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COVINGTON COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2008

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



COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

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

September 14, 2009

Superintendent and School Board  
Covington County School District

We have audited the accompanying 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, 2008, 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 of 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Covington County School District, as of June 30, 2008, 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 September 14, 2009, 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 report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 11 through 19 and the Budgetary Comparison Schedule and corresponding notes on pages 49 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.

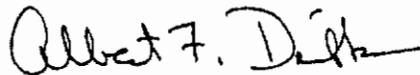
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D. Scott Nieman, CPA      Al Dribben, CPA  
P.O. Box 1411      113 North Broadway      McComb MS 39649  
601-684-4819 Phone      601-684-4818 Fax      email dsncpa@bellsouth.net

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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Sincerely,

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

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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**Covington County School District**  
**P O Box 1269**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDING JUNE 30, 2008**

The discussion and analysis of 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, 2008. 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.

**FINANCIAL HIGHLIGHTS**

- Total net assets for 2008 increased \$3,117,249, including a prior period adjustment of \$865,133, which represents a 21% increase from fiscal year 2007. This increase in net assets is primarily due to the following: 1) capital outlays of \$2,671,433 during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, and 2) repayment of debt principal in the amount of \$315,000 was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues amounted to \$24,990,215 and \$20,628,411, or 82% and 78% of all revenues for fiscal years 2008 and 2007, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,445,866, or 18% of total revenues for 2008, and \$5,967,185, or 22% of total revenues for 2007.
- The District had \$28,183,965 and \$26,658,387 in expenses for fiscal years 2008 and 2007; only \$5,445,866 for 2008 and \$5,967,185 for 2007 of these expenses was offset by program specific charges for services and grants and contributions. General revenues of \$24,990,215 for 2008 were adequate to provide for these programs. However, general revenues of \$20,628,411 for 2007 were not adequate to provide for these programs.
- Among major funds, the General Fund had \$20,598,827 in revenues and \$22,340,583 in expenditures for 2008, and \$19,116,335 in revenues and \$19,444,940 in expenditures in 2007. The General Fund's fund balance decreased by \$1,234,725, net of a prior period adjustment of \$2,191,552, from 2007 to 2008, and decreased by \$1,538,561, including a prior period adjustment of \$38,493, from 2006 to 2007.
- Capital assets, net of accumulated depreciation, increased by \$2,157,995 for 2008 and increased by \$790,032 for 2007. The increase for 2008 was due to the construction of new school facilities in progress at fiscal year end and the purchase of seven new school buses and various other items of mobile equipment and furniture and equipment.

COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008

- Long-term debt decreased by \$172,049 for 2008 and decreased by \$173,744 for 2007. The decrease for 2008 was due primarily to the principal payments on outstanding long-term debt. However, the liability for compensated absences increased by \$142,951 for 2008.

## 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 comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental 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 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.

COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008

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. The governmental fund's balance sheet is reconciled to the statement of net assets, and the governmental fund's statement of revenues, expenditures, and changes in fund balances is reconciled to the statement of activities to facilitate this comparison between governmental funds and governmental activities.

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

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial 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. The notes to the financial statements can be found immediately following the basic financial statements.

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

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

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

**Also, included in the other supplemental information section are the Statement of Revenues, Expenditures and Changes in Fund Balances, General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances, All Governmental Funds, Last Four Years. This information is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements.**

#### 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 \$18,073,842 as of June 30, 2008.

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.

COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008

Table 1 presents a summary of the District's net assets at June 30, 2008 and June 30, 2007.

**Table 1**  
**Condensed Statement of Net Assets**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Percentage Change</u>
Current assets	\$ 2,034,786	\$ 3,886,739	(47.65) %
Restricted assets	6,925,734	4,765,883	45.32 %
Capital assets, net	11,278,177	9,120,182	23.66 %
<b>Total assets</b>	<b><u>20,238,697</u></b>	<b><u>17,772,804</u></b>	<b>13.87 %</b>
Current liabilities	329,481	808,788	(59.26) %
Long-term debt outstanding	1,835,374	2,007,423	(8.57) %
<b>Total liabilities</b>	<b><u>2,164,855</u></b>	<b><u>2,816,211</u></b>	<b>(23.13) %</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt	9,996,177	7,523,182	32.87 %
Restricted	9,388,959	7,119,740	31.87 %
Unrestricted	(1,311,294)	313,671	(518.05) %
<b>Total net assets</b>	<b><u>\$ 18,073,842</u></b>	<b><u>\$ 14,956,593</u></b>	<b>20.84 %</b>

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

- Increase in net capital assets in the amount of \$2,157,995.
- The principal retirement of \$315,000 of long-term debt.

**Changes in net assets.** The District's total revenues for the fiscal years ended June 30, 2008 and June 30, 2007 were \$30,436,081 and \$26,595,596, respectively. The total cost of all programs and services was \$28,183,965 for 2008 and \$26,658,387 for 2007. Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2008 and June 30, 2007.

COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008

**Table 2**  
**Change(s) in Net Assets**

Program revenues:			
Charges for services	\$ 694,488	\$ 703,504	(1.28) %
Operating grants and contributions	4,751,378	5,263,681	(9.73) %
Capital Grants and Contributions	-	-	0.00 %
General revenues:			
Property taxes	4,552,193	4,093,510	11.21 %
Grants and contributions not restricted	15,558,835	14,535,326	7.04 %
Investment earnings	313,360	274,978	13.96 %
Sixteenth section sources	4,505,156	1,666,656	170.31 %
Other	60,671	57,941	4.71 %
<b>Total revenues</b>	<b><u>30,436,081</u></b>	<b><u>26,595,596</u></b>	<b>14.44 %</b>
Expenses:			
Instruction	16,185,072	15,131,481	6.96 %
Support services	9,968,379	9,535,863	4.54 %
Non-instructional	1,833,053	1,806,901	1.45 %
Sixteenth section	124,669	96,629	29.02 %
Interest and other expense on long-term liabilities	72,792	87,513	(16.82) %
<b>Total expenses</b>	<b><u>28,183,965</u></b>	<b><u>26,658,387</u></b>	<b>5.72 %</b>
<b>Increase (Decrease) in net assets</b>	<b><u>2,252,116</u></b>	<b><u>(62,791)</u></b>	<b>3,686.69 %</b>
<b>Net Assets, July 1</b>	<b><u>14,956,593</u></b>	<b><u>14,967,173</u></b>	<b>(0.07) %</b>
<b>Prior Period Adjustment(s)</b>	<b><u>865,133</u></b>	<b><u>52,211</u></b>	<b>1,556.99 %</b>
<b>Net Assets Restated, July 1</b>	<b><u>15,821,726</u></b>	<b><u>15,019,384</u></b>	<b>5.34 %</b>
<b>Net Assets, June 30</b>	<b><u>\$ 18,073,842</u></b>	<b><u>\$ 14,956,593</u></b>	<b>20.84 %</b>

