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Covington County School District

Audited Financial Statements
For the Year Ended June 30, 2014

Fortenberry & Ballard, PC
Certified Public Accountants

Covington County School District
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FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Covington County School District

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the Covington County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 8 to 15 and 47 to 49 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 supplementary 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.

Other Information

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, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived

from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information mentioned above is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2016, on our consideration of the Covington County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covington County School District's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
September 9, 2016

Certified Public Accountants

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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, 2014. 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 position for 2014 increased \$1,347,412, including a prior period adjustment of (\$10,837), which represents a 6% increase from fiscal year 2013. Total net position for 2013 increased \$893,762, including a prior period adjustment of (\$205,081), which represents a 4% increase from fiscal year 2012.
- General revenues amounted to \$20,988,503 and \$20,439,417, or 79% and 79% of all revenues for fiscal years 2014 and 2013, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,699,665, or 21% of total revenues for 2014, and \$5,581,253, or 21% of total revenues for 2013.
- The District had \$25,329,919 and \$24,921,827 in expenses for fiscal years 2014 and 2013; only \$5,699,665 for 2014 and \$5,581,253 for 2013 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$20,988,503 for 2014 and \$20,439,417 for 2013 were adequate to provide for these programs.
- Among major funds, the General Fund had \$20,743,962 in revenues and \$19,093,301 in expenditures for 2014, and \$20,273,101 in revenues and \$18,770,578 in expenditures in 2013. The General Fund's fund balance increased by \$1,166,617 from 2013 to 2014, including a prior period adjustment of (\$10,837), and increased by \$1,030,125 from 2012 to 2013, including a fund reclassification of \$329,379 and a prior period adjustment of (\$217,236).
- Capital assets, net of accumulated depreciation, decreased by \$458,612 for 2014 and decreased by \$551,840 for 2013. The decrease for 2014 was due primarily to the increase in accumulated depreciation.
- Long-term debt, including the liability for compensated absences, increased by \$68,131 for 2014 and decreased by \$119,973 for 2013. The liability for compensated absences increased by \$68,131 for 2014 and decreased by \$119,973 for 2013.

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 supplementary information, supplementary 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 Position 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.

COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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

The Statement of Activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position 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 Position, 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.

**COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

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

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

Notes to the financial statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary 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.

Supplementary 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 position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$24,677,901 as of June 30, 2014.

COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

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

Table 1 presents a summary of the District's net position at June 30, 2014 and June 30, 2013.

Table 1
Condensed Statement of Net Position

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Current assets	\$ 6,462,298	\$ 4,830,155	33.79 %
Restricted assets	10,205,416	10,058,946	1.46 %
Capital assets, net	11,765,191	12,223,803	(3.75) %
Total assets	<u>28,432,905</u>	<u>27,112,904</u>	4.87 %
Current liabilities	443,548	539,090	(17.72) %
Long-term debt outstanding	3,311,456	3,243,325	2.10 %
Total liabilities	<u>3,755,004</u>	<u>3,782,415</u>	(0.72) %
Net position:			
Net investment in capital assets	8,765,191	9,223,803	(4.97) %
Restricted	13,686,392	13,020,792	5.11 %
Unrestricted	2,226,318	1,085,894	105.02 %
Total net position	<u>\$ 24,677,901</u>	<u>\$ 23,330,489</u>	5.78 %

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

- Decrease in net capital assets in the amount of \$458,612.

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2014 and June 30, 2013 were \$26,688,168 and \$26,020,670, respectively. The total cost of all programs and services was \$25,329,919 for 2014 and \$24,921,827 for 2013.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2014 and June 30, 2013.

**COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

**Table 2
Changes in Net Position**

	<u>Year Ended June 30, 2014</u>	<u>Year Ended June 30, 2013</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 794,691	\$ 703,957	12.89 %
Operating grants and contributions	4,904,974	4,877,296	0.57 %
General revenues:			
Property taxes	6,362,069	6,018,565	5.71 %
Grants and contributions not restricted	13,127,954	13,189,040	(0.46) %
Investment earnings	109,058	134,088	(18.67) %
Sixteenth section sources	1,008,980	711,115	41.89 %
Other	380,442	386,609	(1.60) %
Total revenues	<u>26,688,168</u>	<u>26,020,670</u>	2.57 %
Expenses:			
Instruction	14,974,251	14,533,625	3.03 %
Support services	8,381,053	8,445,984	(0.77) %
Non-instructional	1,752,573	1,767,214	(0.83) %
Sixteenth section	133,106	79,688	67.03 %
Interest on long-term liabilities	88,936	95,316	(6.69) %
Total expenses	<u>25,329,919</u>	<u>24,921,827</u>	1.64 %
Increase (Decrease) in net position	<u>1,358,249</u>	<u>1,098,843</u>	23.61 %
Net Position, July 1, as previously reported	<u>23,330,489</u>	<u>22,436,727</u>	3.98 %
Prior Period Adjustment	<u>(10,837)</u>	<u>(205,081)</u>	(94.72) %
Net Position, July 1, as restated	<u>23,319,652</u>	<u>22,231,646</u>	4.89 %
Net Position, June 30	<u>\$ 24,677,901</u>	<u>\$ 23,330,489</u>	5.78 %

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 liabilities. 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, 2014**

