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COVINGTON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2011

Presented by:
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COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

COVINGTON COUNTY SCHOOL DISTRICT

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

May 22, 2013

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, 2011, 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, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2013, 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Covington County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Sincerely,



D. Scott Nieman, CPA
Nieman & Associates, PC
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT

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

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

FINANCIAL HIGHLIGHTS

- Total net assets for 2011 decreased \$2,353,095, including a prior period adjustment of \$(188,437), which represents an 11% decrease from fiscal year 2010. Total net assets for 2010 increased \$1,377,521, including a prior period adjustment of \$891,725, which represents a 7% increase from fiscal year 2009.
- General revenues amounted to \$19,729,214 and \$21,467,290, or 72% and 75% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,510,775, or 28% of total revenues for 2011, and \$7,021,439, or 25% of total revenues for 2010.
- The District had \$29,404,647 and \$28,002,933 in expenses for fiscal years 2011 and 2010; only \$7,510,775 for 2011 and \$7,021,439 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$19,729,214 for 2011 were not adequate to provide for these programs. However, general revenues of \$21,467,290 for 2010 were adequate to provide for these programs.
- Among major funds, the General Fund had \$18,267,437 in revenues and \$17,475,937 in expenditures for 2011, and \$18,801,544 in revenues and \$19,212,300 in expenditures in 2010. The General Fund's fund balance decreased by \$114,222, including a prior period adjustment of \$(204,711), from 2010 to 2011, and increased by \$654,210, including a prior period adjustment of \$181,430, from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$522,305 for 2011 and decreased by \$365,573 for 2010. The decrease for 2011 was due to the disposal of a building and various items of furniture and equipment coupled with the increase in accumulated depreciation.
- Long-term debt decreased by \$412,935 for 2011 and increased by \$2,667,000 for 2010. The decrease for 2011 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$935 for 2011 and did not change for 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

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

Notes to the financial statements

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

Required Supplemental Information

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

Supplemental Information

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

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$18,836,947 as of June 30, 2011.

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

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

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

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 4,221,022	\$ 2,815,056	49.94 %
Restricted assets	10,166,054	11,737,509	(13.39) %
Capital assets, net	10,336,803	10,859,108	(4.81) %
Total assets	<u>24,723,879</u>	<u>25,411,673</u>	(2.71) %
Current liabilities	2,231,554	153,318	1,355.51 %
Long-term debt outstanding	3,655,378	4,068,313	(10.15) %
Total liabilities	<u>5,886,932</u>	<u>4,221,631</u>	39.45 %
Net assets:			
Invested in capital assets, net of related debt	10,116,803	10,227,108	(1.08) %
Restricted	12,457,960	11,876,644	4.89 %
Unrestricted	(3,737,816)	(913,710)	309.08 %
Total net assets	<u>\$ 18,836,947</u>	<u>\$ 21,190,042</u>	(11.10) %

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

- Decrease in net capital assets in the amount of \$522,305.
- The principal retirement of \$412,000 of long-term debt.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$27,239,989 and \$28,488,729, respectively. The total cost of all programs and services was \$29,404,647 for 2011 and \$28,002,933 for 2010.

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

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

Table 2
Changes in Net Assets

	<u>Year Ended</u> <u>June 30, 2011</u>	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Percentage</u> <u>Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 716,817	\$ 652,955	9.78 %
Operating grants and contributions	6,793,958	6,368,484	6.68 %
General revenues:			
Property taxes	5,048,432	5,209,924	(3.10) %
Grants and contributions not restricted	13,572,417	14,196,230	(4.39) %
Investment earnings	80,351	448,144	(82.07) %
Sixteenth section sources	676,855	1,261,442	(46.34) %
Other	351,159	351,550	(0.11) %
Total revenues	<u>27,239,989</u>	<u>28,488,729</u>	(4.38) %
Expenses:			
Instruction	15,529,420	16,126,892	(3.70) %
Support services	11,797,609	9,782,986	20.59 %
Non-instructional	1,885,381	1,895,161	(0.52) %
Sixteenth section	73,127	79,410	(7.91) %
Interest and other expenses on long-term liabilities	119,110	118,484	0.53 %
Total expenses	<u>29,404,647</u>	<u>28,002,933</u>	5.01 %
Increase (Decrease) in net assets	<u>(2,164,658)</u>	<u>485,796</u>	(545.59) %
Net Assets, July 1, as originally reported	<u>21,190,042</u>	<u>19,812,521</u>	6.95 %
Prior Period Adjustment	<u>(188,437)</u>	<u>891,725</u>	(121.13) %
Net Assets, July 1, as restated	<u>21,001,605</u>	<u>20,704,246</u>	1.44 %
Net Assets, June 30	<u>\$ 18,836,947</u>	<u>\$ 21,190,042</u>	(11.10) %

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 ENDED JUNE 30, 2011

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 15,529,420	\$ 16,126,892	(3.70) %
Support services	11,797,609	9,782,986	20.59 %
Non-instructional	1,885,381	1,895,161	(0.52) %
Sixteenth section	73,127	79,410	(7.91) %
Interest on long-term liabilities	119,110	118,484	0.53 %
Total expenses	<u>\$ 29,404,647</u>	<u>\$ 28,002,933</u>	5.01 %
	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (11,811,607)	\$ (12,837,545)	(7.99) %
Support services	(9,944,716)	(7,950,065)	25.09 %
Non-instructional	46,221	(22,273)	307.52 %
Sixteenth section	(64,660)	(53,127)	21.71 %
Interest on long-term liabilities	(119,110)	(118,484)	0.53 %
Total net (expense) revenue	<u>\$ (21,893,872)</u>	<u>\$ (20,981,494)</u>	4.35 %