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

COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008

**Table 3**  
**Net Cost of Governmental Activities**

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Instruction	\$ 16,185,072	\$ 15,131,481	6.96 %
Support services	9,968,379	9,535,863	4.54 %
Non-instructional	1,833,053	1,806,901	1.45 %
Sixteenth section	124,669	96,629	29.02 %
Interest on long-term liabilities	72,792	87,513	(16.82) %
<b>Net expenses</b>	<b>\$ 28,183,965</b>	<b>\$ 26,658,387</b>	<b>5.72 %</b>

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
Instruction	\$ (13,833,514)	\$ (12,754,229)	(8.46) %
Support services	(8,601,474)	(7,740,064)	(11.13) %
Non-instructional	(105,650)	(21,208)	(398.16) %
Sixteenth section	(124,669)	(88,188)	(41.37) %
Interest on long-term liabilities	(72,792)	(87,513)	16.82 %
<b>Total net (expense) revenue</b>	<b>\$ (22,738,099)</b>	<b>\$ (20,691,202)</b>	<b>(9.89) %</b>

- Net cost of governmental activities in the amount of \$22,738,099 for 2008 and \$20,691,202 for 2007 was financed mainly by general revenue, which is made up of primarily property taxes of \$4,552,193 for 2008 and \$4,093,510 for 2007 and state and federal revenues of \$15,558,835 for 2008 and \$14,535,326 for 2007. In addition, there was \$4,505,156 and \$1,666,656 in Sixteenth Section sources for 2008 and 2007, respectively.
- Investment earnings amounted to \$313,360 for 2008 and \$274,978 for 2007.

**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.

COVINGTON COUNTY SCHOOL DISTRICT  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 FOR THE YEAR ENDING JUNE 30, 2008

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$8,639,557, an increase of \$785,039, which includes a prior period adjustment of \$872,175. The portion of the fund balance that represents unreserved and undesignated fund balance is a negative amount of \$744,562. The majority of this negative amount is due to the advance of sixteenth section principal funds to the General Fund for use in the construction of school facilities. The advance in the amount of \$2,200,000 is recorded as a liability in the General Fund and resulted in a negative fund balance in the General Fund in the amount of \$510,636. The remaining fund balance of \$9,384,119 is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$1,234,725, net of a prior period adjustment of \$2,191,552. This decrease in fund balance is due primarily to the increase in salaries and benefits of employees, the increase in utilities and student transportation costs, the purchase of seven new school buses and the purchase of computer equipment during the fiscal year. The fund balance of Other Governmental Funds showed a decrease in the amount of \$2,298,410, which includes a prior period adjustment of \$1,295,377. This decrease in fund balance is due primarily to expenditures incurred during the fiscal year for the construction of new school facilities. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Sixteenth Section Principal Fund	\$ 4,318,174

**BUDGETARY HIGHLIGHTS**

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

- Budgeted amounts for revenue from federal sources in the General Fund were decreased to reflect the decrease in E-Rate funds received during the fiscal year.
- Budgeted amounts for instruction expenditures in the General Fund were increased to reflect additional teacher units totaling approximately \$175,000 and the purchase of textbooks of approximately \$285,000 that were not included in the original budget. In addition, the original budget did not include the District's portion of the vocational teacher cost of approximately \$549,000.
- Budgeted amounts for support services expenditures in the General Fund were increased to reflect the increase in utilities of approximately \$200,000 and the increase in student transportation costs of approximately \$210,000. In addition, the purchase of seven new school buses costing approximately \$420,000 was not included in the original budget. Also, computer equipment, supplies and installation costing approximately \$341,000 was originally thought to be reimbursed by E-Rate but the expenditures were paid for with District funds instead.

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

COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2008, the District's total capital assets were \$19,825,881, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles and furniture and equipment. This amount represents a gross increase of \$2,653,895 from 2007. Total accumulated depreciation as of June 30, 2008, was \$8,547,704, and total depreciation expense for the year was \$504,151, resulting in total net capital assets of \$11,278,177.

**Table 4  
Capital Assets**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Percentage Change</u>
Land	\$ 103,204	\$ 103,204	0.00 %
Construction in Progress	2,650,616	627,164	322.64 %
Buildings	5,952,221	6,134,832	(2.98) %
Building improvements	595,559	482,442	23.45 %
Improvements other than buildings	69,022	72,315	(4.55) %
Mobile equipment	1,709,961	1,513,732	12.96 %
Furniture and equipment	197,594	186,493	5.95 %
<b>Total</b>	<b>\$ 11,278,177</b>	<b>\$ 9,120,182</b>	<b>23.66 %</b>

**Debt Administration.** At June 30, 2008, the District had \$1,835,374 in outstanding long-term debt, of which \$328,154 is due within one year. The District made principal payments in the amount of \$315,000 on existing long-term debt. The liability for compensated absences increased \$142,951 from the prior year.