**Table 3
Net Cost of Governmental Activities**

	Total Expenses		Percentage Change
	2014	2013	
Instruction	\$ 14,974,251	\$ 14,533,625	3.03 %
Support services	8,381,053	8,445,984	(0.77) %
Non-instructional	1,752,573	1,767,214	(0.83) %
Sixteenth section	133,106	79,688	67.03 %
Interest on long-term liabilities	88,936	95,316	(6.69) %
Total expenses	\$ 25,329,919	\$ 24,921,827	1.64 %

	Net (Expense) Revenue		Percentage Change
	2014	2013	
Instruction	\$ (12,632,227)	\$ (12,389,368)	1.96 %
Support services	(7,158,284)	(7,044,477)	1.62 %
Non-instructional	288,564	206,262	39.90 %
Sixteenth section	(39,371)	(17,675)	122.75 %
Interest on long-term liabilities	(88,936)	(95,316)	(6.69) %
Total net (expense) revenue	\$ (19,630,254)	\$ (19,340,574)	1.50 %

- Net cost of governmental activities (\$19,630,254 for 2014 and \$19,340,574 for 2013) was financed by general revenue, which is primarily made up of property taxes (\$6,362,069 for 2014 and \$6,018,565 for 2013) and state revenues (\$13,127,954 for 2014 and \$13,189,040 for 2013). In addition, there was \$1,008,980 and \$711,115 in Sixteenth Section sources for 2014 and 2013, respectively.
- Investment earnings amounted to \$109,058 for 2014 and \$134,088 for 2013.

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 \$16,244,050, an increase of \$1,874,155, which includes a prior period adjustment of (\$10,837) and an increase in inventory of \$62. \$2,380,610, or 15% of the fund balance is unassigned, which represents the residual classification for the General Fund's fund balance that has not been assigned to other funds and that has not been restricted or assigned to specific purposes within the general fund. The remaining fund balance of \$13,863,440, or 85% is either nonspendable, restricted or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted or assigned.

COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$1,166,617, which includes a prior period adjustment of (\$10,837). The fund balance of Other Governmental Funds showed an increase in the amount of \$465,262, which includes an increase in inventory of \$62. 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	\$ 242,276

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 supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2014, the District's total capital assets were \$23,248,906, including land, school buildings, building improvements and other improvements, buses, other school vehicles, and furniture and equipment. This amount represents a gross increase of \$65,627 from 2013. Total accumulated depreciation as of June 30, 2014, was \$11,483,715, and total depreciation expense for the year was \$571,990, resulting in total net capital assets of \$11,765,191.

Table 4
Capital Assets, Net of Accumulated Depreciation

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage</u> <u>Change</u>
Land	\$ 113,504	\$ 113,504	0.00 %
Buildings	7,471,985	7,707,185	(3.05) %
Building improvements	3,177,467	3,329,045	(4.55) %
Improvements other than buildings	89,402	94,883	(5.78) %
Mobile equipment	755,289	834,151	(9.45) %
Furniture and equipment	157,544	145,035	8.62 %
Total	\$ 11,765,191	\$ 12,223,803	(3.75) %

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

Debt Administration. At June 30, 2014, the District had \$3,311,456 in outstanding long-term debt, of which \$15,573 is due within one year. The liability for compensated absences increased \$68,131 from the prior year.

**COVINGTON COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2014**

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>Percentage Change</u>
Qualified school construction bonds payable	\$ 3,000,000	\$ 3,000,000	0.00 %
Compensated absences payable	311,456	243,325	28.00 %
Total	<u>\$ 3,311,456</u>	<u>\$ 3,243,325</u>	2.10 %

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.

FINANCIAL STATEMENTS

COVINGTON COUNTY SCHOOL DISTRICT

Statement of Net Position
June 30, 2014

Exhibit A

	Governmental Activities
	<hr/>
Assets	
Cash and cash equivalents	\$ 5,276,051
Due from other governments	1,097,246
Accrued interest receivable	52,660
Inventories	33,889
Prepaid items	2,452
Restricted assets	10,205,416
Capital assets, non-depreciable:	
Land	113,504
Capital assets, net of accumulated depreciation:	
Buildings	7,471,985
Building improvements	3,177,467
Improvements other than buildings	89,402
Mobile equipment	755,289
Furniture and equipment	157,544
Total Assets	<hr/> <hr/> 28,432,905
 Liabilities	
Accounts payable and accrued liabilities	63,250
Due to other governments	351,422
Unearned revenue	8,992
Interest payable on long-term liabilities	19,884
Long-term liabilities, due within one year:	
Non-capital related liabilities	15,573
Long-term liabilities, due beyond one year:	
Capital related liabilities	3,000,000
Non-capital related liabilities	295,883
Total Liabilities	<hr/> <hr/> 3,755,004
 Net Position	
Net investment in capital assets	8,765,191
Restricted for:	
Expendable:	
School-based activities	1,709,932
Debt service	402,117
Forestry improvements	174,801
Unemployment benefits	63,128
Non-expendable:	
Sixteenth section	11,336,414
Unrestricted	2,226,318
Total Net Position	<hr/> <hr/> \$ 24,677,901

COVINGTON COUNTY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2014**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
Instruction	\$ 14,974,251	\$ 385,850	\$ 1,956,174	\$ -	\$	(12,632,227)
Support services	8,381,053	-	1,222,769	-		(7,158,284)
Non-instructional	1,752,573	315,106	1,726,031	-		288,564
Sixteenth section	133,106	93,735	-	-		(39,371)
Interest on long-term liabilities	88,936	-	-	-		(88,936)
Total Governmental Activities	\$ 25,329,919	\$ 794,691	\$ 4,904,974	\$ -	\$	(19,630,254)