- Net cost of governmental activities (\$21,893,872 for 2011 and \$20,981,494 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$5,048,432 for 2011 and \$5,209,924 for 2010) and state and federal revenues (\$13,572,417 for 2011 and \$14,196,230 for 2010). In addition, there was \$676,855 and \$1,261,442 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$80,351 for 2011 and \$448,144 for 2010.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$12,156,984, a decrease of \$2,246,462, which includes a prior period adjustment of \$(188,437) and an increase in reserve for inventory of \$25,985. The unassigned fund balance represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The unassigned fund balance at fiscal yearend was \$(540,271), which is due primarily to the advance of sixteenth section principal funds to the General Fund for use in the construction of school facilities. The remaining fund balance of \$12,697,255 is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$114,222, which includes a prior period adjustment of \$(204,711). The fund balance of Other Governmental Funds showed a decrease in the amount of \$2,608,010, which includes a prior period adjustment of \$16,274 and an increase in reserve for inventory of \$25,985. 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	\$ 475,770

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. Budget revisions during the fiscal year were routine in nature and were insignificant when compared to total revenues and expenditures of the District.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$20,302,796, including land, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross decrease of \$89,943 from 2010. Total accumulated depreciation as of June 30, 2011, was \$9,965,993, and total depreciation expense for the year was \$538,761, resulting in total net capital assets of \$10,336,803.

**Table 4
Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	\$ 113,504	\$ 113,504	0.00 %
Buildings	8,182,721	8,436,973	(3.01) %
Building improvements	513,098	539,911	(4.97) %
Improvements other than buildings	105,845	111,326	(4.92) %
Mobile equipment	1,236,096	1,458,970	(15.28) %
Furniture and equipment	185,539	198,424	(6.49) %
Total	\$ 10,336,803	\$ 10,859,108	(4.81) %

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

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

Debt Administration. At June 30, 2011, the District had \$3,655,378 in outstanding long-term debt, of which \$233,061 is due within one year. During the fiscal year, the District made principal payments on long-term debt in the amount of \$412,000. The liability for compensated absences decreased \$935 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Three mill notes payable	\$ 220,000	\$ 632,000	(65.19) %
Qualified school construction bonds payable	3,000,000	3,000,000	0.00 %
Compensated absences payable	435,378	436,313	(0.21) %
Total	<u>\$ 3,655,378</u>	<u>\$ 4,068,313</u>	(10.15) %

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

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The 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 any questions about this report or need additional financial information, contact the Superintendent's Office of the Covington County School District, P. O. Box 1269, Collins, MS 39428..

COVINGTON COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2011

Exhibit A

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,945,407
Due from other governments	1,228,037
Inventories	47,578
Restricted assets	10,166,054
Capital assets, non-depreciable:	
Land	113,504
Capital assets, net of accumulated depreciation:	
Buildings	8,182,721
Building improvements	513,098
Improvements other than buildings	105,845
Mobile equipment	1,236,096
Furniture and equipment	185,539
Total Assets	<u>24,723,879</u>
LIABILITIES	
Accounts payable and accrued liabilities	1,867,991
Due to other governments	347,234
Unearned revenue	14,867
Interest payable on long-term liabilities	1,462
Long-term liabilities, due within one year	
Capital related liabilities	220,000
Non-capital related liabilities	13,061
Long-term liabilities, due beyond one year	
Non-capital related liabilities	<u>3,422,317</u>
Total Liabilities	<u>5,886,932</u>
NET ASSETS	
Invested in capital assets, net of related debt	10,116,803
Restricted net assets:	
Expendable:	
School-based activities	1,427,794
Debt service	21,563
Forestry improvements	105,303
Unemployment benefits	72,614
Non-expendable:	
Sixteenth section	10,830,686
Unrestricted	<u>(3,737,816)</u>
Total Net Assets	<u>\$ 18,836,947</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, 2011

Exhibit B

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 15,529,420	\$ 431,481	\$ 3,286,332	\$ (11,811,607)
Support services	11,797,609	-	1,852,893	(9,944,716)
Non-instructional	1,885,381	276,869	1,654,733	46,221
Sixteenth section	73,127	8,467	-	(64,660)
Interest on long-term liabilities	119,110	-	-	(119,110)
Total governmental activities	<u>\$ 29,404,647</u>	<u>\$ 716,817</u>	<u>\$ 6,793,958</u>	<u>(21,893,872)</u>
General Revenues:				
Taxes:				
General purpose levies				4,744,858
Debt purpose levies				303,574
Unrestricted grants and contributions:				
State				12,712,342
Federal				860,075
Unrestricted investment earnings				80,351
Sixteenth section sources				676,855
Other				351,159
Total General Revenues				<u>19,729,214</u>
Change in Net Assets				<u>(2,164,658)</u>
Net Assets - Beginning, as originally reported				21,190,042
Prior Period Adjustments				(188,437)
Net Assets - Beginning - Restated				<u>21,001,605</u>
Net Assets - Ending				<u>\$ 18,836,947</u>

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

COVINGTON COUNTY SCHOOL DISTRICT
 Balance Sheet – Governmental Funds
 June 30, 2011

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
ASSETS				
Cash and cash equivalents	\$ 1,546,264	\$ 4,799,829	\$ 1,765,368	\$ 8,111,461
Investments	-	5,000,000	-	5,000,000
Due from other governments	271,091	-	413,919	685,010
Due from other funds	692,086	-	643,164	1,335,250
Advances to other funds	-	1,257,143	-	1,257,143
Inventories	-	-	47,578	47,578
Total Assets	<u>\$ 2,509,441</u>	<u>\$ 11,056,972</u>	<u>\$ 2,870,029</u>	<u>\$ 16,436,442</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 1,182,242	\$ -	\$ 685,749	\$ 1,867,991
Due to other funds	452,268	226,286	460,903	1,139,457
Advances from other funds	1,257,143	-	-	1,257,143
Unearned revenue	-	-	14,867	14,867
Total Liabilities	<u>2,891,653</u>	<u>226,286</u>	<u>1,161,519</u>	<u>4,279,458</u>
Fund Balances:				
Nonspendable:				
Inventory	-	-	47,578	47,578
Permanent fund principal	-	9,573,543	-	9,573,543
Advances	-	1,257,143	-	1,257,143
Restricted:				
Debt service	-	-	23,025	23,025
Capital projects	-	-	79,774	79,774
Forestry improvement purposes	-	-	105,303	105,303
Grant activities	-	-	221,405	221,405
Unemployment benefits	-	-	72,614	72,614
Sixteenth section	-	-	364,860	364,860
Wood endowment	-	-	793,951	793,951
Assigned:				
Activity funds	158,059	-	-	158,059
Unassigned	(540,271)	-	-	(540,271)
Total Fund Balances	<u>(382,212)</u>	<u>10,830,686</u>	<u>1,708,510</u>	<u>12,156,984</u>
Total Liabilities and Fund Balances	<u>\$ 2,509,441</u>	<u>\$ 11,056,972</u>	<u>\$ 2,870,029</u>	<u>\$ 16,436,442</u>

