

# COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2010

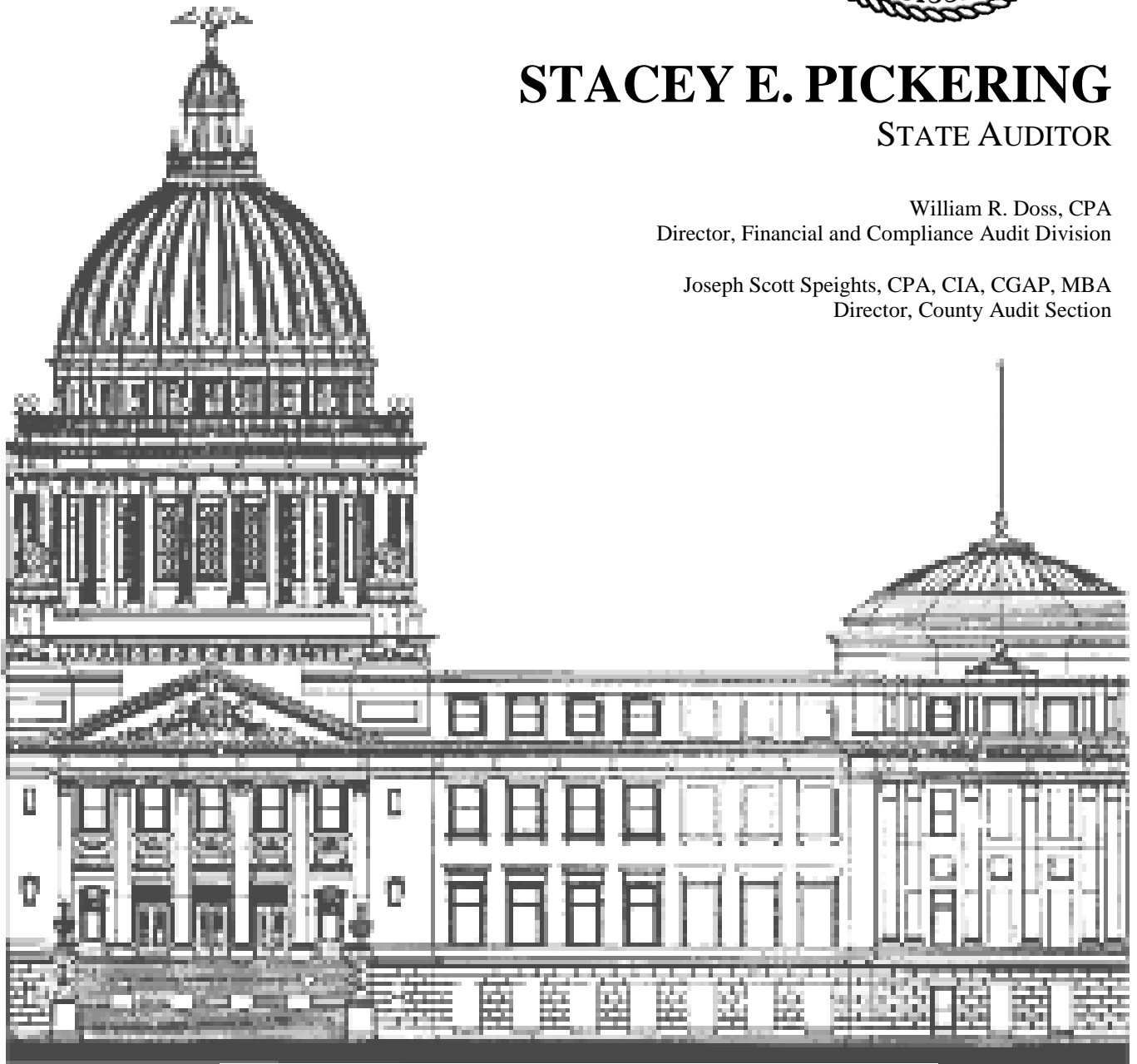


## STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA  
Director, County Audit Section



A Report from the County Audit Section

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

July 6, 2012

Members of the Board of Supervisors  
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2010 financial and compliance audit report for Covington County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed 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.

