u>650,032</u>	<u>(618,769)</u>
Excess (deficiency) of revenues over expenditures	<u>426,927</u>	<u>718,612</u>	<u>582,342</u>	<u>1,008,379</u>	<u>(136,270)</u>
Other Financing Sources (Uses):					
Transfers in	2,129,572	1,853,559	2,231,878	(276,013)	378,319
Other financing sources	2,030	-	768	(2,030)	768
Transfers out	(2,507,437)	(2,557,746)	(3,102,207)	(50,309)	(554,461)
Other financing uses	-	-	(2,788)	-	(2,788)
Total other financing sources and uses	<u>(375,835)</u>	<u>(704,187)</u>	<u>(872,349)</u>	<u>(328,352)</u>	<u>(178,162)</u>
Net change in fund balances	<u>51,092</u>	<u>14,425</u>	<u>(290,007)</u>	<u>(1,336,731)</u>	<u>(314,432)</u>
Fund balances:					
July 1, 2004, as previously reported			730,566		
Prior period adj. & reclassifications			(12,038)		
July 1, 2004, as restated			<u>718,528</u>		
June 30, 2005			<u>\$ 428,521</u>		

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

Covington County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances -Budget and Actual
Rural/Low Income School Grant Fund
For the Year Ended June 30, 2005

Schedule I-B

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	99,659	122,916	134,170	23,257	11,254
Total revenues	99,659	122,916	134,170	23,257	11,254
Expenditures:					
Instruction	86,778	102,337	97,141	(15,559)	5,196
Support services	9,686	37,458	36,183	(27,772)	1,275
Noninstructional services	2,500	-	-	2,500	-
Total expenditures	98,964	139,795	133,324	(40,831)	6,471
Excess (deficiency) of revenues over expenditures	695	(16,879)	846	(17,574)	17,725
Other Financing Sources (Uses):					
Transfers in	-	5,221	-	5,221	(5,221)
Transfers out	(695)	(846)	(846)	(151)	-
Total other financing sources and uses	(695)	4,375	(846)	5,070	(5,221)
Net change in fund balances	-	(12,504)	-	(12,504)	12,504
Fund balances:					
July 1, 2004, as previously reported			7		
Prior period adjustment			(7)		
July 1, 2004, as restated			-		
June 30, 2005			\$ -		

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

Covington County School District
Statement of Revenues, Expenditures, and Changes in Fund Balances -Budget and Actual
16th Section Interest Fund
For the Year Ended June 30, 2005

Schedule I-C

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Sixteenth section sources	351,328	343,229	343,229	(8,099)	-
Total revenues	351,328	343,229	343,229	(8,099)	-
Expenditures:					
Sixteenth section sources	41,392	67,264	67,264	(25,872)	-
Total expenditures	41,392	67,264	67,264	(25,872)	-
Excess (deficiency) of revenues over expenditures	309,936	275,965	275,965	(33,971)	-
Other Financing Sources (Uses):					
Transfers in	252,038	81,213	81,213	(170,825)	-
Transfers out	(187,038)	(115,184)	(115,184)	71,854	-
Total other financing sources and uses	65,000	(33,971)	(33,971)	(98,971)	-
Net change in fund balances	374,936	241,994	241,994	(132,942)	-
Fund balances:					
July 1, 2004			1,154,154		
June 30, 2005			\$ 1,396,148		

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

COVINGTON COUNTY SCHOOL DISTRICT

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

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

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

COVINGTON COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT
 Schedule of Expenditure of Federal Awards
 For the Year Ended June 30, 2005