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

COVINGTON COUNTY SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2011

Exhibit C-1

	<u>Amount</u>
Total fund balance for governmental funds	\$ 12,156,984
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:	
Land	\$ 113,504
Buildings	14,303,435
Building improvements	670,334
Improvements other than buildings	137,034
Mobile equipment	4,295,162
Furniture and equipment	783,327
Accumulated depreciation	<u>(9,965,993)</u>
	10,336,803
2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:	
Other bonds payable	(3,000,000)
Notes payable	(220,000)
Compensated absences	(435,378)
Accrued interest payable	<u>(1,462)</u>
	<u>(3,656,840)</u>
Net assets of governmental activities	<u>\$ 18,836,947</u>

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

COVINGTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2011

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	16th Section Principal Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 5,199,667	\$ -	\$ 937,936	\$ 6,137,603
State sources	12,989,323	-	689,411	13,678,734
Federal sources	78,447	-	6,609,194	6,687,641
Sixteenth section sources	-	512,382	222,124	734,506
Total Revenues	18,267,437	512,382	8,458,665	27,238,484
Expenditures:				
Instruction	10,819,328	-	4,562,912	15,382,240
Support services	6,581,180	-	4,860,016	11,441,196
Noninstructional services	-	-	1,893,589	1,893,589
Sixteenth section	-	-	73,127	73,127
Debt service:				
Principal	-	-	412,000	412,000
Interest	75,429	-	46,418	121,847
Total Expenditures	17,475,937	-	11,848,062	29,323,999
Excess (Deficiency) of Revenues Over Expenditures	791,500	512,382	(3,389,397)	(2,085,515)
Other Financing Sources (Uses):				
Operating transfers in	236,613	-	1,148,980	1,385,593
Other financing sources	1,505	-	-	1,505
Operating transfers out	(939,129)	(36,612)	(409,852)	(1,385,593)
Total Other Financing Sources (Uses)	(701,011)	(36,612)	739,128	1,505
Net Change in Fund Balances	90,489	475,770	(2,650,269)	(2,084,010)
Fund Balances:				
July 1, 2010, as previously reported	(267,990)	10,354,916	4,316,520	14,403,446
Prior period adj. & reclassifications	(204,711)	-	16,274	(188,437)
July 1, 2010, as restated	(472,701)	10,354,916	4,332,794	14,215,009
Increase (Decrease) in reserve for inventory	-	-	25,985	25,985
June 30, 2011	\$ (382,212)	\$ 10,830,686	\$ 1,708,510	\$ 12,156,984

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, 2011

Exhibit D-1

	<u>Amount</u>	
Net Change in fund balances - total governmental funds		\$ (2,084,010)
Amounts reported for governmental activities in the statement of activities are different because:		
1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	30,885	
Depreciation expense	<u>(538,761)</u>	(507,876)
2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the changes in net assets differs from the change in fund balance by the cost of the assets sold.		(14,429)
3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
Payments of debt principal	412,000	
Accrued interest payable	<u>2,737</u>	414,737
4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
Change in compensated absences	935	
Change in inventory reserve	<u>25,985</u>	<u>26,920</u>
Change in net assets of governmental activities		<u>\$ (2,164,658)</u>

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

COVINGTON COUNTY SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2011

Exhibit E

	<u>Private-Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ 7,995	\$ 247,308
Due from other funds	-	347,234
Total Assets	<u>\$ 7,995</u>	<u>\$ 594,542</u>
Liabilities		
Accounts payable and accrued liabilities	\$ 1,000	\$ -
Due to other funds	1,000	542,027
Due to student clubs	-	52,515
Total Liabilities	<u>2,000</u>	<u>\$ 594,542</u>
Net Assets		
Reserved for endowments	<u>5,995</u>	
Total Net Assets	<u>\$ 5,995</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
For the Year Ended June 30, 2011

Exhibit F

	<u>Private-Purpose Trust Funds</u>
Additions:	
Interest on investments	\$ 38
Contributions and donations from private sources	<u>3,000</u>
Total Additions	<u>3,038</u>
Deductions:	
Scholarships awarded	<u>3,000</u>
Total Deductions	<u>3,000</u>
Change in net assets	38
Net Assets	
July 1, 2010	<u>5,957</u>
June 30, 2011	<u>\$ 5,995</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, 2011

(1) Summary of Significant Accounting Policies

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

A. Basis of Presentation

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

B. Financial Reporting Entity

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board, 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.

C. Government-wide and Fund Financial Statements

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

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

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 are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

COVINGTON COUNTY SCHOOL DISTRICT

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

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

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. 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.

16th Section Principal Fund – This is a permanent fund used to account for resources from sixteenth section lands that are 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.

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

The District's fiduciary funds include the following:

Payroll Clearing Fund – Accounts for the payroll expenditures of the District.

Accounts Payable Clearing Fund – Accounts for the accounts payable expenditures of the District.

School Activities Funds – These funds account for the school clubs activities at the schools.

Future Teacher Endowment Fund – This fund accounts for the scholarships for future teachers.

Challenger Scholarship Fund – This fund accounts for the Challenger Scholarships.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

Capital Projects Funds – Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

COVINGTON COUNTY SCHOOL DISTRICT

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

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

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

FIDUCIARY FUNDS

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

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

D. 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.

COVINGTON COUNTY SCHOOL DISTRICT

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* issued in 2005 by the Government 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/fund balances.

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 inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

COVINGTON COUNTY SCHOOL DISTRICT

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

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.

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.