General Revenues:

Taxes:

General purpose levies 6,280,964
Debt purpose levies 81,105

Unrestricted grants and contributions:

State 13,127,954
Unrestricted investment earnings 109,058
Sixteenth section sources 1,008,980
Other 380,442

Total General Revenues 20,988,503

Change in Net Position 1,358,249

Net Position - Beginning, as previously reported 23,330,489
Prior Period Adjustments (10,837)

Net Position - Beginning, as restated 23,319,652

Net Position - Ending \$ 24,677,901

COVINGTON COUNTY SCHOOL DISTRICT

Governmental Funds

Balance Sheet
June 30, 2014

Exhibit C

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Assets				
Cash and cash equivalents	\$ 3,187,246	\$ 4,849,636	\$ 2,088,805	\$ 10,125,687
Cash with fiscal agents	-	61,267	3,368	64,635
Investments	-	4,966,145	325,000	5,291,145
Due from other governments	312,393	-	402,520	714,913
Accrued interest receivable	-	50,038	2,622	52,660
Due from other funds	729,780	-	190,823	920,603
Advance to other funds	-	1,409,328	-	1,409,328
Inventories	-	-	33,889	33,889
Prepaid items	2,452	-	-	2,452
Total assets	\$ 4,231,871	\$ 11,336,414	\$ 3,047,027	\$ 18,615,312
Liabilities and Fund Balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 63,250	\$ -	\$ -	\$ 63,250
Due to other funds	219,067	-	670,625	889,692
Advances from other funds	1,409,328	-	-	1,409,328
Unavailable revenue - federal programs	-	-	8,992	8,992
Total Liabilities	1,691,645	-	679,617	2,371,262
Fund Balances:				
Nonspendable:				
Inventory	-	-	33,889	33,889
Permanent fund principal	-	9,927,086	-	9,927,086
Advances	-	1,409,328	-	1,409,328
Prepaid items	2,452	-	-	2,452
Restricted:				
Debt service	-	-	422,001	422,001
Forestry improvement purposes	-	-	174,801	174,801
Grant activities	-	-	287,864	287,864
Unemployment benefits	-	-	63,128	63,128
Food Service	-	-	445,608	445,608
Wood Endowment	-	-	940,119	940,119
Assigned:				
Activity/Athletic funds	157,164	-	-	157,164
Unassigned	2,380,610	-	-	2,380,610
Total Fund Balances	2,540,226	11,336,414	2,367,410	16,244,050
Total Liabilities and Fund Balances	\$ 4,231,871	\$ 11,336,414	\$ 3,047,027	\$ 18,615,312

COVINGTON COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2014**

Exhibit C-1

Total fund balances for governmental funds \$ 16,244,050

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

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

Land	\$ 113,504	
Buildings	14,303,435	
Building improvements	3,789,436	
Improvements other than buildings	137,034	
Mobile equipment	4,078,456	
Furniture and equipment	827,041	
Accumulated depreciation	<u>(11,483,715)</u>	11,765,191

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)	
Compensated absences	(311,456)	
Accrued interest payable	<u>(19,884)</u>	(3,331,340)

Net Position of governmental activities \$ 24,677,901

COVINGTON COUNTY SCHOOL DISTRICT

Governmental Funds

**Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2014**

Exhibit D

	Major Funds			Total Governmental Funds
	General Fund	Sixteenth Section Principal Fund	Other Governmental Funds	
Revenues:				
Local sources	\$ 6,751,431	\$ -	\$ 703,105	\$ 7,454,536
State sources	13,321,075	-	492,174	13,813,249
Federal sources	-	-	4,219,681	4,219,681
Sixteenth section sources	671,456	420,489	108,757	1,200,702
Total Revenues	20,743,962	420,489	5,523,717	26,688,168
Expenditures:				
Instruction	12,204,574	-	2,509,007	14,713,581
Support services	6,752,892	-	1,376,333	8,129,225
Noninstructional services	-	-	1,738,390	1,738,390
Sixteenth section	72,599	-	60,507	133,106
Debt service:				
Interest	63,236	-	25,200	88,436
Other	-	-	500	500
Total Expenditures	19,093,301	-	5,709,937	24,803,238
Excess (Deficiency) of Revenues over (under) Expenditures	1,650,661	420,489	(186,220)	1,884,930
Other Financing Sources (Uses):				
Payments held by escrow agent	-	-	241,692	241,692
Payment to QSCB debt escrow agent	-	-	(241,692)	(241,692)
Operating transfers in	271,132	-	948,143	1,219,275
Operating transfers out	(744,339)	(178,213)	(296,723)	(1,219,275)
Total Other Financing Sources (Uses)	(473,207)	(178,213)	651,420	-
Net Change in Fund Balances	1,177,454	242,276	465,200	1,884,930
Fund Balances:				
July 1, 2013, as previously reported	1,373,609	11,094,138	1,902,148	14,369,895
Prior period adjustments	(10,837)	-	-	(10,837)
July 1, 2013, as restated	1,362,772	11,094,138	1,902,148	14,359,058
Increase (Decrease) in inventory	-	-	62	62
June 30, 2014	\$ 2,540,226	\$ 11,336,414	\$ 2,367,410	\$ 16,244,050