**Table 5  
Outstanding Long-Term Debt**

	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ -	\$ 110,000	(100.00) %
Three mill notes payable	1,282,000	1,487,000	(13.79) %
Compensated absences payable	553,374	410,423	34.83 %
<b>Total</b>	<b>\$ 1,835,374</b>	<b>\$ 2,007,423</b>	<b>(8.57) %</b>

**COVINGTON COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDING JUNE 30, 2008**

**CURRENT ISSUES**

The District is proud of its community support of the public schools. The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

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

**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, 2008

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 1,651,803
Due from other governments	325,666
Inventories	57,317
Restricted assets	6,925,734
Capital assets, non-depreciable:	
Land	103,204
Construction in progress	2,650,616
Capital assets, net of accumulated depreciation:	
Buildings	5,952,221
Building improvements	595,559
Improvements other than buildings	69,022
Mobile equipment	1,709,961
Furniture and equipment	197,594
<b>Total Assets</b>	<u><u>20,238,697</u></u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	253,610
Unearned revenue	67,353
Interest payable on long-term liabilities	8,518
Long-term liabilities, due within one year	
Capital related liabilities	317,000
Non-capital related liabilities	11,154
Long-term liabilities, due beyond one year	
Capital related liabilities	965,000
Non-capital related liabilities	542,220
<b>Total Liabilities</b>	<u><u>2,164,855</u></u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	9,996,177
Restricted net assets:	
Expendable:	
School - based activities	57,317
Forestry improvements	111,641
Unemployment benefits	90,815
Capital projects	3,452
Non-expendable:	
Sixteenth section	9,125,734
Unrestricted	<u>(1,311,294)</u>
<b>Total Net Assets</b>	<u><u>\$ 18,073,842</u></u>

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, 2008

Exhibit B

Functions/Programs	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions		
Governmental Activities:					
Instruction	\$ 16,185,072	403,558	1,948,000	-	(13,833,514)
Support services	9,968,379	-	1,366,905	-	(8,601,474)
Non-instructional	1,833,053	290,930	1,436,473	-	(105,650)
Sixteenth section	124,669	-	-	-	(124,669)
Interest on long-term liabilities	72,792	-	-	-	(72,792)
Total governmental activities	28,183,965	694,488	4,751,378	-	(22,738,099)
General Revenues:					
Taxes:					
General purpose levies					4,268,516
Debt purpose levies					283,677
Unrestricted grants and contributions:					
State					15,016,291
Federal					542,544
Unrestricted investment earnings					313,360
Sixteenth section sources					4,505,156
Other					60,671
Total General Revenues					24,990,215
Change in Net Assets					2,252,116
Net Assets - Beginning					14,956,593
Prior Period Adjustments:					865,133
Net Assets - Beginning - Restated					15,821,726
Net Assets - Ending					\$ 18,073,842

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

COVINGTON COUNTY SCHOOL DISTRICT  
 Balance Sheet - Governmental Funds  
 June 30, 2008

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,428,511	1,425,734	223,292	3,077,537
Investments	-	5,500,000	-	5,500,000
Due from other governments	300,755	-	24,911	325,666
Accrued interest receivable	-	-	-	-
Due from other funds	48,497	-	-	48,497
Advances to other funds	-	2,200,000	-	2,200,000
Inventories	-	-	57,317	57,317
<b>Total Assets</b>	<b>1,777,763</b>	<b>9,125,734</b>	<b>305,520</b>	<b>11,209,017</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	88,399	-	165,211	253,610
Due to other funds	-	-	48,497	48,497
Advances from other funds	2,200,000	-	-	2,200,000
Unearned revenue	-	-	67,353	67,353
<b>Total Liabilities</b>	<b>2,288,399</b>	<b>-</b>	<b>281,061</b>	<b>2,569,460</b>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Advances	-	2,200,000	-	2,200,000
Inventory	-	-	57,317	57,317
Capital projects	3,452	-	-	3,452
Unemployment benefits	-	-	90,815	90,815
Forestry improvement purposes	-	-	111,641	111,641
Debt service	-	-	(4,840)	(4,840)
Permanent fund purposes	-	6,925,734	-	6,925,734
<b>Undesignated, reported in:</b>				
General fund	(514,088)	-	-	(514,088)
Special revenue funds	-	-	(138,848)	(138,848)
Capital project funds	-	-	(91,626)	(91,626)
<b>Total Fund Balances</b>	<b>(510,636)</b>	<b>9,125,734</b>	<b>24,459</b>	<b>8,639,557</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,777,763</b>	<b>9,125,734</b>	<b>305,520</b>	<b>11,209,017</b>

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, 2008

Exhibit C-1

	<u>Amount</u>
<b>Total fund balance - governmental funds</b>	<b>\$ 8,639,557</b>
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$8,547,704.	11,278,177
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(1,835,374)
3. Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Net Assets recognizes interest as it accrues.	(8,518)
<b>Total Net Assets - Governmental Activities</b>	<b><u>\$ 18,073,842</u></b>

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  
Governmental Funds  
For the Year Ended June 30, 2008

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
<b>Revenues:</b>				
Local sources	\$ 4,759,027	-	601,114	5,360,141
State sources	15,297,017	-	640,328	15,937,345
Federal sources	542,783	-	3,830,085	4,372,868
Sixteenth section sources	-	4,584,284	180,344	4,764,628
<b>Total Revenues</b>	<b>20,598,827</b>	<b>4,584,284</b>	<b>5,251,871</b>	<b>30,434,982</b>
<b>Expenditures:</b>				
Instruction	13,928,237	-	2,084,811	16,013,048
Support services	8,412,346	-	1,620,466	10,032,812
Noninstructional services	-	-	1,805,591	1,805,591
Sixteenth section	-	-	124,669	124,669
Facilities acquisition and construction	-	-	2,157,139	2,157,139
Debt service:				
Principal	-	-	315,000	315,000
Interest	-	-	74,958	74,958
<b>Total Expenditures</b>	<b>22,340,583</b>	<b>-</b>	<b>8,182,634</b>	<b>30,523,217</b>
Excess (Deficiency) of Revenues Over Expenditures	(1,741,756)	4,584,284	(2,930,763)	(88,235)
<b>Other Financing Sources (Uses):</b>				
Operating transfers in	525,417	-	3,900,166	4,425,583
Other financing sources	1,099	-	-	1,099
Operating transfers out	(2,211,037)	(242,110)	(1,972,436)	(4,425,583)
<b>Total Other Financing Sources (Uses)</b>	<b>(1,684,521)</b>	<b>(242,110)</b>	<b>1,927,730</b>	<b>1,099</b>
<b>Net Change in Fund Balances</b>	<b>(3,426,277)</b>	<b>4,342,174</b>	<b>(1,003,033)</b>	<b>(87,136)</b>
<b>Fund Balances:</b>				
July 1, 2007, as previously reported	724,089	4,807,560	2,322,869	7,854,518
Prior period adj. & reclassifications	2,191,552	(24,000)	(1,295,377)	872,175
July 1, 2007, as restated	2,915,641	4,783,560	1,027,492	8,726,693
Increase (Decrease) in reserve for inventory	-	-	-	-
<b>June 30, 2008</b>	<b>\$ (510,636)</b>	<b>9,125,734</b>	<b>24,459</b>	<b>8,639,557</b>