I appreciate the cooperation and courtesy extended by the officials and employees of Covington County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Covington County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

Stacey E. Pickering  
State Auditor



COVINGTON COUNTY

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COVINGTON COUNTY

FINANCIAL SECTION

COVINGTON COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Supervisors  
Covington County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements do not include financial data for the county's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

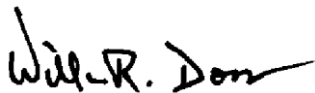
In our opinion, because of the omission of the discretely presented component units, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Covington County, Mississippi, as of September 30, 2010, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2012, on our consideration of Covington County, Mississippi'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis, the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information 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 obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards and the Reconciliation of Operating Costs of Solid Waste 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. The 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 basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Will R. Dooss".

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

July 6, 2012

## COVINGTON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

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# ***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, 2010. 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 an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. 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 2010 census, is 19,568. 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 remained the same over the last six years. This does not include the school taxes.

Total net assets decreased \$706,103, which represents a 1% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was a decrease of \$1,219,567, which represents an 8% decrease from the prior fiscal year. The County's ending cash balance decreased by \$2,241,740, which represents a 13% decrease from the prior fiscal year.

## ***COVINGTON COUNTY, MISSISSIPPI***

The County had \$9,742,670 in total revenues. Property tax revenues account for \$5,725,841 or 59% of total revenues. Operating grants, capital grants, and contributions account for \$1,879,302 or 19% of total revenues.

The County had \$10,448,773 in total expenses, which represents an increase of \$709,399 or a 7% increase from the prior fiscal year. Expenses in the amount of \$2,547,726 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues of \$7,194,944 and accumulated cash balances.

Among major funds, the General Fund had \$5,081,132 in revenues and other financing sources and \$5,663,380 in expenditures and other financing uses. The General Fund's fund balance decreased \$683,425 over the prior year, which included a prior period adjustment of \$101,177.

Capital assets, net of accumulated depreciation, increased by \$605,020.

Long-term debt had a net increase of \$91,556. This included an addition of \$182,083 in capital leases for the purchase of a Volvo G930 motor grader for District 5. The difference was principal payments made on capital leases and other loans.

### ***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.



# ***COVINGTON COUNTY, MISSISSIPPI***

**Figure 1 – Required Components of the County's Annual Report**

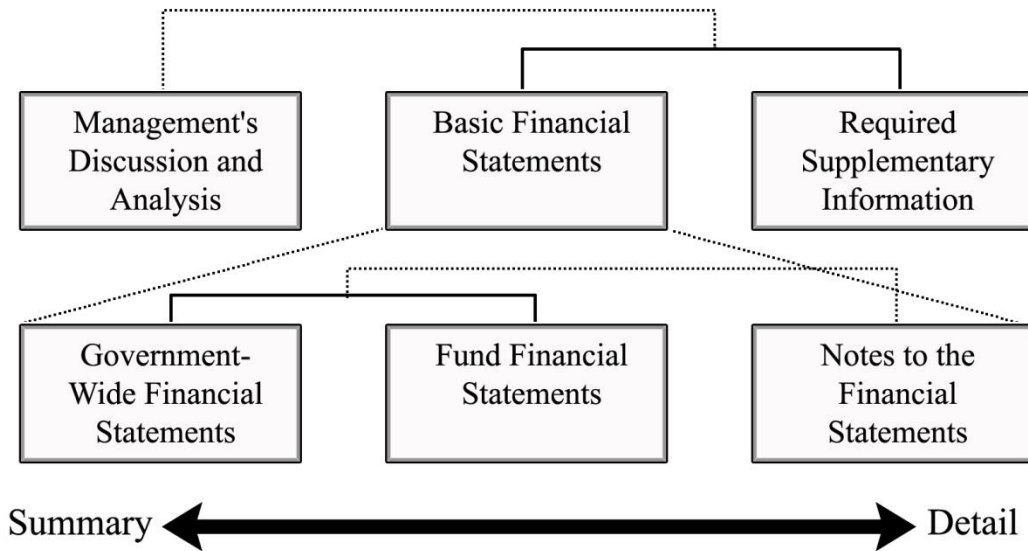


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of a County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

# *COVINGTON COUNTY, MISSISSIPPI*

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

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

# ***COVINGTON COUNTY, MISSISSIPPI***

**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
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District

## ***COVINGTON COUNTY, MISSISSIPPI***

The Government-wide Financial Statements can be found on pages 23 and 24 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, 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 26 and 28 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. 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 25 and 27 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 Assets and Liabilities, which can be found on page 29 of this report.

## ***COVINGTON COUNTY, MISSISSIPPI***

**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 31 through 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 page 44 of this report.