COVINGTON COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2014**

Exhibit D-1

Net change in fund balances - total governmental funds \$ 1,884,930

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	\$ 116,944	
Depreciation expense	<u>(571,990)</u>	(455,046)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in Net Position differs from the change in fund balance by the cost of the assets sold. (3,566)

3. 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	(68,131)	
Change in inventory	<u>62</u>	(68,069)

Change in Net Position of governmental activities \$ 1,358,249

COVINGTON COUNTY SCHOOL DISTRICT

Fiduciary Funds

**Statement of Fiduciary Net Position
June 30, 2014**

Exhibit E

	Private-Purpose Trust Funds	Agency Funds
	<u> </u>	<u> </u>
Assets		
Cash and cash equivalents	\$ 2,011	\$ 930,714
Due from other funds	-	367,568
Total Assets	<u>2,011</u>	<u>\$ 1,298,282</u>
 Liabilities		
Accounts payable and accrued liabilities	-	\$ 840,875
Due to other funds	1,000	397,479
Due to student clubs	-	59,928
Total Liabilities	<u>1,000</u>	<u>\$ 1,298,282</u>
 Net Position		
Held in trust	<u>1,011</u>	
Total Net Position	<u>\$ 1,011</u>	

COVINGTON COUNTY SCHOOL DISTRICT

Fiduciary Funds

**Statement of Changes in Fiduciary Net Position
For the Year Ended June 30, 2014**

Exhibit F

	Private-Purpose Trust Funds
Additions	
Interest on investments	\$ -
Contributions and donations from private sources	-
Total Additions	-
Deductions	
Scholarships awarded	-
Total Deductions	-
Change in Net Position	-
Net Position	
July 1, 2013	1,011
June 30, 2014	\$ 1,011

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

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

B. Government-wide and Fund Financial Statements

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

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

1. Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Covington County School District

Notes to the Financial Statements For the Year Ended June 30, 2014

2. Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

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

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

The school district reports the following major governmental funds:

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

Sixteenth 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 District's fiduciary funds include the following:

Payroll Clearing Fund - This fund serves as a clearing fund for payroll type transactions.

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Student Club Funds - These various funds account for the monies raised through school club activities and fund raisers and club related expenditures approved by the individual clubs.

Accounts Payable Fund - This fund is used as a clearing fund for non-payroll transactions.

Future Teacher Endowment Fund - This endowment fund provides scholarships for future teachers.

Challenger Scholarship Fund - This fund accounts for the Challenger Scholarship program monies.

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.

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

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

FIDUCIARY FUNDS

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

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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

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

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

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

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

Ad valorem property taxes are levied by the governing authority of the 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, 2014

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 is both restricted and unrestricted net position 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 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems*, 2003, issued by the U.S. Department of Education.

D. Encumbrances

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

E. Assets, liabilities and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

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

Investments

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

Covington County School District

Notes to the Financial Statements For the Year Ended June 30, 2014

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.

3. Due from Other Governments

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

4. Inventories and Prepaid Items

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

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified School Construction Bond sinking fund. 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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

under state statute for loans from this fund.

6. Capital Assets

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

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

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

The following schedule details the capitalization thresholds:

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

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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

7. Compensated Absences

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

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

8. Long-term Liabilities and Bond Discounts/Premiums

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

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

9. Fund Balances

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

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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

principal balance in a permanent fund.

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

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. Currently there is no committed fund balance for this school district.

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

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

When an expenditure/expense is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures/expense 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.

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 7% of all revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 2 - Cash and Cash Equivalents, Cash with Fiscal Agents and Investments

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

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

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest excess funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits or 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, not to exceed fifty percent of all monies invested with maturities of thirty days or longer; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or other interests in, any open-end or closed-end management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration, not to exceed twenty percent of invested excess funds. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Investment income of less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$10,125,687 and \$932,725, respectively.

Custodial Credit Risk - Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district

Covington County School District

Notes to the Financial Statements For the Year Ended June 30, 2014

does not have a deposit policy for custodial credit risk. 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. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2014, none of the district's bank balance of \$11,595,453 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$64,635.

Investments

As of June 30, 2014, the district had \$325,000 investments in a sinking fund restricted for the payment of its Qualified School Construction Bonds described in Note 13:

Investment Type	Rating	Maturities (in years)	Fair Value
Certificates of Deposits	N/A	less than 1 year	\$ 4,966,145
Covington County School District Series 2010 Sinking Fund	N/A	more than 1 year	325,000
			<u>\$ 5,291,145</u>

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

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

Custodial Credit Risk - Investments. Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. None of the district's investments, \$5,291,145 of underlying securities are held by the investment's counterparty, not in the name of the district.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments.

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 3 - Inter-fund Receivables, Payables, and Transfers

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

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 369,660
	Fiduciary Funds	360,120
Fiduciary Fund	General Fund	51,090
	Fiduciary Fund	16,146
	Other Governmental Funds	300,332
Other Governmental Funds	General Fund	167,977
	Other Governmental Funds	633
	Fiduciary Fund	22,213
Total		<u>\$ 1,288,171</u>

Interfund loans exist primarily to avoid a deficit cash balance in federal funds. All balances are expected to be repaid within one year from the date of the financial statements.

B. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
Sixteenth Section Principal Fund	General Fund	<u>\$ 1,409,328</u>

Sixteenth section principal loans payable

Note: The sixteenth section principal loans payable are not reflected on the Statement of Net Position because these funds were borrowed by the General Fund from the Sixteenth Section Trust Fund (Permanent Trust) in accordance with Section 29-3-113, Miss. Code Ann. (1972). The revenues and expenditures associated with these transactions are reflected on the Statement of Revenues, Expenditures and Changes in Fund Balances.