5. Restricted Assets.

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

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

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

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

COVINGTON COUNTY SCHOOL DISTRICT

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

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

9. Fund Balances.

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

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

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund. The school district has three items under this category totaling \$10,878,264.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation. The school district has seven items under this category totaling \$1,660,932.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. The school district has no committed fund balances.

COVINGTON COUNTY SCHOOL DISTRICT

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

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the School Board pursuant to authorization established by their policy. The school district has one item under this category totaling \$158,059.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance. The school district has (\$540,271) in unassigned fund balances.

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), 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 section 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 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.

COVINGTON COUNTY SCHOOL DISTRICT

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

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds is \$13,111,461 (which includes \$5,000,000 of certificates of deposit with original maturities beyond three months and reported on Exhibit C as investments) and \$255,303, respectively. The carrying amount of deposits reported in the government-wide statements is: Cash and cash equivalents \$2,945,407, and restricted assets \$10,166,054. The restricted assets represent the cash balances of the Sixteenth Section Principal Fund (Permanent Fund) and the Local School Building Fund, respectively. The bank balance was \$14,456,100.

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, 2011, none of the district's bank balance of \$14,456,100 was exposed to custodial credit risk.

Investments.

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

<u>Investment Type</u>	<u>Maturity (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Certificates of Deposit	less than 1	\$ 5,000,000	N/A

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

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

COVINGTON COUNTY SCHOOL DISTRICT

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

(3) **Inter-fund Receivables, Payables and Transfers.**

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

A. Due To/From:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 160,288
General Fund	Agency Funds	531,798
Other Governmental Funds	General Fund	410,053
Other Governmental Funds	16th Section Principal Fund	226,286
Other Governmental Funds	Other governmental funds	5,161
Other Governmental Funds	Agency Funds	1,664
Agency Funds	General Fund	42,215
Agency Funds	Other governmental funds	295,454
Agency Funds	Agency Funds	9,565
Total Funds		<u>\$ 1,682,484</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 inter-fund 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	\$ 1,257,143
Total Funds		<u>\$ 1,257,143</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
2012	\$ 314,286	\$ 50,286	\$ 364,572
2013	314,286	37,714	352,000
2014	314,286	25,143	339,429
2015	314,285	12,571	326,856
Total	<u>\$ 1,257,143</u>	<u>\$ 125,714</u>	<u>\$ 1,382,857</u>

COVINGTON COUNTY SCHOOL DISTRICT

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

C. Inter-fund Transfers:

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 939,129
16th Section Principal Funds	Other Governmental Funds	36,612
Other Governmental Funds	General Fund	236,613
Other Governmental Funds	Other Governmental Funds	173,239
Total Funds		<u>\$ 1,385,593</u>

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 \$4,799,829 and \$5,000,000, respectively; 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. In addition, the restricted assets also represent the cash balance totaling \$366,225 of the Local School Building Fund.

COVINGTON COUNTY SCHOOL DISTRICT

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

(5) **Capital Assets.**

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

	Balance 7/1/2010	Additions	Deletions	Balance 6/30/2011
<u>Non-depreciable capital assets:</u>				
Land	\$ 113,504	\$ -	\$ -	\$ 113,504
Total non-depreciable capital assets	<u>\$ 113,504</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,504</u>
<u>Depreciable capital assets:</u>				
Buildings	\$ 14,373,020	\$ -	\$ (69,585)	\$ 14,303,435
Building improvement	670,334	-	-	670,334
Improvements other than buildings	137,034	-	-	137,034
Mobile equipment	4,295,162	-	-	4,295,162
Furniture and equipment	803,685	30,885	(51,243)	783,327
Total depreciable capital assets	<u>\$ 20,279,235</u>	<u>\$ 30,885</u>	<u>\$ (120,828)</u>	<u>\$ 20,189,292</u>
<u>Less accumulated depreciation for:</u>				
Buildings	\$ (5,936,047)	\$ (240,335)	\$ 55,668	\$ (6,120,714)
Building improvement	(130,423)	(26,813)	-	(157,236)
Improvements other than buildings	(25,708)	(5,481)	-	(31,189)
Mobile equipment	(2,836,192)	(222,874)	-	(3,059,066)
Furniture and equipment	(605,261)	(43,258)	50,731	(597,788)
Total accumulated depreciation	<u>(9,533,631)</u>	<u>(538,761)</u>	<u>106,399</u>	<u>(9,965,993)</u>
Total depreciable capital assets, net	<u>10,745,604</u>	<u>(507,876)</u>	<u>(14,429)</u>	<u>10,223,299</u>
Governmental activities capital assets, net	<u>\$ 10,859,108</u>	<u>\$ (507,876)</u>	<u>\$ (14,429)</u>	<u>\$ 10,336,803</u>

Depreciation expense was charged to the following governmental functions:

Governmental activities:

	Amount
Instruction	\$ 157,873
Support services	363,064
Non-instructional	17,824
Total depreciation expense	<u>\$ 538,761</u>

COVINGTON COUNTY SCHOOL DISTRICT

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

(6) **Long-term liabilities.**

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

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Amount Due Within One Year
A. Three mill notes payable	\$ 632,000	\$ -	\$ (412,000)	\$ 220,000	\$ 220,000
B. Qualified School Construction Bond	3,000,000	-	-	3,000,000	-
C. Compensated absences payable	436,313	-	(935)	435,378	13,061
Total	<u>\$ 4,068,313</u>	<u>\$ -</u>	<u>\$ (412,935)</u>	<u>\$ 3,655,378</u>	<u>\$ 233,061</u>

A. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes	4.69%	05/10/2002	05/10/2012	\$ 2,385,000	\$ 220,000
Total				<u>\$ 2,385,000</u>	<u>\$ 220,000</u>

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

Year Ending June 30	Principal	Interest	Total
2012	\$ 220,000	\$ 13,789	\$ 233,789
Total	<u>\$ 220,000</u>	<u>\$ 13,789</u>	<u>\$ 233,789</u>

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

COVINGTON COUNTY SCHOOL DISTRICT

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

B. Qualified School Construction Bond Payable

As more fully explained in Note 14, debt has been issued by the school district that qualifies as a Qualified School Construction bond. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified School Construction Bond Series 2010	4.37%	01/15/2010	09/15/2024	\$ 3,000,000	\$ 3,000,000
Total				<u>\$ 3,000,000</u>	<u>\$ 3,000,000</u>