Covington County, MS is subject to a Single Audit, due to the amount of Federal Grants it expended. Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Circular A-133 and can be found on page 48 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 \$59,687,236 as of September 30, 2010.

By far, the largest portion of the County's net assets (76%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, and leased property under capital lease) 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.

## ***COVINGTON COUNTY, MISSISSIPPI***

The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2010, as compared to fiscal year ended September 30, 2009.

	<b>09/30/10 Governmental Activities</b>	<b>09/30/09 Governmental Activities</b>
<b>Assets:</b>		
Current Assets	\$ 20,308,169	\$ 21,439,175
Capital Assets, Net	45,943,073	45,338,053
Total Assets	<u>\$ 66,251,242</u>	<u>\$ 66,777,228</u>
<b>Liabilities:</b>		
Current Liabilities	\$ 6,254,703	\$ 6,166,142
Long-Term Debt Outstanding	309,303	217,747
Total Liabilities	<u>\$ 6,564,006</u>	<u>\$ 6,383,889</u>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 45,633,770	\$ 45,120,306
Restricted	2,652,024	3,176,843
Unrestricted	11,401,442	12,096,190
Total Net Assets	<u><u>\$ 59,687,236</u></u>	<u><u>\$ 60,393,339</u></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.
- \$90,527 of long-term debt principal was retired.
- There was \$182,083 of long-term debt issued during the year ending September 30, 2010 to purchase a Volvo G930 motor grader.
- Capital assets had additions of \$1,609,966 from additions in construction in progress, infrastructure, buildings, mobile equipment, and furniture and equipment, and leased property under capital leases.

## ***COVINGTON COUNTY, MISSISSIPPI***

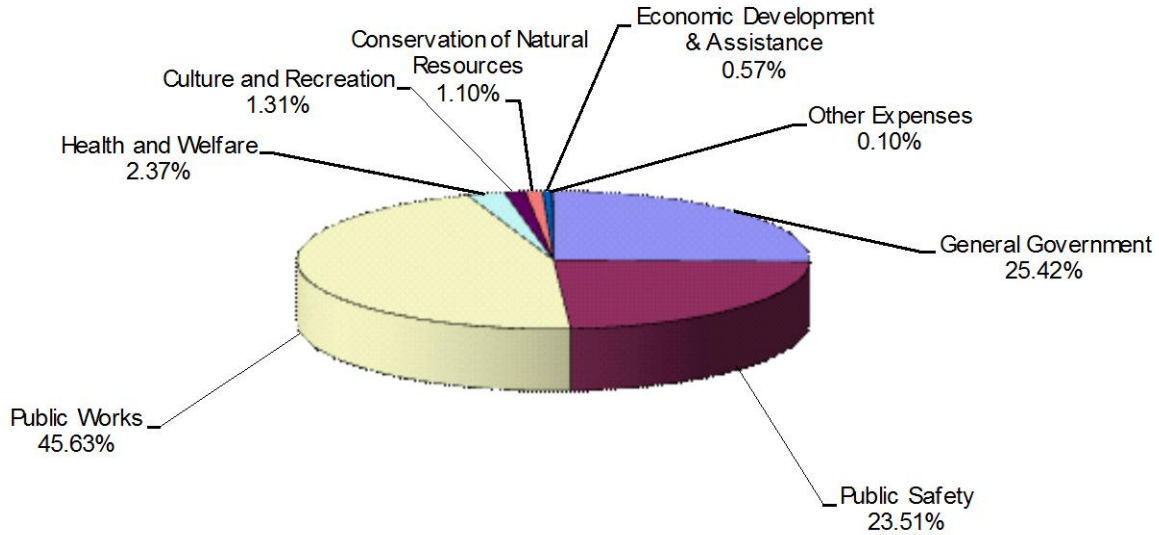
**Changes in Net Assets**—Covington County’s total revenues for the fiscal year ended September 30, 2010 were \$9,742,670. The total cost for all services provided was \$10,448,773. The decrease in net assets was \$706,103. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2010, as compared to fiscal year ended September 30, 2009.

