

COVINGTON COUNTY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of Covington County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2004. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is a new element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Accounting principles generally accepted in the United States of America do not require comparative data in the financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

Covington County is located on U. S. Highway 84 and U. S. Highway 49. The population, according to the 2000 census, is 19,407. The poultry industry, timber industry, other agriculture activities, public storage facilities and a thriving medical community drive the local economic base.

FINANCIAL HIGHLIGHTS

Covington County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Covington County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has decreased by 5.65 mills over the last four years. This does not include the school taxes.

Total net assets decreased \$3,697,830, which represents a 5% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was a decrease of only \$121,521, which represents a 1.3% decrease from the prior fiscal year. The County's ending cash balance decreased by \$305,616, which represents a 3.2% decrease from the prior fiscal year.

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The County had \$7,704,776 in total revenues. Tax revenues account for \$4,615,076 or 60% of total revenues. State revenues in the form of reimbursements, shared revenue or grants, account for \$2,309,970 or 30% of total revenues.

The County had \$11,193,349 in total expenditures, which represents an increase of \$1,004,461 or 9.9% increase from the prior fiscal year. Expenses in the amount of \$2,109,981 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues of \$5,594,795 and accumulated cash.

Among major funds, the General Fund had \$4,129,444 in revenues and \$4,067,528 in expenditures and Other Financing Uses. The General Fund's fund balance decreased \$50,759 over the prior year. The decrease included a prior period adjustment.

Capital assets, net of accumulated depreciation, decreased by \$3,406,191.

Long-term debt increased by \$170,118 due to the purchase of mobile equipment.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

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Figure 2 – Major Features of a County’s Government-Wide and Fund Financial Statements

	Government -Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and component units	All activities of the County that are not business-type or fiduciary in nature	Activities of the County that operate similar to private businesses	The County is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> ● Statement of net assets ● Statement of activities 	<ul style="list-style-type: none"> ● Balance sheet ● Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> ● Statement of net assets ● Statement of revenues, expenses and changes in net assets ● Statement of cash flows 	<ul style="list-style-type: none"> ● Statement of fiduciary net assets ● Statement of changes in net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term	All assets and liabilities, both short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

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

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

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development; and interest on long-term debt. Covington County does not have any business-type activities.

Component units are not included in our basic financial statements, they consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The component units that are not included are as follows:

- Southeast Covington Fire District
- Southwest Covington Fire District
- Northwest Covington Fire District
- East Covington Fire District
- Hot Coffee Fire District
- Lone Star Fire District
- West Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District

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The Government-wide Financial Statements can be found on pages 22 and 23 of this report.

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 County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 25 and 27 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual* issued by the Mississippi Office of the State Auditor. 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 other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 24 and 26 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets, which can be found on page 28 of this report.

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Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 29 - 41 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found on pages 44 and 45 of this report.

GOVERNMENT-WIDE FINANCIAL

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of Covington County, assets exceeded liabilities by \$64,101,901 as of September 30, 2004.

By far, the largest portion of the County's net assets (86%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

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

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The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2004, as compared to fiscal year ended September 30, 2003.

	09/30/04	09/30/03
	Governmental	Governmental
	Activities	Activities
	<u> </u>	<u> </u>
Assets:		
Current Assets	\$13,775,944	\$14,422,852
Capital Assets, Net	<u>55,018,559</u>	<u>58,424,750</u>
Total Assets	<u>\$68,794,503</u>	<u>\$72,847,602</u>
 Liabilities:		
Current Liabilities	\$4,484,212	\$5,009,599
Long-Term Debt Outstanding	<u>208,390</u>	<u>38,272</u>
Total Liabilities	<u>\$4,692,602</u>	<u>\$5,047,871</u>
 Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$54,810,169	\$58,386,478
Restricted	2,835,780	2,513,742
Unrestricted	<u>6,455,952</u>	<u>6,899,511</u>
Total Net Assets	<u>\$64,101,901</u>	<u>\$67,799,731</u>

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

- The Board of Supervisors used accumulated cash balances to avoid tax increases.
- \$42,872 of long-term debt principal was retired.
- \$212,990 in long-term debt was issued.
- Capital assets increased by \$1,062,991 from the purchase of buildings, mobile equipment, furniture and equipment and leased property under capital leases.