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

Year Ending June 30	Principal	Interest	Total
2012	\$ -	\$ 25,200	\$ 25,200
2013	-	25,200	25,200
2014	-	25,200	25,200
2015	-	25,200	25,200
2016	-	25,200	25,200
2017-2021	-	126,000	126,000
2022-2025	3,000,000	100,800	3,100,800
Total	<u>\$ 3,000,000</u>	<u>\$ 352,800</u>	<u>\$ 3,352,800</u>

C. 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 supplemental 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 9.00% 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, 2011, was 12% of annual covered payroll. The contribution requirements of PERS members and employers are established, and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2011, 2010 and 2009 were \$1,647,819, \$1,845,509, and \$1,825,509, respectively, which equaled the required contributions for each year.

COVINGTON COUNTY SCHOOL DISTRICT

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

(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
2012	\$ 130,670
2013	124,365
2014	117,616
2015	110,314
2016	89,121
2017-2021	418,002
2022-2026	411,102
2027-2031	340,298
2032-2036	271,351
Total	<u>\$ 2,012,839</u>

(9) **Deficit Fund Balance of Individual Funds.**

The District Maintenance Fund has a deficit fund balance in the amount of \$(382,212). The deficit fund balance of the District Maintenance Fund is in violation of Section 37-61-19, Miss. Code Ann. (1972). Section 37-61-19, Miss. Code Ann. (1972), imposes personal liability on any school official who knowingly enters into any contract, incurs any liability, or makes any expenditure in excess of the resources available for the fiscal year under certain circumstances. The District Maintenance Fund is included in the General Fund for financial reporting purposes.

(10) **Prior Period Adjustments/Exhibits.**

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities	
Explanations	Amount
1. To correct recording of prior year adjustments and correct beginning fund balance in various funds.	\$ (188,437)
Total	<u>\$ (188,437)</u>

COVINGTON COUNTY SCHOOL DISTRICT

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

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

Major funds:	Explanations	Amount
General Fund	To correct the recording of prior year adjustments and to correct beginning fund balances.	\$ (204,711)
Other governmental funds	To correct the recording of prior year audit adjustments and correct beginning fund balances.	16,274
	Total	<u>\$ (188,437)</u>

(11) Contingencies.

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

Litigation.

The school district is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate the outcome or liability, if any, of the school district with respect to 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.

(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. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 72 school districts and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess up to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

COVINGTON COUNTY SCHOOL DISTRICT

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

(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 (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.

(14) Qualified School Construction Bond.

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes equal annual payments into a sinking fund which is used to pay off the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U. S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$0. The District promises to pay interest on such principal amount from the date of this Note or from the most recent interest payment date to which interest has been paid at the rate of interest per annum set forth above on September 15 of each year, commencing September 15, 2011, until said principal sum is paid, to the registered owner hereof who shall appear in the registration records of the District maintained by the Paying Agent as of the Record Date. However, the United States Treasury reimburses the District for the amount of interest paid on the principal amount. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending	
June 30	Amount
2012	\$ 12,000
2013	70,000
2014	243,100
2015	243,100
2016	243,100
2017-2021	1,215,900
2022-2025	972,800
Total	<u>\$ 3,000,000</u>

COVINGTON COUNTY SCHOOL DISTRICT

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

(15) Subsequent Events.

Events that occur after the statement of net assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the statement of net assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the statement of net assets date require disclosure in the accompanying notes. Management of the Covington County School District evaluated the activity of the district through May 22, 2013, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

On October 13, 2011, the board approved a \$1,904,500 loan from 16th Section Principal funds., with the proceeds to be used for the following: \$1,257,142 to pay off the current 16th Section loan; \$630,048 to pay for the air conditioning project; and the balance of \$17,309 for miscellaneous repairs at three schools.

On October 13, 2011, the board accepted a \$291,112 timber bid from Hood Industries.

On June 11, 2012, the board accepted an \$84,500 bid from Norman Enterprises, Inc. for re-roofing Seminary Attendance Center Cafeteria.

COVINGTON COUNTY SCHOOL DISTRICT

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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, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 5,733,908	\$ 5,236,986	\$ 5,199,667	\$ (496,922)	\$ (37,319)
State sources	12,985,227	12,957,157	12,989,323	(28,070)	32,166
Federal sources	263,852	78,447	78,447	(185,405)	-
Total Revenues	<u>18,982,987</u>	<u>18,272,590</u>	<u>18,267,437</u>	<u>(710,397)</u>	<u>(5,153)</u>
Expenditures:					
Instruction	12,084,063	10,825,067	10,819,328	1,258,996	5,739
Support services	6,518,865	6,699,759	6,581,180	(180,894)	118,579
Debt service:					
Interest	-	-	75,429	-	(75,429)
Total Expenditures	<u>18,602,928</u>	<u>17,524,826</u>	<u>17,475,937</u>	<u>1,078,102</u>	<u>48,889</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>380,059</u>	<u>747,764</u>	<u>791,500</u>	<u>367,705</u>	<u>43,736</u>
Other Financing Sources (Uses):					
Insurance recoveries	-	1,508	-	1,508	(1,508)
Operating transfers in	3,482,624	2,939,943	236,613	(542,681)	(2,703,330)
Other financing sources	-	1,550	1,505	1,550	(45)
Operating transfers out	(3,486,224)	(3,872,011)	(939,129)	(385,787)	2,932,882
Total Other Financing Sources (Uses)	<u>(3,600)</u>	<u>(929,010)</u>	<u>(701,011)</u>	<u>(925,410)</u>	<u>227,999</u>
Net Change in Fund Balances	<u>376,459</u>	<u>(181,246)</u>	<u>90,489</u>	<u>(557,705)</u>	<u>271,735</u>
Fund Balances:					
July 1, 2010 as previously reported	192,198	141,456	(267,990)	(50,742)	(409,446)
Prior period adjustment	-	(275)	(204,711)	(275)	(204,436)
July 1, 2010 as adjusted	<u>192,198</u>	<u>141,181</u>	<u>(472,701)</u>	<u>(51,017)</u>	<u>(613,882)</u>
June 30, 2011	<u>\$ 568,657</u>	<u>\$ (40,065)</u>	<u>\$ (382,212)</u>	<u>\$ (608,722)</u>	<u>\$ (342,147)</u>

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

COVINGTON COUNTY SCHOOL DISTRICT

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

(1) Basis of Presentation.