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

COVINGTON COUNTY SCHOOL DISTRICT  
 Reconciliation of the Governmental Funds Statement of Revenues,  
 Expenditures and Changes in Fund Balances to the Statement of Activities  
 For the Year Ended June 30, 2008

Exhibit D-1

	<u>Amount</u>
<b>Net Change in fund balances - governmental funds</b>	<b>\$ (87,136)</b>
Amounts reported for governmental activities in the Statement of Activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$2,671,433 and the depreciation expense amounted to \$504,151.	2,167,282
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	315,000
3. Governmental funds recognized interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	2,166
4. Gains and losses on the sale or disposal of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(2,245)
5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Compensated absences	(142,951)
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 2,252,116</u></b>

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

COVINGTON COUNTY SCHOOL DISTRICT  
Statement of Fiduciary Net Assets  
June 30, 2008

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	<u>\$ 729,319</u>	<u>43,617</u>
<b>Total Assets</b>	<u>729,319</u>	<u>43,617</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	-	43,617
Due to student clubs	-	-
<b>Total Liabilities</b>	<u>-</u>	<u>\$ 43,617</u>
<b>Net Assets</b>		
Reserved for endowments	5,143	
Held in trust	<u>724,176</u>	
<b>Total Net Assets</b>	<u>\$ 729,319</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, 2008

Exhibit F

	<u>Private-Purpose Trust Funds</u>
<b>Additions:</b>	
Interest on investments	\$ 20,932
Contributions and donations from private sources	<u>212,882</u>
Total Additions	<u>233,814</u>
<b>Deductions:</b>	
Scholarships awarded	<u>-</u>
Total Deductions	<u>-</u>
Change in net assets	<u>233,814</u>
<b>Net Assets</b>	
July 1, 2007	<u>495,505</u>
June 30, 2008	<u>\$ 729,319</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, 2008

#### (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.

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, to which each member was elected by the citizens of each defined county district.

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

##### B. Basis of Presentation.

###### Government-wide Financial Statements:

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

*Fund Financial Statements:*

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

The school district reports the following major governmental funds:

**General Fund** – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

**16<sup>th</sup> Section Principal Fund** – This is permanent fund used to account for resources from sixteenth section lands 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 of the fund financial statements.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUND TYPES**

**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.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

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.

C. Measurement Focus and Basis of Accounting.

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the 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.

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

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

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

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

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

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 Financial Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Assets, liabilities, and net assets or equity.

1. Cash and Cash equivalents and Investments

Cash and cash equivalents.

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

Investments.

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

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

Investments for the district are reported at fair market value.

2. Receivables and Payables.

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

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

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

3. Due from Other Governments.

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

4. Inventories and Prepaid Items.

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

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

5. Restricted Assets.

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

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	50000	40 years
Building improvements	25000	20 years
Improvements other than buildings	25000	20 years
Mobile Equipment	5000	5-10 years
Furniture and equipment	5000	3-7 years
Leased property under capital leases	*	*

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

7. Compensated Absences.

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

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

8. Long-term liabilities.

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

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

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

9. Fund Equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

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

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

Reserved for capital projects – An account that represents that portion of the 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.

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

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

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

Unreserved, undesignated – An account that represents the portion of fund balance that is expendable available financial resources.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

(2) Cash and Cash Equivalents and Investments.

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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

**Cash and Cash Equivalents.**

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$8,577,537(which includes \$5,500,000 of certificates of deposit with maturities beyond three months and reported on exhibit C as investments) and \$772,936, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents - \$1,651,803 and Restricted Assets - \$6,925,734. The Restricted assets represent the cash balance and investment balance of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$10,411,463.

**Custodial Credit Risk – Deposits.** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$10,411,463 was exposed to custodial credit risk.

COVINGTON COUNTY SCHOOL DISTRICT

Notes to the Financial Statements  
For the Year Ended June 30, 2008

Investments.

The investment amount of \$5,500,000, which is reported in the Sixteenth Section Principal Fund, is comprised of (3) three non-negotiable certificates of deposit with maturity dates less than a year, and an interest rate of 3.5%.

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 48,497
Total Funds		<u>\$ 48,497</u>

During the course of the school year, expenditures are paid in certain funds on a reimbursement basis causing the district to have to borrow from other funds in order to not create a deficit in any particular fund. The above interfund loans were made to cover year end expenditures.

B. Advances To/Advances From:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sixteenth section principal fund	General fund	\$ 2,200,000
Total Funds		<u>\$ 2,200,000</u>

[Note: The sixteenth section principal loans payable is not reflected on the Statement of Net Assets because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972).]

Sixteenth section principal loans payable.

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

Year Ending June 30	Principal	Interest	Total
2009	\$ 314,286	88,000	402,286
2010	314,286	75,429	389,715
2011	314,286	62,857	377,143
2012	314,286	50,286	364,572
2013	314,286	37,714	352,000
2014-2015	628,570	37,714	666,284
<b>Total</b>	<b>\$ 2,200,000</b>	<b>352,000</b>	<b>2,552,000</b>

C. Interfund Transfers.

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
16th Section Principal Funds	Other governmental funds	\$ 242,110
General fund	Other governmental funds	\$ 2,211,037
Other governmental funds	General Fund	525,417
Other governmental funds	Other governmental funds	1,447,019
<b>Total Funds</b>		<b>\$ 4,425,583</b>

The above transfers were for distribution of MAEP monies to various funds, and the transfer of sixteenth section principal and interest funds.

(4) Restricted Assets.

The restricted assets represent the cash balance and investment balance, totaling \$1,425,734 and \$5,500,000 respectively, which represents cash and investments of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's program.

(5) Capital Assets.