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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Year Ending June 30		Principal	Interest	Total
2015	\$	178,434	56,373	234,807
2016		185,572	49,236	234,808
2017		192,995	41,813	234,808
2018		200,715	34,093	234,808
2019		208,743	26,065	234,808
2020 - 2021		442,869	26,745	469,614
Total	\$	<u>1,409,328</u>	<u>234,325</u>	<u>1,643,653</u>

C. Inter-fund Transfers

Transfers In	Transfers Out	Amount
General Fund	Other Governmental Funds	\$ 92,919
	Sixteenth Section Principal Fund	178,213
Other Governmental Funds	General Fund	744,339
	Other Governmental Funds	<u>203,804</u>
Total		\$ <u>1,219,275</u>

The purpose of the transfers was to provide funds for general operating activities. All transfers were routine and consistent with the fund making the transfer.

Note 4 - Restricted Assets

The restricted assets represent the cash, cash with fiscal agents, and investment balance, totaling \$4,849,636, \$61,267, and \$4,966,145, 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 programs.

In addition, the restricted assets represent the cash with fiscal agents and investments balance, totaling \$3,368 and \$325,000, respectively, of the QSCB Bond Retirement Fund.

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 5 - Capital Assets

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

	Balance 7-1-2013	Additions	Retirements	Balance 6-30-2014
<u>Non-depreciable capital assets:</u>				
Land	\$ 113,504			113,504
Total non-depreciable capital assets	<u>113,504</u>	<u>0</u>	<u>0</u>	<u>113,504</u>
<u>Depreciable capital assets:</u>				
Buildings	14,303,435			14,303,435
Building improvements	3,789,436			3,789,436
Improvements other than buildings	137,034			137,034
Mobile equipment	4,042,122	51,400	15,066	4,078,456
Furniture and equipment	797,748	65,544	36,251	827,041
Total depreciable capital assets	<u>23,069,775</u>	<u>116,944</u>	<u>51,317</u>	<u>23,135,402</u>
<u>Less accumulated depreciation for:</u>				
Buildings	6,596,250	235,200		6,831,450
Building improvements	460,391	151,578		611,969
Improvements other than buildings	42,151	5,481		47,632
Mobile equipment	3,207,971	128,755	13,559	3,323,167
Furniture and equipment	652,713	50,976	34,192	669,497
Total accumulated depreciation	<u>10,959,476</u>	<u>571,990</u>	<u>47,751</u>	<u>11,483,715</u>
Total depreciable capital assets, net	<u>12,110,299</u>	<u>(455,046)</u>	<u>3,566</u>	<u>11,651,687</u>
Governmental activities capital assets, net	<u>\$ 12,223,803</u>	<u>(455,046)</u>	<u>3,566</u>	<u>11,765,191</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 278,522
Support services	282,629
Non-instructional	10,839
Total depreciation expense	<u>\$ 571,990</u>

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 6 - Long-term liabilities

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

	Balance 7-1-2013	Additions	Balance 6-30-2014	Amount due within one year
A. Qualified school construction bonds payable \$	3,000,000		3,000,000	
B. Compensated absences payable	243,325	68,131	311,456	15,573
Total	\$ 3,243,325	68,131	3,311,456	15,573

A. Qualified school construction bonds payable

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified School Construction bonds. 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%	01-15-10	09-15-24	\$ 3,000,000	3,000,000

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

Year Ending June 30	Principal	Interest	Total
2015		25,200	25,200
2016		25,200	25,200
2017		25,200	25,200
2018		25,200	25,200
2019		25,200	25,200
2020 - 2024		126,000	126,000
2025	3,000,000	25,200	3,025,200
Total	\$ 3,000,000	277,200	3,277,200

B. Compensated absences payable

As more fully explained in Note 1(E)(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.

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

Note 7 - Defined Benefit Pension Plan

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

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate as of June 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2014, 2013 and 2012 were \$2,244,747, \$2,075,210, and \$1,859,616, respectively, which equaled the required contributions for each year.

Note 8 - 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 94 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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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.

Note 9 - Sixteenth Section Lands

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

Year Ending June 30		Amount
2015	\$	157,395
2016		157,395
2017		145,249
2018		136,150
2019		121,734
2020 - 2024		513,222
2025 - 2029		394,177
2030 - 2034		326,238
2035 - 2039		263,316
2040 - 2044		157,631
2045 - 2049		52,855
2050 - 2054		1,550
Total	\$	<u>2,426,912</u>

Note 10 - Contingencies

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

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

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

various proceedings. However, the school district's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the school district.

Note 11 - 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). Because none of the school districts which share townships with Covington County School District nor the Covington County School District itself filed lists of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships with which Covington County School District is shared by other school districts, Covington County School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) to which Covington County School District received on these sections may be due other school districts. In addition, for the other townships where another school district controls the sixteenth section property, Covington County School District may be entitled to a portion of the sixteenth section revenues that the other school district received. Because none of the school districts compiled and filed lists of educable children as state law requires in either the current year or in preceding years, neither the amounts of any liabilities owed to other school districts nor the amounts of any receivables due from other school districts can be determined.