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

(2) Budget Amendments and Revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15th of each year. A budgetary comparison is presented for the general 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 Expenditures of Federal Awards
 For the Year Ending June 30, 2011

Federal Grantor/Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 459,069
National school lunch program	10.555	1,145,729
Total child nutrition cluster		<u>1,604,798</u>
Total U. S. Department of Agriculture		<u>1,604,798</u>
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The school and libraries program of the universal service fund	32.XXX	78,447
Total Federal Communications Commission		<u>78,447</u>
U. S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I cluster:		
Title I-Grants to Local Educational Agencies	84.010	1,414,725
ARRA Title I-Grants to Local Education Agencies, Recovery Act	84.389	<u>153,159</u>
Total Title I Cluster		1,567,884
Career and Technical Education-Basic Grants to States	84.048	53,230
Improving Teacher Quality State Grants	84.367	284,075
Education Technology cluster:		
Education Technology State Grants	84.318	9,397
ARRA Education Technology State Grants, Recovery Act	84.386	<u>204,151</u>
Total Education Technology Cluster		213,548
Rural education achievement program	84.358	64,239
ARRA State Fiscal Stabilization Fund-Education State Grants, Recovery Act	84.394	781,628
Education Jobs Fund	84.410	583,672
Total		<u>3,548,276</u>
Special education cluster:		
Special Education-Grants to States (IDEA, Part B)	84.027	699,647
Special Education-Preschool Grants	84.173	37,996
ARRA Special Education-Grants to States (IDEA, Part B), Recovery Act	84.391	<u>255,113</u>
Total Special Education Cluster		<u>992,756</u>
Total passed-through Mississippi Department of Education		<u>4,541,032</u>
Total U.S. Department of Education		<u>4,541,032</u>
Total for All Federal Awards		<u>\$ 6,224,277</u>

NOTES TO SCHEDULE:

This schedule was prepared using the same basis of accounting and the same significant 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, 2011

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 20,524,635	15,469,946	950,980	1,654,915	2,448,794
Other	8,799,364	2,307,750	446,310	57,619	5,987,685
Total	<u>\$ 29,323,999</u>	<u>17,777,696</u>	<u>1,397,290</u>	<u>1,712,534</u>	<u>8,436,479</u>
 Total number of students *	 3,113				
 Cost per student	 \$ 9,420	 5,711	 449	 550	 2,710

NOTES TO SCHEDULE

1. Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.
2. General Administration - includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.
3. School Administration - includes expenditures for the following function: Support Services - School Administration.
4. Other - includes all expenditure functions not included in Instruction or Administration Categories.

* Total number of students - the ADA report submission for month 9, which is the final submission for the school year.

COVINGTON COUNTY SCHOOL DISTRICT

OTHER SUPPLEMENTAL INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

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COVINGTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
General Fund
Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 5,199,667	\$ 5,408,243	\$ 5,296,479	\$ 4,759,027
State sources	12,989,323	13,285,836	14,807,627	15,297,017
Federal sources	78,447	107,465	117,319	542,783
Total revenues	<u>18,267,437</u>	<u>18,801,544</u>	<u>20,221,425</u>	<u>20,598,827</u>
Expenditures:				
Instruction	10,819,328	12,144,914	13,914,603	13,928,237
Support services	6,581,180	6,991,958	7,376,789	8,412,346
Non-instructional services	-	-	19,226	-
Debt Service:				
Interest	75,429	75,428	88,000	-
Total expenditures	<u>17,475,937</u>	<u>19,212,300</u>	<u>21,398,618</u>	<u>22,340,583</u>
Excess (Deficiency) of revenues over expenditures	<u>791,500</u>	<u>(410,756)</u>	<u>(1,177,193)</u>	<u>(1,741,756)</u>
Other Financing Sources (Uses):				
Operating transfers in	236,613	1,263,192	957,647	525,417
Operating transfers out	(939,129)	(383,071)	(1,096,364)	(2,211,037)
Other financing sources	1,505	3,415	4,368	1,099
Total other financing sources (uses)	<u>(701,011)</u>	<u>883,536</u>	<u>(134,349)</u>	<u>(1,684,521)</u>
Net Change in Fund Balances	<u>90,489</u>	<u>472,780</u>	<u>(1,311,542)</u>	<u>(3,426,277)</u>
Fund balances:				
Beginning balance, as originally reported	(267,990)	(922,200)	(510,636)	724,089
Prior period adjustment & reclassifications	(204,711)	181,430	899,978	2,191,552
Beginning Balance, restated	<u>(472,701)</u>	<u>(740,770)</u>	<u>389,342</u>	<u>2,915,641</u>
Ending Balance	<u>\$ (382,212)</u>	<u>\$ (267,990)</u>	<u>\$ (922,200)</u>	<u>\$ (510,636)</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