Schedule 1

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through the Mississippi Department of Education:		
Non-cash assistance:		
Food Donation	10.550	\$ 117,582
Child nutrition cluster:		
School breakfast program	10.553	434,786
National school lunch program	10.555	1,360,500
Child and adult care food program	10.558	23,165
Summer food program for children	10.559	30,883
Total child nutrition cluster		<u>1,849,334</u>
Total U. S. Department of Agriculture		<u>1,966,916</u>
<u>U. S. Department of Education</u>		
Direct Programs:		
Twenty-first century community learning centers	84.287	178,991
Total		<u>178,991</u>
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	1,297,799
Vocational education-basic grants to states	84.048	53,269
Safe and drug-free schools and communities-state grants	84.186	26,253
Improving teacher quality	84.281	238,957
State grants for innovative program	84.298	49,743
Education technology state grants	84.318	238,848
Rural education	84.358	128,948
Total		<u>2,033,817</u>
Special educational cluster:		
Special education-grants to states	84.027	606,097
Special education-preschool grants	84.173	9,797
Total		<u>615,894</u>
Total passed-through Mississippi Department of Education		<u>2,649,711</u>
Total U. S. Department of Education		<u>2,828,702</u>
<u>U. S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Health and Human Services		
Temporary assistance for needy families	93.558	131,020
Total U.S. Department of Health and Human Services		<u>131,020</u>
Total for All Federal Awards		<u>\$ 4,926,638</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same basis of 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.

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

Schedule 2

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 18,188,070	12,438,192	2,059,204	3,690,674
Other	5,319,416	1,075,598	412,280	3,831,538
Total	23,507,486	13,513,790	2,471,484	7,522,212
Total number of students	3,306			
Cost per student	\$ 7,111	4,088	748	2,275

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

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

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

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

COVINGTON COUNTY SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

COVINGTON COUNTY SCHOOL DISTRICT

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

January 27, 2006

Superintendent and School Board
Covington County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District as of and for the year ended June 30, 2005, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 05-1 and 05-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and,

accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated January 27, 2006, which is included in this report.

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

Sincerely,

A handwritten signature in cursive script that reads "Albert F. Dribben".

Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

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

January 27, 2006

Superintendent and School Board
Covington County School District

Compliance

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

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

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

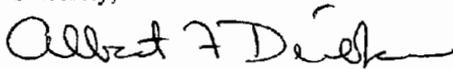
Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

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

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

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

COVINGTON COUNTY SCHOOL DISTRICT

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

January 27, 2006

Superintendent and School Board
Covington County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District as of and for the year ended June 30, 2005, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated January 27, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

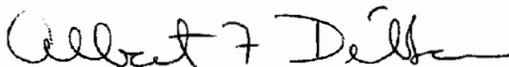
Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972) disclosed no instances of noncompliance. The district reported \$22,629 of classroom supply funds carried over from previous years.

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

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

Sincerely,



Albert F. Dribben, CPA
Dribben & Associates, Ltd.
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 4. | Type of auditor's report issued noncompliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required be Section __510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Child nutrition cluster: | |
| | CFDA # 10.553 School breakfast program | |
| | CFDA # 10.555 National school lunch program | |
| | CFDA # 10.559 Summer food service program for children | |
| b. | Class size reduction | |
| | CFDA # 84.340 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __315(b) of OMB Circular A-133? | No |

COVINGTON COUNTY SCHOOL DISTRICT

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

Section 2: Financial Statement Findings

Reportable Conditions Not Considered to be Material Weaknesses.

05-1 Finding

The following internal control weaknesses were noted during test work performed on general and agency activity and club fund receipts. Transactions were selected for testing from one month's activity from each school of the district:

- a. As reported in the prior years' audit report, numerous instances were noted where receipts did not indicate the type of payment being submitted.
- b. As reported in the prior year's audit report, a number of instances were found where the deposits were not made timely.
- c. Several instances were found in that the school was unable to furnish a list of students turning in the funds submitted on a receipt.

Recommendation

We recommend that the district implement policies and procedures to correct the above noted weaknesses. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*. At a minimum, the district should implement the following procedures:

- a. All receipts should be completed to include the type of payment received. This constitutes an important internal control for comparisons with deposits made.
- b. All receipts should be deposited in a timely manner to safeguard the funds and to earn interest for the school district.
- c. Principals are required, per the manual cited above, to keep a list of the names of students who turn in funds. This list should be cross referenced to the receipt number and kept at the school office location.