Note 12 - Prior Period Adjustments

A summary of significant net position/fund balance adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
See explanation below	\$ <u>(10,837)</u>

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

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

		Amount
General Fund	To write off old checks in payroll.	\$ 9,287
General Fund	To zero out old receivable balance from prior year.	(20,124)
Total		\$ (10,837)

Note 13 - Qualified School Construction Bonds

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 the 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. While Qualified School Construction Bonds (QSCBs) are intended to be interest free to a borrower, the ARRA legislation allows a lender to charge supplemental interest, and such supplemental interest is the responsibility of the school district.

When the stated interest rate on the QSCB results in interest payments that exceed the supplemental interest payments discussed in the preceding paragraph, the school district may apply for a direct cash subsidy payment from the U.S. Treasury which is intended to reduce the stated interest rate to a nominal percentage. These subsidy payments do not include the amount of any supplemental interest paid on a QSCB.

The school district makes equal annual payments into a sinking fund which is used to payoff 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, 2014 was \$328,368. 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. See Note 6A on page 40 for payment schedule.

Note 14 - Subsequent Events

Events that occur after the Statement of Net Position 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 Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Covington County School District evaluated the activity of the

Covington County School District

Notes to the Financial Statements
For the Year Ended June 30, 2014

district through the date the financial statements were available to be issued, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements:

On July 7, 2014, the district acquired a new sixteenth section loan in the amount of \$450,000.

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2014**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 6,483,967	\$ 6,868,516	\$ 6,751,431	\$ 384,549	\$ (117,085)
State sources	13,164,403	13,164,403	13,321,075	-	156,672
Federal sources	400	400	-	-	(400)
Sixteenth section sources	-	-	671,456	-	671,456
Total Revenues	19,648,770	20,033,319	20,743,962	384,549	710,643
Expenditures:					
Instruction	12,107,965	12,727,166	12,204,574	(619,201)	522,592
Support services	7,013,425	6,986,839	6,752,892	26,586	233,947
Sixteenth section	-	-	72,599	-	(72,599)
Debt service:					
Principal	164,973	164,973	-	-	164,973
Interest	69,835	69,835	63,236	-	6,599
Total Expenditures	19,356,198	19,948,813	19,093,301	(592,615)	855,512
Excess (Deficiency) of Revenues over (under) Expenditures	292,572	84,506	1,650,661	(208,066)	1,566,155
Other Financing Sources (Uses):					
Operating transfers in	2,988,112	2,988,112	271,132	-	(2,716,980)
Operating transfers out	(3,555,180)	(3,555,180)	(744,339)	-	2,810,841
Total Other Financing Sources (Uses)	(567,068)	(567,068)	(473,207)	-	93,861
Net Change in Fund Balances	(274,496)	(482,562)	1,177,454	(208,066)	1,660,016
Fund Balances:					
July 1, 2013, as previously reported	263,750	291,798	1,373,609	28,048	1,081,811
Prior period adjustments	-	-	(10,837)	-	(10,837)
July 1, 2013, as restated	263,750	291,798	1,362,772	28,048	1,070,974
June 30, 2014	\$ (10,746)	\$ (190,764)	\$ 2,540,226	\$ (180,018)	\$ 2,730,990

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Covington County School District

Notes to the Required Supplementary Information
For the Year Ended June 30, 2014

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

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

SUPPLEMENTARY INFORMATION

Covington County School District
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2014

Schedule 1

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. DEPARTMENT OF AGRICULTURE/</u>		
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 488,141
National School Lunch Program	10.555	1,320,516
Summer Food Service Program for Children	10.559	59,078
Total child nutrition cluster		<u>1,867,735</u>
Total passed-through the Mississippi Department of Education		<u>1,867,735</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE		<u>1,867,735</u>
 <u>U.S. DEPARTMENT OF EDUCATION</u>		
Passed-through the Mississippi Department of Education:		
Title I Grants to Local Educational Agencies	84.010	1,375,049
Career and Technical Education - Basic Grants to States	84.048	53,278
Rural Education	84.358	71,915
Improving Teacher Quality - State Grants	84.367	246,405
Sub-total		<u>1,746,647</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	636,510
Special Education - Preschool Grants	84.173	27,866
Total special education cluster		<u>664,376</u>
Total passed-through the Mississippi Department of Education		<u>2,411,023</u>
TOTAL U. S. DEPARTMENT OF EDUCATION		<u>2,411,023</u>
 TOTAL FOR ALL FEDERAL AWARDS		 \$ <u>4,278,758</u>

Notes to Schedule

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

Covington County School District

Schedule 2

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2014

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 19,711,142	14,647,960	1,107,542	1,562,579	2,393,061
Other	5,092,096	2,062,820	186,513	38,235	2,804,528
Total	\$ <u>24,803,238</u>	<u>16,710,780</u>	<u>1,294,055</u>	<u>1,600,814</u>	<u>5,197,589</u>
Total number of students *	<u>2,913</u>				
Cost per student	\$ <u>8,515</u>	<u>5,737</u>	<u>444</u>	<u>550</u>	<u>1,784</u>

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

Instruction and other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type.