COVINGTON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance
All Governmental Funds
Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 6,137,603	\$ 6,296,639	\$ 5,670,924	\$ 5,360,141
State sources	13,678,734	13,950,422	15,409,592	15,937,345
Federal sources	6,687,641	6,614,291	4,380,825	4,372,868
Sixteenth section sources	734,506	1,620,403	3,305,165	4,764,628
Total revenues	<u>27,238,484</u>	<u>28,481,755</u>	<u>28,766,506</u>	<u>30,434,982</u>
Expenditures:				
Instruction	15,382,240	16,007,338	15,926,834	16,013,048
Support services	11,441,196	9,422,883	9,064,424	10,032,812
Non-instructional services	1,893,589	1,861,504	1,975,961	1,805,591
Sixteenth section	73,127	79,410	18,883	124,669
Facilities acquisition and construction	-	-	163,750	2,157,139
Debt Service:				
Principal	412,000	333,000	317,000	315,000
Interest	121,847	120,697	148,126	74,958
Total expenditures	<u>29,323,999</u>	<u>27,824,832</u>	<u>27,614,978</u>	<u>30,523,217</u>
Excess (Deficiency) of revenues over expenditures	<u>(2,085,515)</u>	<u>656,923</u>	<u>1,151,528</u>	<u>(88,235)</u>
Other Financing Sources (Uses):				
Proceeds of loans	-	3,000,000	-	-
Operating transfers in	1,385,593	2,442,384	2,178,581	4,425,583
Operating transfers out	(1,385,593)	(2,442,384)	(2,178,581)	(4,425,583)
Other financing sources	1,505	6,974	4,697	1,099
Total other financing sources (uses)	<u>1,505</u>	<u>3,006,974</u>	<u>4,697</u>	<u>1,099</u>
Net Change in Fund Balances	<u>(2,084,010)</u>	<u>3,663,897</u>	<u>1,156,225</u>	<u>(87,136)</u>
Fund balances:				
Beginning Balance, as originally reported	14,403,446	9,995,565	8,639,557	7,854,518
Prior period adjustment & reclassifications	<u>(188,437)</u>	<u>759,817</u>	<u>219,674</u>	<u>872,175</u>
Beginning Balance, restated	14,215,009	10,755,382	8,859,231	8,726,693
Increase (decrease) in reserve for inventory	<u>25,985</u>	<u>(15,833)</u>	<u>(19,891)</u>	<u>-</u>
Ending Balance	<u>\$ 12,156,984</u>	<u>\$ 14,403,446</u>	<u>\$ 9,995,565</u>	<u>\$ 8,639,557</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

COVINGTON COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS 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**

May 22, 2013

Superintendent and School Board
Covington County School District

We have audited 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, 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, 2011, and the related notes to the financial statements, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated May 22, 2013.

Internal Control Over Financial Reporting

Management of Covington County School District is responsible for establishing and maintaining effective 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs to be a material weakness. Finding 2011-02.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies. Finding 2011-01 and Finding 2011-02.

Compliance and Other Matters

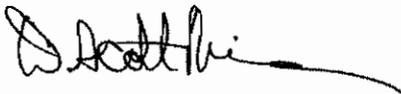
As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

However, we noted certain immaterial instances of noncompliance or other matters that we reported to management of the school district in a separate letter dated May 22, 2013, 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 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,



D. Scott Nieman, CPA
Nieman & Associates, PC
McComb, Mississippi

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

May 22, 2013

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, 2011. 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, 2011.

Internal Control Over Compliance

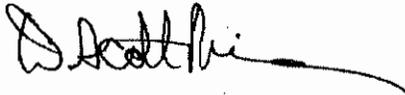
The management of the Covington County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Sincerely,

A handwritten signature in black ink, appearing to read "D. Scott Nieman", with a long horizontal flourish extending to the right.

D. Scott Nieman, CPA
Nieman & Associates, PC
McComb, Mississippi

COVINGTON COUNTY SCHOOL DISTRICT

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

COVINGTON COUNTY SCHOOL DISTRICT

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

May 22, 2013

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, 2011, which collectively comprise Covington County School District's basic financial statements and have issued our report thereon dated May 22, 2013. 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 insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds." As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number three below. The district reported \$6,110 classroom supply funds carried over from previous years.

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

The results of our procedures performed to test compliance with the 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:

Finding # 1: 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 years’ audit report and during our review of sixteenth section leases, we noted thirty (30) instances of lease payments being over sixty (60) days past due.

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 on this income.

Recommendation

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

School District’s Response

As answered in prior year’s audit, the District will strengthen current practices concerning past due sixteenth section land leases. We will review Section 29-3-57, Miss Code Ann (1972) and audit finding with the board. The Sixteenth Section Manager will provide the school board a list of leases that are past due more than sixty days at each board meeting. The board will advise the sixteenth section manager as to what actions are to be taken to ensure compliance with this law.

Finding # 2: 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 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 indicated 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 make every effort to contact shared districts, in an attempt to comply with Section 29-3-119(4) and share revenues less expenditures with other districts.

Finding # 3: Per section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), states that “Local school districts shall allocate classroom supply funds equally amount all classroom teachers in the school district. For purposes of the subparagraph, “teacher” means any employee of the school board...who is required by law to obtain a teacher’s license..., but shall not include a federally funded teacher.”

As reported in the prior year’s audit report, we noted in our testing of the classroom supply allocation that federally funded teachers were allocated a portion of the classroom supply monies. Allocation of classroom supplies and instructional material funds to federally funded teachers could result in the district allowing some teachers to spend other teachers’ allocations.

Per the State Education Enhancement Fund policy, school districts are required to maintain adequate documentation to demonstrate compliance with this policy. At a minimum, each school principal shall maintain a listing of all teachers, the amount allocated to each teacher, the carry forward amount for each teacher, a copy of each spending plan and a copy of all requisitions or purchase requests submitted by the teachers. As a teacher submits requisitions or requests for supplies, materials and/or equipment, the principal will reduce the individual teacher’s allocation for the appropriate amount and maintain a current balance. Information on each teacher’s allocation, expenditures and balance must be maintained.

During our review of Education Enhancement Funds expenditures, we were not provided complete documentation by teacher and the amount spent for one (1) school.

Recommendation

We recommend that the school district comply with section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), by allocating these funds to teachers who are not Federally funded. We also recommend that the school district keep the appropriate records by teacher as required by the State Education Enhancement Fund policy with all the detail outlined in the policy.

School District’s Response

As stated in prior year’s audit completed June, 2013, as of May 16, 2013 the business manager, federal programs directors, and the payroll manager will work together in preparing the list of employees eligible to receive EEF funds. This team working together will strengthen our controls and processes with distribution of EEF funds. The business manager will be responsible for calculating the number of teachers receiving EEF and reporting that to School Financial Services for issuance of debit cards. This new process will ensure total compliance in the future.