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

	<u>Balance</u> <u>7/1/2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance</u> <u>6/30/2008</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 103,204				103,204
Construction in Progress	627,164	2,023,452			2,650,616
Total non-depreciable capital assets	<u>730,368</u>	<u>2,023,452</u>	<u>-</u>	<u>-</u>	<u>2,753,820</u>
<u>Depreciable capital assets:</u>					
Buildings	11,405,981				11,405,981
Building improvement	531,874	133,687		6,877	672,438
Improvements other than buildings	82,326				82,326
Mobile equipment	3,683,459	440,071		(20,503)	4,103,027
Furniture and equipment	737,978	74,223	(13,011)	9,099	808,289
Total depreciable capital assets	<u>16,441,618</u>	<u>647,981</u>	<u>(13,011)</u>	<u>(4,527)</u>	<u>17,072,061</u>
<u>Less accumulated depreciation for:</u>					
Buildings	(5,271,149)	(182,611)			(5,453,760)
Building improvement	(49,432)	(26,897)		(550)	(76,879)
Improvements other than buildings	(10,011)	(3,293)			(13,304)
Mobile equipment	(2,169,727)	(230,720)		7,381	(2,393,066)
Furniture and equipment	(551,485)	(60,630)	10,766	(9,346)	(610,695)
Total accumulated depreciation	<u>(8,051,804)</u>	<u>(504,151)</u>	<u>10,766</u>	<u>(2,515)</u>	<u>(8,547,704)</u>
Total depreciable capital assets, net	<u>8,389,814</u>	<u>143,830</u>	<u>(2,245)</u>	<u>(7,042)</u>	<u>8,524,357</u>
Governmental activities capital assets, net	<u>\$ 9,120,182</u>	<u>2,167,282</u>	<u>(2,245)</u>	<u>(7,042)</u>	<u>11,278,177</u>

An adjustment was made to correct the cost of a building improvement added in a prior year to actual cost. Other adjustments were to correct assets and depreciation to actual.

Depreciation expense was charged to the following governmental functions:

<b>Governmental activities:</b>	<u>Amount</u>
Instruction	\$ 106,530
Support services	377,306
Non-instructional	<u>20,315</u>
 Total depreciation expense	 <u>\$ 504,151</u>

The capital assets above include significant amounts of buildings 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.

Commitments under construction contracts at June 30, 2008, are summarized as follows:

<b>Governmental Activities:</b>	<u>Spent to June 30, 2008</u>	<u>Remaining Commitment</u>
Hopewell Classroom Building	\$ 800,916	3,452
Mt. Olive Activities Building	1,849,700	
Total	<u>\$ 2,650,616</u>	<u>3,452</u>

(6) Long-term liabilities.

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

	<u>Balance 7/1/2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2008</u>	<u>Amount Due within one year</u>
Limited obligation bonds payable	\$ 110,000		(110,000)	-	-
Three mill notes payable	1,487,000		(205,000)	1,282,000	317,000
Compensated absences payable	410,423	142,951		553,374	11,154
 Total	 <u>\$ 2,007,423</u>	 <u>142,951</u>	 <u>(315,000)</u>	 <u>1,835,374</u>	 <u>328,154</u>

Three mill-ten year 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>
Limited tax notes	4.69%	05-10-2002	05-10-2012	\$ 2,385,000	1,282,000
Total				<u>\$ 2,385,000</u>	<u>1,282,000</u>

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>
2009	317,000	60,126	377,126
2010	333,000	45,259	378,259
2011	338,000	29,641	367,641
2012	294,000	13,789	307,789
Total	<u>\$ 1,282,000</u>	<u>148,815</u>	<u>1,430,815</u>

This debt will be retired from the 3 Mill Note Retirement Fund.

Compensated absences payable.

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

(7) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year ended June 30, 2008, was 11.85% 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, 2008, 2007 and 2006 were \$1,689,372, \$1,663,905, and \$1,566,826, 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 there from 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.

Sixteenth Section Leases	
Year Ending	
June 30	Amount
2009	\$ 101,159
2010	93,122
2011	79,770
2012	61,190
2013	55,228
2014-2018	256,242
2019-2023	256,242
2024-2028	255,842
2029-2033	206,409
Thereafter	302,666
<b>Total</b>	<b>\$ 1,667,870</b>

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1 To record capital assets purchase in a prior year and correct balances in prior year depreciation.	\$ (7,042)
2 To correct recording of prior year adjustments and correct beginning fund balance in various funds.	872,175
Total	<u>\$ 865,133</u>

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

<u>Major funds:</u>	<u>Explanations</u>	<u>Amount</u>
General Fund	To correct the recording of prior year adjustments and to correct beginning fund balances.	\$ 2,191,552
16th Section Principal fund	To correct the recording of prior year adjustments and to correct beginning fund balances.	(24,000)
Other governmental funds	To correct the recording of prior year audit adjustments and correct beginning fund balances.	<u>(1,295,377)</u>
Total		<u>\$ 872,175</u>

(10) Contingencies.

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

Litigation.

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

(11) Subsequent Events.

On August 1, 2008, the school district approved the lease purchase of three school buses for \$145,948 with Blue Bird Financial Services to be repaid within one year from EEF Building and Buses funds.

On August 18, 2008, the school district received an Attorney General's opinion relating to question of borrowing Sixteenth Section Principal funds to recoup general funds spent on construction projects at the Hopewell and Mt. Olive campuses. The Attorney General's opinion was that this would be legal.

On October 20, 2008, the school district approved a sixteenth section loan, retroactive to June 30, 2008, for \$2,200,00 at 4% interest for seven (7) years to recoup funds spent on Mt. Olive and Hopewell construction projects.

On January 1, 2009, the superintendent and business manager spoke with the board regarding expenditure cuts as ad valorem revenue was down and possible MAEP reduction in revenue. On February 9, 2009, the board amended the 2009 fiscal year budget by reducing \$1,100,000 in expenses.

July 2, 2009, the board approved the American Recovery & Reinvestment Act (ARRA) resolution and application for \$3,000,000 of qualified school construction interest free bonds. On August 10, 2009 the board approved advertisement for intent to issue the ARRA bonds and approved application for ARRA funds for Title I, Part A.

(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.

(13) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss. Code Ann. (1972). This section also allows a district to assert a claim against the custodial school district for its share of the funds no later than twelve (12) months from the end of the calendar year in which the custodial school district collected the funds. The school districts which share townships with Covington County School District and the Covington County School District itself filed lists of children as required. One school district shared revenue with Covington County School District. Covington County School District did not receive payment from one school district. Covington County School District did not divide sixteenth section revenues with any of the districts in shared townships. No division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be, because the twelve (12) month period after the calendar year that the revenue was received has passed.