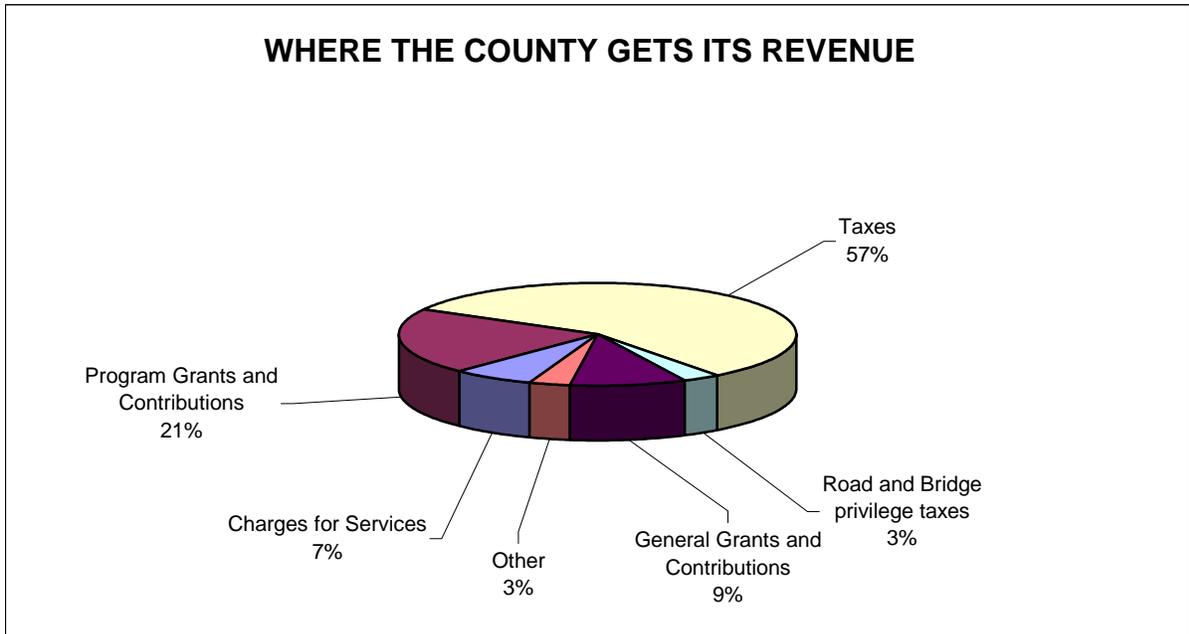
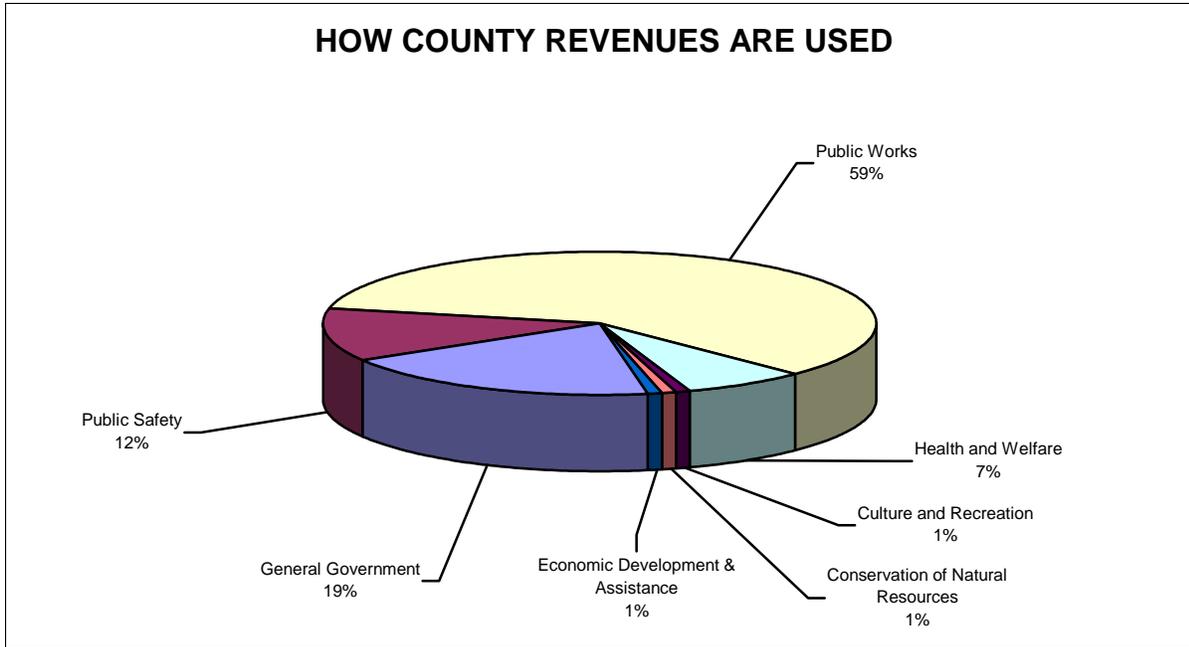
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Changes in Net Assets—Covington County’s total revenues for the fiscal year ended September 30, 2004 was \$7,704,776. The total cost for all services provided was \$11,193,349 the decrease in net assets were \$3,697,830. The decrease in net assets includes a prior period adjustment of \$209,257. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2004, as compared to fiscal year ended September 30, 2003.