Finding # 4: As prescribed by section 25-11-127(4)(b), Miss. Code Ann. (1972), when re-hiring a retiree notice shall be given in writing (Retirement Form 4b) to Public Employees Retirement System, setting forth the facts upon which the employment is being made, and the notice shall be given within five (5) days from the date of employment and also from the date of termination of the employment.

During our examination of all Forms 4b, there was one (1) form not filed within the 5-day statutory limitation.

Recommendation

We recommend that the school district comply with section 25-11-127(4)(b), Miss. Code Ann. (1972), and file all forms 4b timely.

School District’s Response

As statement in prior year’s audit corrective action completed June, 2013, the business manager and payroll manager have developed new procedures to ensure that all 4B’s are completed and mailed within the 5 day statutory limitation. The payroll manager will be responsible to keep a spreadsheet that list all retire/rehire employees with date form completed, date employee signed, and date mailed to PERS. Also we have added to our employee folder checklist a category for the 4B to be marked completed before employees personnel folder is filed by the clerk. The business manager will be responsible if the payroll manager is out.

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 insure 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,



D. Scott Nieman, CPA
Nieman & Associates, PC
McComb, Mississippi

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, 2011

Section 1: Summary of Auditor's Results

Financial Statements

- | | | |
|---|---|-------------|
| 1 | Type of auditor's report issued on the financial statements: | Unqualified |
| 2 | Material noncompliance relating to the financial statements? | No |
| 3 | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | 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. Child Nutrition Cluster | |
| | School Breakfast Program | CFDA# 10.553 |
| | National Shool Lunch Program | CFDA# 10.555 |
| | b. Education Technology State Grants Cluster | |
| | Education Technology State Grants | CFDA# 84.318 |
| | ARRA Education Technology State Grants, Recovery Act | CFDA# 84.386 |
| | c. State Fiscal Stabilization Fund Cluster | |
| | ARRA State Fiscal Stabilization-Education State Grants, Recovery Act | CFDA# 84.394 |
| | d. Education Jobs Fund | CFDA# 84.410 |
| 8 | The dollar threshold used to distinguish between type A and type B programs: | \$ 300,000 |
| 9 | Auditee qualified as low-risk auditee? | No |
| 10 | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

COVINGTON COUNTY SCHOOL DISTRICT

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

Section 2: Financial Statement Findings:

Significant Deficiency Not Considered to be a Material Weakness

2011-01 Controls Over Activity and Club Funds Receipts Should Be Strengthened

Finding

As reported in the prior year's audit, management is responsible for ensuring that all revenue earned is correctly recorded and deposited in order to safeguard the assets of the district. While reviewing the activity fund and club fund revenues we noted that the district had thirteen (13) receipts that did not indicate the type of payment received, four (4) receipts untimely deposited, and four (4) receipts out of chronological order.

Inadequate controls surrounding revenue collections could result in theft of assets and improper revenue recognition.

Recommendation

We recommend that the school district implement policies and procedures to insure that assets are adequately safeguarded, revenue is properly recognized and recorded, and that all receipts indicate a type of payment.

Significant Deficiency Considered to be a Material Weakness

2011-02 Controls Over Management of Funds Should Be Strengthened

Finding

Per Section 37-61-3, Miss. Code Ann. (1972), the adequate education program allotments of the public school districts and the funds derived from the supplemental school district tax levies authorized by law shall be used exclusively for the support, maintenance and operation of the schools in the manner provided by law for the fiscal years for which such funds were appropriated, collected or otherwise made available, and no part of said funds or allotments shall be used in paying any expenses incurred during any preceding fiscal year. However, this shall not be construed to prohibit the payment of expenses incurred during the fiscal year after the close of such fiscal year from amounts remaining on hand at the end of such fiscal year, provided that such expenses were properly payable from such amounts. Moreover, this shall not be construed to prohibit the payment of the salaries of superintendents, principals and teachers and other school employees whose salaries are payable in twelve (12) monthly installments after the close of the fiscal year from amounts on hand for such purpose at the end of the fiscal year. The district maintenance fund had a deficit fund balance at June 30, 2011.

Recommendation

We recommend that the school district manage their funds appropriately and comply with Section 37-61-3, Miss. Code Ann. (1972), in order to ensure that there is an adequate fund balance in the district maintenance fund at the end of the fiscal year.

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

AUDITEE'S CORRECTIVE ACTION PLAN

COVINGTON COUNTY SCHOOL DISTRICT

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Covington County School District

BOARD OF EDUCATION

Terry Bryant
Sammy H. Herrin
Andrew Keys
Robert "Bob" McNair
Dr. Ray Strebeck

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Collins, Mississippi 39428
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SUPERINTENDENT
James Clay Anglin

DEPUTY SUPERINTENDENTS
Babette Duty, Curriculum
Susan Deen, Federal Programs
Rachel Rogers, Special Programs

July 31, 2013

Nieman & Associates, PC
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 Negative Cash Balance in District Maintenance for the year ended June 30, 2011.

Finding

2011-01

Corrective Action Plan Details

- a. Name of Contact Person Responsible for Correction Action
Emily Beach
Business Manager
601-765-8247

- b. Corrective Action Planned:

Policies and procedures are in place at the District level as well as the school level. The bookkeepers were notified via email and phone on May 16, 2013 to review the policies and procedure for receipting activity and making timely deposits.

- c. Anticipated Completion Date:

Book keepers will attend a staff development; July 31, 2013 bookkeepers will be trained on district policies and procedures for the receipting of revenue for the activity and club accounts and the importance of making timely deposits.

2011-02

a. Name of Contact Person Responsible for Correction Action:

Emily Beach
Business Manager
601-765-8247

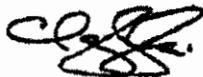
b. Corrective Action Planned:

A new business manager and superintendent came to office January 1, 2012. The business manager along with Evelyn Blurton and Kimberly Alford have reconciled accounts and corrected general ledger entries to the best of our knowledge. We will make appropriate transfer once the FY11 and FY12 audit is complete.

c. Anticipated Completion Date:

To the best of our knowledge this issue is completed as of June30, 2012 when books and bank statement were reconciled.

Sincerely,



Clay Anglin
Superintendent of Education