COVINGTON COUNTY SCHOOL DISTRICT

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

05-02 Finding

The following internal control weaknesses were noted during test work performed on general and agency activity and club fund expenditures. Transactions were selected for testing from one month's activity from each school of the district.

- a. As reported in the prior years' audit reports, a number of instances were noted in that the invoices were not marked "Paid" or defaced with writing in the date of payment and check number.
- b. One instance of no approval for payment was noted on the invoice or receiving report.
- c. One instance of payment without an invoice.
- d. Two instances of amounts paid being greater than the purchase order amount and one instance of no amount on the purchase order.

Recommendation

We recommend that the district implement established policies and procedures to correct the above noted weaknesses. Guidance can be found in the *Financial Accounting Manual for Mississippi Public School Districts*. We recommend that the following specific actions be taken:

- a. All paid invoices should be marked "Paid" or defaced in a manner to show the invoice has been paid. This is an internal control to prevent the invoice from being paid more than once either intentionally or unintentionally.
- b. A supervisor, principal or program director responsible for the purchase should either sign or initial the receiving report or invoice and date it to indicate approval for payment.
- c. Expenditures should be paid only from an invoice—if not the original, then a certified second copy from the vendor.
- d. Purchase orders are used to make sure that monies are available for expenditures. Care should be given in securing the exact cost before making out a purchase requisition. After receipt of the purchase requisition, the supervisor or program director should compare the requisition amount to the funds available in the fund, function and objective before approving the purchase order for submission.

Section 3: Federal Award Findings and Questioned Costs

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

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

COVINGTON COUNTY SCHOOL DISTRICT

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Covington County School District

BOARD OF EDUCATION

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SUPERINTENDENT OF EDUCATION

I.S. "Ike" Sanford, Jr.

ASSISTANT SUPERINTENDENT OF EDUCATION

Larry N. Tripp

April 25, 2006

Dribben & Associates, Inc.
P.O. Box 1411
McComb, Ms 39649

Financial & Compliance Audit Division

As required by Section ____ .315(c) of OMB Circular A-133, the Covington County School District has prepared and hereby submit the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

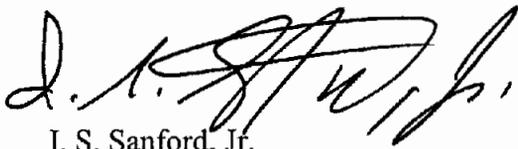
Finding

Corrective Action Plan Details

- | | |
|-------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 05-1 | <ul style="list-style-type: none">a. Bookkeepers are aware of this procedure. A meeting with the secretaries and principals will be held to inform them of the finding and remind them of the importance for them to indicate the type of payment being made.b. Secretaries making deposits are aware of the policy of making deposits in a timely manner. A meeting with the secretaries and principals will be held to inform them of the finding and remind them of the need for them to make deposits in a timely manner.c. Secretaries are now sending names of students that match the receipts and deposits being turned in. |
| 05-02 | <ul style="list-style-type: none">a. Bookkeepers and secretaries are aware that invoices should be marked paid or defaced in some manner to indicate that it has been paid. The finding will be reviewed with the principals and bookkeepers in a meeting scheduled in June 2006.b. The findings regarding activity fund expenditures will be reviewed with the principals and bookkeepers in a meeting in June 2006. Follow-up meetings will be held throughout the year. Monthly reports will be reviewed in the business office, and any problems will be reported to the school principal for corrective action. Purchasing procedures will be reviewed. |

- c. Our policy states that expenditures be paid with an original invoice. Where an original invoice cannot be produced I have informed the bookkeepers that they may now pay invoices from faxed/mailed copies of invoices.
- d. Purchasing procedures are a part of our policy and procedure. Secretaries and bookkeepers are aware of the laws concerning purchasing. This finding will be reviewed with the principals and secretaries in a meeting scheduled in June, 2006

Sincerely,

A handwritten signature in black ink, appearing to read "I. S. Sanford, Jr.", written in a cursive style.

I. S. Sanford, Jr.
Superintendent of Education