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

School Administration - includes expenditures for the following functions: Support Services - School Administration

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

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

OTHER INFORMATION

COVINGTON COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 6,751,431	6,335,790	5,769,114	5,199,667
State sources	13,321,075	13,385,936	13,385,089	12,989,323
Federal sources	-	252	71,054	78,447
Sixteenth section sources	671,456	551,123	-	-
Total Revenues	<u>20,743,962</u>	<u>20,273,101</u>	<u>19,225,257</u>	<u>18,267,437</u>
Expenditures:				
Instruction	12,204,574	12,040,209	11,618,023	10,819,328
Support services	6,752,892	6,592,166	6,556,418	6,581,180
Sixteenth section	72,599	68,368	-	-
Debt service:				
Interest	63,236	69,835	90,508	75,429
Total Expenditures	<u>19,093,301</u>	<u>18,770,578</u>	<u>18,264,949</u>	<u>17,475,937</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,650,661</u>	<u>1,502,523</u>	<u>960,308</u>	<u>791,500</u>
Other Financing Sources (Uses):				
Operating transfers in	271,132	271,228	780,520	236,613
Other financing sources	-	-	1,760	1,505
Operating transfers out	(744,339)	(855,769)	(1,255,511)	(939,129)
Other financing uses	-	-	(627)	-
Total Other Financing Sources (Uses)	<u>(473,207)</u>	<u>(584,541)</u>	<u>(473,858)</u>	<u>(701,011)</u>
Net Change in Fund Balances	<u>1,177,454</u>	<u>917,982</u>	<u>486,450</u>	<u>90,489</u>
Fund Balances:				
July 1, as previously reported	1,373,609	343,484	(382,212)	(267,990)
Fund reclassification	-	329,379	-	-
Prior period adjustment	(10,837)	(217,236)	239,246	(204,711)
July 1, as restated	<u>1,362,772</u>	<u>455,627</u>	<u>(142,966)</u>	<u>(472,701)</u>
June 30,	<u>\$ 2,540,226</u>	<u>1,373,609</u>	<u>343,484</u>	<u>(382,212)</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

COVINGTON COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2014	2013*	2012*	2011*
Revenues:				
Local sources	\$ 7,454,536	7,059,226	6,780,074	6,137,603
State sources	13,813,249	13,886,573	14,227,248	13,678,734
Federal sources	4,219,681	4,179,764	5,024,292	6,687,641
Sixteenth section sources	1,200,702	895,107	1,115,496	734,506
Total Revenues	<u>26,688,168</u>	<u>26,020,670</u>	<u>27,147,110</u>	<u>27,238,484</u>
Expenditures:				
Instruction	14,713,581	14,343,065	14,670,483	15,382,240
Support services	8,129,225	8,209,516	8,263,664	11,441,196
Noninstructional services	1,738,390	1,742,002	1,852,036	1,893,589
Sixteenth section	133,106	79,688	111,650	73,127
Facilities acquisition and construction	-	-	655,137	-
Debt service:				
Interest	88,436	94,816	220,000	412,000
Other	500	500	126,526	121,847
Total Expenditures	<u>24,803,238</u>	<u>24,469,587</u>	<u>25,899,496</u>	<u>29,323,999</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,884,930</u>	<u>1,551,083</u>	<u>1,247,614</u>	<u>(2,085,515)</u>
Other Financing Sources (Uses):				
Payments held by escrow agent	241,692	70,000	12,000	-
Payment to QSCB debt escrow agent	(241,692)	(70,000)	(12,000)	-
Operating transfers in	1,219,275	1,149,026	2,160,575	1,385,593
Other financing sources	-	-	11,445	1,505
Operating transfers out	(1,219,275)	(1,149,026)	(2,160,575)	(1,385,593)
Other financing uses	-	-	(627)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>10,818</u>	<u>1,505</u>
Net Change in Fund Balances	<u>1,884,930</u>	<u>1,551,083</u>	<u>1,258,432</u>	<u>(2,084,010)</u>
Fund Balances:				
July 1, as previously reported	14,369,895	13,024,382	12,156,984	14,403,446
Prior period adjustments	(10,837)	(185,197)	(397,656)	(188,437)
July 1, as restated	<u>14,359,058</u>	<u>12,839,185</u>	<u>11,759,328</u>	<u>14,215,009</u>
Increase (Decrease) in inventory	62	(20,373)	6,622	25,985
June 30,	<u>\$ 16,244,050</u>	<u>14,369,895</u>	<u>13,024,382</u>	<u>12,156,984</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Superintendent and School Board
Covington County School District

We have audited, in accordance with the 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 Covington County School District, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Covington County School District's basic financial statements, and have issued our report thereon dated September 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the school district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2014-001 to be a material weakness.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Covington County School District's financial statements are free from 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*.

Covington County School District's Response to Finding

The Covington County School District's response to the finding identified in our audit is described in the accompanying auditee's corrective action plan. The Covington County School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
September 9, 2016

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Superintendent and School Board
Covington County School District

Report on Compliance for Each Major Federal Program

We have audited Covington County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Covington County School District's major federal programs for the year ended June 30, 2014. The Covington County School District's major federal programs are identified in the summary of the auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Covington County School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination on the school district's compliance.

Opinion on Each of Major Federal Programs

In our opinion, Covington County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as Finding 2014-002. Our opinion on each major federal program is not modified with respect to this matter.

Covington County School District's response to the noncompliance findings identified in our audit is described in the accompanying auditee's corrective action plan. Covington County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Covington County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Covington County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We

identified a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2014-002, that we consider to be a material weakness.

Covington County School District's response to the internal control over compliance finding identified in our audit is described in the accompanying auditee's corrective action plan. Covington County School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
September 9, 2016

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2014, which collectively comprise the Covington County School District's basic financial statements and have issued our report thereon dated September 9, 2016. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$0 of classroom supply funds carried over from previous years.

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

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

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

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Finding 1:

Criteria:

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."