	<u>09/30/10</u>	<u>09/30/09</u>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 668,424	\$ 675,552
Grants and Contributions	1,879,302	1,889,159
General Revenues:		
Taxes	5,725,841	5,556,834
Road and Bridge privilege taxes	255,285	256,770
Grants and Contributions	781,788	1,638,737
Other	432,030	612,235
Total Revenues	<u>\$ 9,742,670</u>	<u>\$ 10,629,287</u>
<b>Expenses:</b>		
General Government	\$ 2,655,757	\$ 2,669,282
Public Safety	2,456,434	1,884,358
Public Works	4,767,372	4,641,195
Health and Welfare	247,162	100,874
Culture and Recreation	136,439	121,313
Conservation of Natural Resources	115,314	115,710
Economic Development & Assistance	59,675	192,075
Interest Expense	10,620	14,567
Total Expenses	<u>\$ 10,448,773</u>	<u>\$ 9,739,374</u>
Increase (Decrease) in Net Assets	<u><u>\$ (706,103)</u></u>	<u><u>\$ 889,913</u></u>

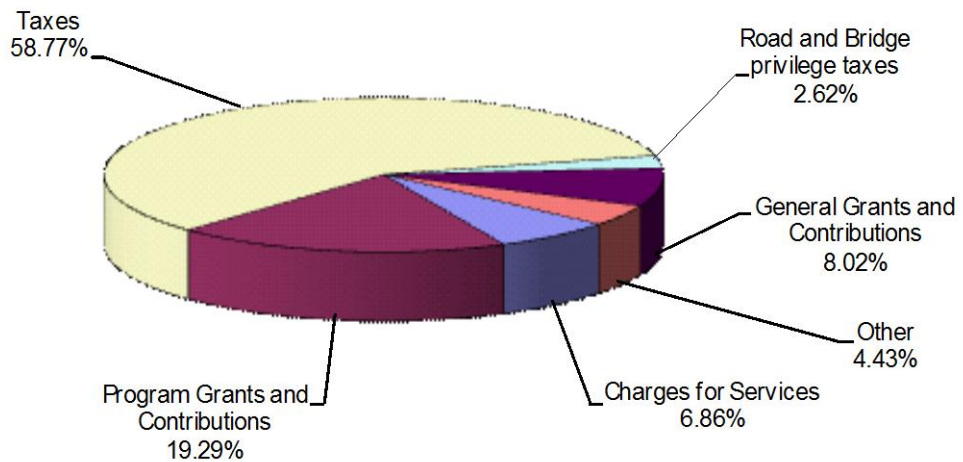
# COVINGTON COUNTY, MISSISSIPPI

The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2010.

## HOW COUNTY REVENUES ARE USED



## WHERE THE COUNTY GETS IT'S REVENUE





## ***COVINGTON COUNTY, MISSISSIPPI***

**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, Economic Development and Assistance, and Interest on Long-term debt.

	<b>Total Costs</b>	<b>Net Costs</b>
General Government	\$ 2,655,757	\$ 2,248,493
Public Safety	2,456,434	1,663,091
Public Works	4,767,372	3,641,745
Health and Welfare	247,162	25,670
Culture and Recreation	136,439	136,439
Conservation of Natural Resources	115,314	115,314
Economic Development and Assistance	59,675	59,675
Interest on Long-Term Debt	10,620	10,620

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.

### ***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 \$13,963,490, a decrease of \$1,208,243. The decrease is 8% 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, including a prior period adjustment of (\$101,177), is \$683,425. This decrease is due to a decrease in revenues and a prior period adjustment.

### ***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.

## ***COVINGTON COUNTY, MISSISSIPPI***

- The largest decrease in amendments in the General Fund budget was to the general government department and the largest increase was to public safety. Budgeted expenditures were increased (decreased) as better estimates became available.
- With these adjustments actual expenditures were below final budget amounts by \$123,120 for the General Fund.

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, 2010, Covington County's total gross capital assets were \$136,350,757. This includes roads, bridges, other infrastructure, land, construction in progress, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$1,291,979.

Total accumulated depreciation as of September 30, 2010 was \$90,407,684, including \$951,375 of depreciation expense for the year. The balance in total net capital assets was \$45,943,073 at year-end.