	09/30/04	09/30/03
Revenues:		
Program Revenues:		
Charges for Services	\$514,715	\$644,129
Grants and Contributions	1,595,266	1,317,018
General Revenues:		
Taxes	4,379,329	4,337,226
Road and Bridge privilege taxes	235,747	227,150
Grants and Contributions	714,704	721,873
Other	265,015	254,520
Total Revenues	\$7,704,776	\$7,501,916
Expenses:		
General Government	\$2,135,747	\$1,608,746
Public Safety	1,353,780	1,276,216
Public Works	6,620,417	6,731,978
Health and Welfare	794,699	259,402
Culture and Recreation	87,103	97,538
Conservation of Natural Resources	92,906	78,379
Economic Development & Assistance	105,155	133,299
Other Expenses	3,542	3,330
Total Expenses	\$11,193,349	\$10,188,888
Prior period adjustments	\$(209,257)	\$-
Decrease in Net Assets	\$(3,697,830)	\$(2,686,972)

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The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2004.



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Governmental Activities – The following table presents the cost of major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, and Economic Development and assistance.

The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Covington County’s taxpayers by each of these functions.

	<u>Total Costs</u>	<u>Net Costs</u>
General Government	\$2,135,747	\$1,847,298
Public Safety	1,353,780	1,007,752
Public Works	6,620,417	5,909,077
Health and Welfare	794,699	477,890
Culture and Recreation	87,103	87,103
Conservation of Natural Resources	92,906	92,906
Economic Development and Assistance	105,155	(342,200)
Other	3,542	3,542

FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

Governmental funds – At the close of the fiscal year, Covington County’s governmental funds reported a combined fund balance of \$9,123,690, a decrease of \$28,721. The decrease is only .3% of the total fund balance.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year was \$50,759. This decrease is due to a prior period adjustment being made.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Covington County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.

- Budgeted revenues were increased as better estimates became available.
- The largest increase in amendments was to the health and welfare department. Budgeted expenditures were increased (decreased) as better estimates became available.

Even with these adjustments, actual disbursements were below final budget amounts by \$223,613.

A schedule showing the original and final budget amounts compared to the County'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 September 30, 2004, Covington County's total capital assets were \$128,689,699. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$1,062,991.

Total accumulated depreciation as of September 30, 2004 was \$73,671,140, including \$4,619,125 of deprecation expense for the year. The balance in total net capital assets was \$55,018,559 at year-end.

See the schedules below for additional information on Covington County's capital assets:

Capital Asset Values					
Asset Classification	Balance 10/1/2003	Additions	Deletions	Adjustments	Balance 9/30/2004
Land	\$ 177,973				\$ 177,973
Construction-in-Progress	303,840	521,987		(825,827)	\$ -
Infrastructure	119,344,549				\$ 119,344,549
Buildings	2,037,942	41,681		825,827	\$ 2,905,450
Mobile Equipment	4,913,429	327,908	193,654	(31,582)	\$ 5,016,101
Furniture and Equipment	783,975	248,661			\$ 1,032,636
Leased Property under Capital Leases	65,000	212,990		(65,000)	\$ 212,990
TOTALS	\$ 127,626,708	\$ 1,353,227	\$ 193,654	\$ (96,582)	\$ 128,689,699

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Capital Asset Accumulated Depreciation

<u>Asset Classification</u>	<u>Balance 10/1/2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance 9/30/2004</u>
Infrastructure	\$ 65,293,492	\$ 4,076,505			\$ 69,369,997
Buildings	691,221	32,182			723,403
Mobile Equipment	2,740,133	338,172	149,943	23,400	2,951,762
Furniture and Equipment	453,712	147,247			600,959
Leased Property under Capital Leases	23,400	25,019		(23,400)	25,019
	<u>\$ 69,201,958</u>	<u>\$ 4,619,125</u>	<u>\$ 149,943</u>	<u>\$ -</u>	<u>\$ 73,671,140</u>

Debt Administration – At September 30, 2004, Covington County had \$208,390 in long-term debt outstanding. This includes capital leases and other loans. Of this debt, \$22,398 was due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2004, Covington County had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2004:

	<u>Balance 10/1/2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 9/30/2004</u>	<u>Due Within One Year</u>
Capital Leases	\$ 16,278	212,990	24,111	205,157	19,165
Other Loans	21,994		18,761	3,233	3,233
Total	<u>\$ 38,272</u>	<u>212,990</u>	<u>42,872</u>	<u>208,390</u>	<u>22,398</u>

Additional information on Covington County's long-term debt can be found in note 10 on pages 38 and 39 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

Covington County will be completing three major projects during the year 2005. The three projects are Health Department Building Project, Courthouse Restoration, and Nursing Home Addition.

The budget for the next fiscal year reflected a decrease of \$192,590 or 2.6% in revenues and a decrease of \$743,278 or 5.6% in expenses. This is expected to increase the County's net assets.

Covington County has an unemployment rate of 5.6% versus 5.4% a year ago. This compares favorably with the state average rate of 6.3%.

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CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Covington County Comptroller's/Chancery Clerk's office at 101 South Elm, Collins, Mississippi 39428.