COVINGTON COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2008

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 4,613,320	4,759,218	4,759,027	145,898	(191)
State sources	15,378,766	15,297,018	15,297,017	(81,748)	(1)
Federal sources	842,854	542,784	542,783	(300,070)	(1)
Total Revenues	<u>20,834,940</u>	<u>20,599,020</u>	<u>20,598,827</u>	<u>(235,920)</u>	<u>(193)</u>
<b>Expenditures:</b>					
Instruction	12,813,720	13,927,456	13,928,237	(1,113,736)	(781)
Support services	7,128,588	8,413,652	8,412,346	(1,285,064)	1,306
Total Expenditures	<u>19,942,308</u>	<u>22,341,108</u>	<u>22,340,583</u>	<u>(2,398,800)</u>	<u>525</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>892,632</u>	<u>(1,742,088)</u>	<u>(1,741,756)</u>	<u>(2,634,720)</u>	<u>332</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	2,708,000	4,874,307	525,417	2,166,307	(4,348,890)
Other financing sources	-	878	1,099	878	221
Operating transfers out	<u>(2,838,000)</u>	<u>(3,516,292)</u>	<u>(2,211,037)</u>	<u>(678,292)</u>	<u>1,305,255</u>
Total Other Financing Sources (Uses)	<u>(130,000)</u>	<u>1,358,893</u>	<u>(1,684,521)</u>	<u>1,488,893</u>	<u>(3,043,414)</u>
Net Change in Fund Balances	<u>762,632</u>	<u>(383,195)</u>	<u>(3,426,277)</u>	<u>(1,145,827)</u>	<u>(3,043,082)</u>
<b>Fund Balances:</b>					
July 1, 2007, as previously reported	1,000,000	5,700,000	724,089	4,700,000	(4,975,911)
Prior period adjustment			<u>2,191,552</u>	-	<u>2,191,552</u>
July 1, 2007, as adjusted	<u>1,000,000</u>	<u>5,700,000</u>	<u>2,915,641</u>	<u>4,700,000</u>	<u>(2,784,359)</u>
June 30, 2008	<u>\$ 1,762,632</u>	<u>\$ 5,316,805</u>	<u>\$ (510,636)</u>	<u>\$ 3,554,173</u>	<u>\$ (5,827,441)</u>

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

Covington County School District

Notes to Required Supplementary Information  
For the Year Ended June 30, 2008

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15<sup>th</sup> of each year. 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 Ending June 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 427,231
National school lunch program	10.555	1,124,998
Total child nutrition cluster		<u>1,552,229</u>
Total U. S. Department of Agriculture		<u>1,552,229</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
Communications Information and Assistance and Investigation of Complaints	32.001	542,543
Total U. S. Department of Defense		<u>542,543</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I-grants to local educational agencies	84.010	1,087,936
Career and technical education-basic grants to states	84.048	53,179
Safe and drug-free schools and communities-state grants	84.186	30,225
Twenty-first century community learning centers	84.287	130,297
Innovative education program strategies	84.298	3,428
Education technology state grants	84.318	9,831
Class size reduction	84.340	258,585
Rural education achievement program	84.358	77,534
Grants for state assessments and related activities	84.369	240
Hurricane education recovery act	84.938	14,302
Total		<u>1,665,557</u>
Special education cluster:		
Special education-grants to states	84.027	652,516
Special education-preschool grants	84.173	39,831
Total		<u>692,347</u>
Total passed-through Mississippi Department of Education		<u>2,357,904</u>
Total U.S. Department of Education		<u>2,357,904</u>
Total for All Federal Awards		<u>\$ 4,452,676</u>

NOTES TO SCHEDULE:

This schedule was prepared using the same basis of accounting and the same significant of accounting policies, as applicable used for the financial statements.

The expenditure amounts include transfers out.

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, 2008

Expenditures	Total	Instruction and Other			
		Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 20,979,802	16,023,966	690,574	1,645,712	2,619,550
Other	9,543,415	2,238,723	1,160,524	144,920	5,999,248
<b>Total</b>	<b>\$ 30,523,217</b>	<b>18,262,689</b>	<b>1,851,098</b>	<b>1,790,632</b>	<b>8,618,798</b>

Total number of students \* 3,094

Cost per student \$ 9,865 5,903 598 579 2,786

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

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

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

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

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

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

OTHER SUPPLEMENTAL INFORMATION

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Covington County School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
General Fund  
Last Four Years

"UNAUDITED"

	2008	2007*	2006*	2005*
<b>Revenues:</b>				
Local sources	\$ 4,759,027	4,322,419	4,442,730	4,084,880
State sources	15,297,017	14,642,480	14,148,767	12,864,865
Federal sources	542,783	151,436	142,742	12,467
Sixteenth section sources		-	-	-
Total revenues	<u>20,598,827</u>	<u>19,116,335</u>	<u>18,734,239</u>	<u>16,962,212</u>
<b>Expenditures:</b>				
Instruction	13,928,237	12,179,814	11,493,954	10,881,192
Support services	8,412,346	7,265,126	4,767,907	5,498,678
Non-instructional services	-	-	-	-
Sixteenth section	-	-	-	-
Facilities acquisition and construction	-	-	-	-
Debt Service:				
Principal	-	-	-	-
Interest	-	-	-	-
Total expenditures	<u>22,340,583</u>	<u>19,444,940</u>	<u>16,261,861</u>	<u>16,379,870</u>
Excess (deficiency) of revenues over expenditures	<u>(1,741,756)</u>	<u>(328,605)</u>	<u>2,472,378</u>	<u>582,342</u>
<b>Other Financing Sources (Uses):</b>				
Sale of transportation equipment	-	3,787	10,423	-
Operating transfers in	525,417	3,999,725	679,095	2,231,878
Operating transfers out	(2,211,037)	(5,175,404)	(1,304,930)	(3,102,207)
Other financing uses	-	(56)	(56)	(2,788)
Other financing sources	1,099	485	698	768
Total Other Financing Sources (uses)	<u>(1,684,521)</u>	<u>(1,171,463)</u>	<u>(614,770)</u>	<u>(872,349)</u>
Net Change in Fund Balances	<u>(3,426,277)</u>	<u>(1,500,068)</u>	<u>1,857,608</u>	<u>(290,007)</u>
<b>Fund balances:</b>				
Beginning balance, as reported	724,089	2,262,650	428,521	730,566
Prior period adjustment & reclassifications	<u>2,191,552</u>	<u>(38,493)</u>	<u>(23,479)</u>	<u>(12,038)</u>
Beginning Balance, restated	<u>2,915,641</u>	<u>2,224,157</u>	<u>405,042</u>	<u>718,528</u>
Increase (decrease) in reserve for inventory	-	-	-	-
Ending Balance	<u>\$ (510,636)</u>	<u>724,089</u>	<u>2,262,650</u>	<u>428,521</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