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

#### **Capital Asset Values**

<b>Asset Classification</b>	<b>Balance 10/1/2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2010</b>
Land	\$ 271,551	\$ -	\$ -	\$ -	\$ 271,551
Construction in Progress	734,872	518,749		(1,253,621)	-
Infrastructure	119,851,449	371,585			120,223,034
Buildings	4,040,934	6,919		1,253,621	5,301,474
Mobile Equipment	8,099,444	413,578	317,987	(78,373)	8,116,662
Furniture and Equipment	1,775,558	117,052		78,373	1,970,983
Leased Property under Capital Leases	284,970	182,083			467,053
<b>TOTALS</b>	<b>\$ 135,058,778</b>	<b>\$ 1,609,966</b>	<b>\$ 317,987</b>	<b>\$ -</b>	<b>\$ 136,350,757</b>

#### **Capital Asset Accumulated Depreciation**

<b>Asset Classification</b>	<b>Balance 10/1/2009</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2010</b>
Infrastructure	\$ 81,896,391	\$ 166,446	\$ -	\$ -	\$ 82,062,837
Buildings	1,542,960	87,303			1,630,263
Mobile Equipment	4,608,314	561,794	264,416	(58,746)	4,846,946
Furniture and Equipment	1,596,137	68,117		58,746	1,723,000
Leased Property under Capital Leases	76,923	67,715			144,638
	<b>\$ 89,720,725</b>	<b>\$ 951,375</b>	<b>\$ 264,416</b>	<b>\$ -</b>	<b>\$ 90,407,684</b>

## ***COVINGTON COUNTY, MISSISSIPPI***

**Debt Administration** – At September 30, 2010, Covington County had \$309,303 in long-term debt outstanding. The only debt outstanding as of September 30, 2010 is capital leases and other loans. Of this debt, \$102,770 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, 2010, 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, 2010:

	<b>Balance 10/1/2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 9/30/2010</b>	<b>Due Within One Year</b>
Capital Leases	\$ 148,588	182,083	76,863	253,808	88,632
Other Loans	69,159		13,664	55,495	14,138
Total	<u>\$ 217,747</u>	<u>\$ 182,083</u>	<u>\$ 90,527</u>	<u>\$ 309,303</u>	<u>\$ 102,770</u>

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

### ***CURRENT AND FUTURE ITEMS OF IMPACT***

For the year 2010-2011, Covington County, MS is not planning any large projects being started. The only large transactions happening is that the County plans on releasing the money to the hospital that it has on hand and closing out the Hospital Special Obligation Bond Fund and the Hospital Taxable Obligation Bond 2006 Fund special revenue funds. They will continue with the usual capital purchases such as police cars, road equipment, and other capital items.

The budget for the next fiscal year reflected a decrease of \$1,038,658 or 10% in revenues and a decrease of \$520,353 or 4% in expenses. This is expected to decrease the County's net assets.

Covington County has an unemployment rate of 9.7% versus 8.6% a year ago. This compares favorably with the state average rate of 12.5%.

### ***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.

COVINGTON COUNTY

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COVINGTON COUNTY

FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY  
Statement of Net Assets  
September 30, 2010

	Primary Government
	Governmental Activities
ASSETS	
Cash	\$ 14,185,888
Property tax receivable	5,673,700
Fines receivable (net of allowance for uncollectibles of \$544,257)	89,976
Intergovernmental receivables	353,182
Loans receivable	4,165
Other receivables	1,258
Capital assets:	
Land	271,551
Other capital assets, net	45,671,522
Total Assets	<u>66,251,242</u>
LIABILITIES	
Claims payable	423,678
Intergovernmental payables	129,519
Deferred revenue	5,673,700
Other payables	27,806
Long-term liabilities	
Due within one year:	
Capital debt	102,770
Due in more than one year:	
Capital debt	206,533
Total Liabilities	<u>6,564,006</u>
NET ASSETS	
Invested in capital assets, net of related debt	45,633,770
Restricted:	
Expendable:	
General government	10,607
Public safety	1,194,782
Public works	1,292,813
Culture and recreation	137,073
Unemployment compensation	16,454
Capital projects	295
Unrestricted	11,401,442
Total Net Assets	<u>\$ 59,687,236</u>

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

COVINGTON COUNTY  
Statement of Activities  
For the Year Ended September 30, 2010

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 2,655,757	400,626	6,638		(2,248,493)
Public safety	2,456,434	239,151	385,776	168,416	(1,663,091)
Public works	4,767,372	28,647	671,827	425,153	(3,641,745)
Health and welfare	247,162		11,419	210,073	(25,670)
Culture and recreation	136,439				(136,439)
Conservation of natural resources	115,314				(115,314)
Economic development and assistance	59,675				(59,675)
Interest on long-term debt	10,620				(10,620)
Total Governmental Activities	\$ 10,448,773	668,424	1,075,660	803,642	(7,901,047)
General revenues:					
Property taxes				\$	5,725,841
Road & bridge privilege taxes					255,285
Grants and contributions not restricted to specific programs					781,788
Unrestricted interest income					195,465
Miscellaneous					236,565
Total General Revenues					7,194,944
Changes in Net Assets					(706,103)
Net Assets - Beginning					60,393,339
Net Assets - Ending				\$	59,687,236