Condition:

As reported in the prior years' audit reports, and during our test of sixteenth section revenue, we noted that the district failed to distribute adequate funds between school districts lying partly within townships that were generated from its sixteenth section property, of which Covington County School District is the custodial school district.

Cause:

This is the result of improper internal controls being in place to ensure compliance with Section 29-3-119(4), Miss. Code Ann. (1972).

Effect:

This could result in the district overstating sixteenth section revenues as well as not being in compliance 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), and distribute adequate funds between school districts lying partly within townships that were generated from its sixteenth section property, of which Covington County School District is the custodial school district.

Response:

The school district will comply with Section 29-3-119(4), Miss. Code Ann. (1972), and distribute adequate funds between school districts lying partly within townships that were generated from its sixteenth section property, of which Covington County School District is the custodial school district.

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

The Covington County School District's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies, the Office of the State Auditor 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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
September 9, 2016

Certified Public Accountants

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Covington County School District

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2014

Section I: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Internal control over major programs:
 - a. Material weakness(es) identified? Yes.
 - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor's report issued on compliance for major programs: Unmodified.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes.
7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555 & 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? No.

Section II: Financial Statement Findings

The results of our tests disclosed the following finding related to the financial statements that is required to be reported by *Government Auditing Standards*.

Material Weakness:

Finding 2014-001

Criteria:

An effective system of internal controls should provide for timely and accurate bank reconciliations.

Condition:

At the time of the audit, several bank statements were only reconciled through year end.

Cause:

This is the result of improper controls being in place to ensure reconciliations were timely.

Effect:

Lack of bank reconciliations could cause the district's accounts balances to be overstated or understated. Consultants were needed to reconcile accounts that resulted in multiple journal entries.

Recommendation:

We recommend that the district investigate and properly record the amounts showing as unexplained differences. We further recommend that the district reconcile monthly bank account statements in a timely manner.

Section III: Federal Award Findings and Questioned Costs

The results of our tests disclosed the following finding and questioned costs related to the federal awards.

Material Weakness and Noncompliance:

Finding 2014-002

Program: Title I Grants to Local Educational Agencies
CFDA Number: 84.010

Compliance requirement: Cash management

Criteria:

Management is responsible for ensuring that draw downs of federal funds are only for the immediate needs of the district.

Condition:

At June 30, 2014, the Title I Grants to Local Educational Agencies had a surplus of cash in the amount of \$83,769.

Cause:

The District requested funds in excess of immediate need from the Mississippi Department of Education.

Effect:

The school district could be required to pay back excess federal funds requested or it could affect future federal funds received by the school district.

Recommendation:

The school district should develop policies and procedures, which strengthen its internal controls over cash management to ensure federal funds are not drawn down in excess of the school district's immediate cash needs. Copies of policies and procedures must be submitted to the Mississippi Department of Education ensuring monthly revenues do not exceed actual expenditures. Additionally, any interest earned on the excess federal funds drawn down during the periods above must be calculated and remitted to the Mississippi Department of Education.

**AUDITEE'S CORRECTIVE ACTION PLAN AND
SUMMARY OF PRIOR FEDERAL AUDIT FINDING**

Covington County School District

BOARD OF EDUCATION

Terry Bryant
Sammy H. Herrin
Charles Beasley
Rene Shoemaker
Lynn Smith

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Fax 601-765-9468

SUPERINTENDENT
Dr. Arnetta Crosby

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

AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section 315(c) of OMB Circular A-133, the Covington County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Cost for the year ended June 30, 2014:

Finding

Corrective Action Plan Details

2014-001

a. Name of Contact Person Responsible for Corrective Action

Name: Emily Beach
Phone Number: 601-765-8247 ext. 106

b. Corrective Action Planned: The Covington County School district has contracted with Kimberly Alford, CPA to re-reconcile bank statements to current. Due to prior business manager's neglect of duty to reconcile statements for many years we have been carrying reconciling amounts forward until we could get all reconciliations current. At this time, Kimberly Alford has completed the FY15 School Year and is working on FY16. Barry McKenzie, CPA is currently auditing FY15 and FY16.

c. Anticipated Completion Date: We are working toward a completion date of October 31, 2016.

2014-002

a. Name of Contact Person Responsible for Corrective Action

Name: Emily Beach
Phone Number: 601-765-8247 ext. 106

b. Corrective Action Planned: The district has contracted with Kimberly Alford, CPA to complete reconciliation of bank statements. Once all bank accounts have been reconciled and all fund balance updated into current year, the district will have correct cash balance in federal funds from prior years. As of FY16, the new process for drawing federal funds is through MCAPS which requires expenditure report to be attached to drawdown. This process eliminates the ability to overdraw due to drawing down on negative cash.

c. Anticipated Completion Date: October 15, 2016.

Covington County School District

**BOARD OF
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SUMMARY OF PRIOR AUDIT FINDINGS

As required by Section ____315(b) of OMB Circular A-133, the Covington County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2014:

Finding

Status

2013-1

Not corrected – See Finding 2014-002.

The district contracted with Kimberly Alford, CPA to complete reconciliation of bank statements. Once all bank accounts have been reconciled and all fund balance updated into current year, the district will have correct cash balance in federal funds from prior years. As of FY16, the new process for drawing federal funds is through MCAPS which requires expenditure report to be attached to drawdown. This process eliminates the ability to overdraw due to drawing down on negative cash.

Anticipated Completion Date: October 15, 2016.