Covington County School District  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
All Governmental Funds  
Last Four Years

"UNAUDITED"

	2008	2007*	2006*	2005*
<b>Revenues:</b>				
Local sources	\$ 5,360,141	4,910,080	4,952,300	4,582,705
State sources	15,937,345	15,278,034	14,816,937	13,520,506
Federal sources	4,372,868	4,520,973	6,392,545	4,719,244
Sixteenth section sources	4,764,628	1,886,024	1,138,911	703,309
Total revenues	<u>30,434,982</u>	<u>26,595,111</u>	<u>27,300,693</u>	<u>23,525,764</u>
<b>Expenditures:</b>				
Instruction	16,013,048	14,977,319	14,760,245	13,513,791
Support services	10,032,812	9,672,695	8,446,898	7,516,993
Non-instructional services	1,805,591	1,793,194	1,598,598	1,593,222
Sixteenth section	124,669	96,629	122,079	88,268
Facilities acquisition and construction	2,157,139	653,510	79,593	367,256
Debt Service:				
Principal	315,000	313,000	297,000	282,000
Interest	74,958	89,663	103,626	116,769
Total expenditures	<u>30,523,217</u>	<u>27,596,010</u>	<u>25,408,039</u>	<u>23,478,299</u>
Excess (deficiency) of revenues over expenditures	<u>(88,235)</u>	<u>(1,000,899)</u>	<u>1,892,654</u>	<u>47,465</u>
<b>Other Financing Sources (Uses):</b>				
Sale of transportation equipment	-	3,787	10,423	-
Operating transfers in	4,425,583	6,749,663	2,116,423	3,602,012
Operating transfers out	(4,425,583)	(6,749,663)	(2,116,423)	(3,602,012)
Other financing uses	-	(56)	(56)	(10,615)
Other financing sources	1,099	485	698	11,232
Total Other Financing Sources (uses)	<u>1,099</u>	<u>4,216</u>	<u>11,065</u>	<u>617</u>
	<u>(87,136)</u>	<u>(996,683)</u>	<u>1,903,719</u>	<u>48,082</u>
<b>Fund balances:</b>				
Beginning Balance	7,854,518	8,831,024	7,076,344	6,983,355
Prior period adjustments	872,175	6,606	(159,453)	73,596
Beginning Balance, restated	8,726,693	8,837,630	6,916,891	7,056,951
Increase (decrease) in reserve for inventory		13,571	10,414	(28,689)
Ending Balance	<u>\$ 8,639,557</u>	<u>7,854,518</u>	<u>8,831,024</u>	<u>7,076,344</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

COVINGTON COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

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

September 14, 2009

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, 2008, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated September 14, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2008-01 and 2008-02 to be a significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

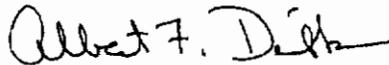
#### Compliance and Other Matters

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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance or other matters that we have reported to management of the school district in a separate letter dated September 14, 2009, which is included in this report.

Covington County School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Covington County School District's responses and accordingly, we express no opinion on it.

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, MS

**CERTIFIED PUBLIC ACCOUNTANT**

**AICPA/MSCPA**

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

September 14, 2009

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, 2008. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of 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, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

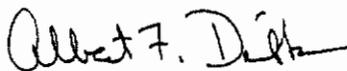
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal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

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our considerations of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses as defined above.

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

**AICPA/MSCPA**

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

September 14, 2009

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, 2008, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated September 14, 2009. 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 Comptroller General of the United States.

Section 37-9-18(3)(a), Miss. Code Ann. (1972), states in part, "the auditor shall test to ensure 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 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 \$5,513 of classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

Management is responsible for insuring that all invoices are paid within the 45-day statutory limit.

During our review of activity fund expenditures, there was one instance of an invoice not paid within the 45-day statutory limit.

Per Section 31-7-305, Miss. Code Ann. (1972), payments are to be delivered to the vendor no later than 45 days of receipt of an undisputed invoice and receipt, inspection, and approval of the goods and services. The public body will be liable to the vendor, in addition to the amount of the invoice, interest at a rate of one and one-half percent per month or portion thereof on the unpaid balance from the expiration of the 45-day period.

An internal control over purchasing was not functioning properly.

Recommendation:

The district should comply with Section 31-7-305, Miss. Code Ann. (1972).

School District's Response:

The district has put into action a plan that ensures invoices are paid within the 45-day limit. If invoices have not been received for payment, we call vendors so that payment can be made on time.

2. Finding

Section 29-3-57, Miss. Code Ann. (1972), states, "The superintendent of education shall keep a current docket as to expiration date of all leases on sixteenth section land...". "Upon a sixty (60) day default in payment of any rentals according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present and the board shall inaugurate the proper legal proceedings to terminate such lease".

As reported in the prior year's audit report and during our review of sixteenth section leases, we noted numerous delinquent leases over (60) days past due and several instances of lease payments not for the amount owed.

Inadequate enforcement of the laws concerning sixteenth section leases resulted in this noncompliance.

Noncompliance with Section 29-3-57, Miss. Code Ann. (1972), could result in the district not receiving rental income for the use of sixteenth section lands and forfeiture of any interest that the district could have earned.

Recommendation:

We recommend that the district strengthen its control of sixteenth section leases and comply with Section 29-3-57, Miss. Code Ann.(1972).

School District's Response:

Internal controls over Sixteenth Section leases have been strengthened by the purchase of new software and we now have a Sixteenth Section Manager.