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



COVINGTON COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2010

Exhibit 3

	Major Fund		
	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 11,546,914	2,638,974	14,185,888
Property tax receivable	3,105,200	2,568,500	5,673,700
Fines receivable (net of allowance for uncollectibles of \$544,257)	89,976		89,976
Loans receivable		4,165	4,165
Intergovernmental receivables	67,843	285,339	353,182
Other receivables	1,258		1,258
Due from other funds		46,176	46,176
Total Assets	\$ 14,811,191	5,543,154	20,354,345
LIABILITIES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ 101,049	322,629	423,678
Intergovernmental payables	124,367		124,367
Due to other funds	51,328		51,328
Deferred revenue	3,195,176	2,568,500	5,763,676
Other payables	27,806		27,806
Total Liabilities	3,499,726	2,891,129	6,390,855
Fund balances:			
Reserved for:			
Loans receivable		4,165	4,165
Unemployment compensation		16,454	16,454
Unreserved - undesignated, reported in:			
General Fund	11,311,465		11,311,465
Special Revenue Funds		2,631,111	2,631,111
Capital Project Funds		295	295
Total Fund Balances	11,311,465	2,652,025	13,963,490
Total Liabilities and Fund Balances	\$ 14,811,191	5,543,154	20,354,345

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

## COVINGTON COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2010

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 13,963,490
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$90,407,684.	45,943,073
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	89,976
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(309,303)</u>
Total Net Assets - Governmental Activities	\$ <u><u>59,687,236</u></u>

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

## COVINGTON COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2010

	Major Fund	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
<b>REVENUES</b>			
Property taxes	\$ 3,134,115	2,591,726	5,725,841
Road and bridge privilege taxes		255,285	255,285
Licenses, commissions and other revenue	169,811	16,874	186,685
Fines and forfeitures	287,431		287,431
Intergovernmental revenues	1,180,308	1,480,782	2,661,090
Charges for services	2,467	203,165	205,632
Interest income	159,982	35,483	195,465
Miscellaneous revenues	76,348	160,217	236,565
Total Revenues	5,010,462	4,743,532	9,753,994
<b>EXPENDITURES</b>			
Current:			
General government	2,346,800	289,331	2,636,131
Public safety	1,647,633	806,739	2,454,372
Public works	6,164	4,976,617	4,982,781
Health and welfare	730,345		730,345
Culture and recreation		133,471	133,471
Conservation of natural resources	115,836		115,836
Economic development and assistance	39,952		39,952
Debt service:			
Principal		90,527	90,527
Interest		10,620	10,620
Total Expenditures	4,886,730	6,307,305	11,194,035
Excess of Revenues over (under) Expenditures	123,732	(1,563,773)	(1,440,041)
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term capital debt issued		182,083	182,083
Proceeds from sale of capital assets	26,944	22,771	49,715
Transfers in	43,726	776,650	820,376
Transfers out	(776,650)	(43,726)	(820,376)
Total Other Financing Sources and Uses	(705,980)	937,778	231,798
Net Changes in Fund Balances	(582,248)	(625,995)	(1,208,243)
Fund Balances - Beginning as previously reported	11,994,890	3,176,843	15,171,733
Prior period adjustment	(101,177)	101,177	
Fund Balances - Beginning, as restated	11,893,713	3,278,020	15,171,733
Fund Balances - Ending	\$ 11,311,465	2,652,025	13,963,490

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

## COVINGTON COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2010

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (1,208,243)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$1,609,966 exceeded depreciation of \$951,375 in the current period.	658,591
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$3,856 and the proceeds from the sale of \$49,715 in the current period.	(53,571)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(11,324)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$182,083 exceeded debt repayments of \$90,527.	<u>(91,556)</u>
Change in Net Assets of Governmental Activities	\$ <u><u>(706,103)</u></u>

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

COVINGTON COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2010

Exhibit 5

		Agency Funds
ASSETS		
Cash	\$	1,024,722
Due from other funds		5,152
Total Assets	\$	<u>1,029,874</u>
LIABILITIES		
Amounts held in custody for others	\$	220,764
Intergovernmental payables		809,110
Total Liabilities	\$	<u>1,029,874</u>

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

COVINGTON COUNTY

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## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2010

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

Covington County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Covington County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

Management has chosen to omit from these financial statements the following component units which have significant operational or financial relationships with the county. Accordingly, the financial statements do not include the data of all of the county's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Southeast Covington Fire District
- Southwest Covington Fire District
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the county legal entity and therefore are reported as part of the primary government financial statements.