3. Finding

As reported in the prior years' audit reports, Section 29-3-119(4), Miss. Code Ann. (1972), states, "The school district having control of the sixteenth section or lieu lands in the township (the "custodial school district") shall pay to each other school district lying wholly or partly in the township which is entitled to a part of the township funds the district's pro rata share of the available township funds, as determined from the lists of children prepared pursuant to Section 29-3-121,...Any school district entitled to such funds which is not paid promptly may assert a claim against the custodial school district for its share of the funds no later than twelve (12) months from the end of the calendar year in which the custodial school district collected such funds."

During our test of sixteenth section revenue, we noted that the school district failed to distribute funds generated from its sixteenth section property between school districts lying partly within townships of which Covington County School District is the custodial school district.

Documentation we reviewed indicates Covington County School District received revenue from five townships that it should have shared with Jones and Simpson County school districts; however, no liability was recorded for these amounts because the time had passed for the districts to assert a claim for their share of the funds as required by Section 29-3-121, Miss. Code Ann. (1972).

The school district did not comply with Section 29-3-119(4), Miss. Code Ann. (1972).

Recommendation

We recommend that the school district comply with Section 29-3-119(4), Miss. Code Ann. (1972), which requires the custodial district to share the sum of all revenues less expenditures derived from shared townships with other districts.

School District's Response:

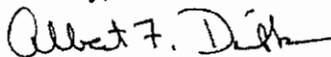
The District will comply with Section 29-3-119(4) MS Code (1972) by sharing revenues less expenditures from shared townships with other districts.

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

The Covington County School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

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, 2008

Section I: Summary of Auditor's Results

Financial Statements

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

Federal Awards:

- |    |                                                                                                                                                                                                                                  |               |
|----|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| 4  | Type of auditor's report issued on compliance for major federal programs:                                                                                                                                                        | Unqualified   |
| 5  | Internal control over major programs:                                                                                                                                                                                            |               |
|    | a. Material weakness identified?                                                                                                                                                                                                 | No            |
|    | b. Significant deficiency identified that is not considered to be material weakness?                                                                                                                                             | None reported |
| 6  | Any audit finding reported as required by Section __.510(a) of Circular A-133?                                                                                                                                                   | No            |
| 7  | Federal programs identified as major programs:                                                                                                                                                                                   |               |
|    | a. Communications information and assistance and investigation of complaints                                                                                                                                                     | CFDA# 32.001  |
|    | b. Title I grants to local educational agencies                                                                                                                                                                                  | CFDA#: 84.010 |
|    | c. Special education cluster                                                                                                                                                                                                     |               |
|    | Special education - grants to states                                                                                                                                                                                             | CFDA#: 84.027 |
|    | Special education - preschool grants                                                                                                                                                                                             | CFDA#: 84.173 |
| 8  | The dollar threshold used to distinguish between type A and type B programs:                                                                                                                                                     | \$ 300,000    |
| 9  | Auditee qualified as 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            |

Section 2: Financial Statement Findings:

Significant Deficiencies Not Considered to be Material Weaknesses

2008-01 Finding

Policies and procedures should be in place to document and record into the general fixed assets data base all fixed assets placed in service in the school district.

During our review of fixed assets, the following discrepancies were found:

1. One asset did not have an inventory asset number tag.
2. Two items of the seventeen items checked could not be located. Serial numbers had not been placed in the data base for some assets, making it confusing as to which item should be at a certain location. The school personnel stated that the two items that could not be found were obsolete and should have been listed on a disposal list, approved by the board, and removed from inventory.

There is a weak internal control over the completeness function of the general fixed assets.

Not tagging assets could cause loss of control over the security of the asset. The effect of the general fixed assets being recorded on the asset list but having been disposed without authority could cause an overstatement of assets.

We recommend that all assets purchased or placed into service by the school district (1) be properly recorded into the general fixed assets data base ( including serial numbers), (2) be properly tagged with an asset identification tag, and (3) be properly disposed of when obsolete. We also recommend that the annual inventory process be strengthened to document any discrepancy.

2008-02 Finding

Deposits for Activity Fund revenue should be timely.

Management is responsible for insuring that all revenue earned is deposited in the depository to safeguard assets of the district. Strong internal controls require deposits to be made timely.

During our tests of activity fund receipts for one month, we noted (14) instances of deposits not being made timely.

This weakness occurred due to school level personnel not adhering to the instructions of management and not following the district policy concerning deposits.

Failure to adhere to internal controls related to district deposits could result in the loss of assets.

We recommend all personnel follow the district policy and management's instructions, and make all deposits in a timely manner.

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

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## Covington County School District

BOARD OF  
EDUCATION  
Terry Bryant  
Sammy H. Hermit  
Andrew Kays  
Robert "Bob" McNeil  
Dr. Ray Strebeck

P.O. Box 1288  
Collins, Mississippi 39428  
Telephone 601-765-8247  
Fax 601-765-4101

SUPERINTENDENT  
OF EDUCATION  
I.B. "Ike" Sanford, Jr.  
ASSISTANT  
SUPERINTENDENT  
Helen D. Milroy

November 1, 2009

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

### FINANCIAL & COMPLIANCE AUDIT DIVISION

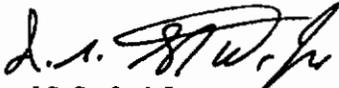
As required by Section 315 of the OMB Circular A-133, the Covington County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2008:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2008-01	<p>a. Name of Contact Person Responsible for Correction Action Linda Woodard Business Manager 601-765-8247</p> <p>b. Corrective Action Planned: Policies and procedures are in place at the District level as well as the school level. The District has put into operation a PDA system for more accuracy in inventory. Also, we now have a Fixed Asset Manager who is applying efforts to ensure that all assets are tagged and records for each are current and complete.</p> <p>c. Anticipated Completion Date: The new procedures were put into effect in the 2008-2009 school year</p>

2008-2

- a. Linda Woodard  
Business Manager  
601-765-8247
- b. Corrective Action Planned:  
Staff developments held twice a year and memos sent as reminders to bookkeepers concerning the receipting of revenue for the activity and club accounts and the importance of making timely deposits.
- c. These procedures are reiterated in each staff development and memos sent to each bookkeeper at the schools.

Sincerely,

  
I.S. Sanford, Jr.  
Superintendent of Education