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

##### B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities, fund financial statements and accompanying note disclosures, which provide a detailed level of financial information.

##### Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2010

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

The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the county.

#### Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

#### C. Measurement Focus and Basis of Accounting.

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Fund:

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

Additionally, the county reports the following fund types:

#### GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.



## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2010

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

#### FIDUCIARY FUND TYPE

Agency Funds - These funds account for various taxes, deposits and other monies collected or held by the county, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

#### E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the county may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

#### F. Receivables.

Receivables are reported net of allowances for uncollectible accounts, where applicable.

#### G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

#### H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

# COVINGTON COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2010

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Covington County elected to report general infrastructure assets acquired after September 30, 1980, on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital	*	*

\* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

### I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets.

### J. Equity Classifications.

Government-wide Financial Statements:

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

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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

# COVINGTON COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2010

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

### K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

### L. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

### (2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.

Explanation	Amount
To reclassify the Volunteer Fire Department Insurance Rebate Fund from the General Fund to Other Governmental Funds:	
General Fund	\$ (101,177)
Other Governmental Funds	101,177
Total prior period adjustment	\$ 0

### (3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2010, was \$15,210,610, and the bank balance was \$15,597,502. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2010

**Custodial Credit Risk - Deposits.** Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. 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 county.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2010:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 46,176
Agency Funds	General Fund	<u>5,152</u>
Total		<u>\$ 51,328</u>

The receivables represent the tax revenue collected but not settled until October, 2010. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental	\$ 43,726
Other Governmental Funds	General Fund	<u>776,650</u>
Total		<u>\$ 820,376</u>

The principal purpose of interfund transfers was to provide funds for grant matches or to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2010, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 64,653
State and community highway safety	14,088
Youth court reimbursement	1,850
Housing prisoners reimbursement	1,340
Emergency management performance grant	4,796
Hazard mitigation grant	202,098
Public safety interoperable communications grant program	47,991
State aid road reimbursement	10,581
Interagency hazardous materials public sector training and planning grants	<u>5,785</u>
Total Governmental Activities	<u>\$ 353,182</u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2010

(6) Loans Receivable.

Loans receivable balance at September 30, 2010, is as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Southwest Covington Volunteer Fire Department	08/2010	0.00%	08/2011	\$ <u>4,165</u>

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2010:

**Governmental activities:**

	Balance Oct. 1, 2009	Additions	Deletions	Adjustments*	Balance Sept. 30, 2010
<u>Non-depreciable capital assets:</u>					
Land	\$ 271,551				271,551
Construction in progress	734,872	518,749		(1,253,621)	
Total non-depreciable capital assets	<u>1,006,423</u>	<u>518,749</u>	<u>0</u>	<u>(1,253,621)</u>	<u>271,551</u>
<u>Depreciable capital assets:</u>					
Infrastructure	119,851,449	371,585			120,223,034
Buildings	4,040,934	6,919		1,253,621	5,301,474
Mobile equipment	8,099,444	413,578	317,987	(78,373)	8,116,662
Furniture and equipment	1,775,558	117,052		78,373	1,970,983
Leased property under capital leases	284,970	182,083			467,053
Total depreciable capital assets	<u>134,052,355</u>	<u>1,091,217</u>	<u>317,987</u>	<u>1,253,621</u>	<u>136,079,206</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	81,896,391	166,446			82,062,837
Buildings	1,542,960	87,303			1,630,263
Mobile equipment	4,608,314	561,794	264,416	(58,746)	4,846,946
Furniture and equipment	1,596,137	68,117		58,746	1,723,000
Leased property under capital leases	76,923	67,715			144,638
Total accumulated depreciation	<u>89,720,725</u>	<u>951,375</u>	<u>264,416</u>	<u>0</u>	<u>90,407,684</u>
Total depreciable capital assets, net	<u>44,331,630</u>	<u>139,842</u>	<u>53,571</u>	<u>1,253,621</u>	<u>45,671,522</u>
Governmental activities capital assets, net	<u>\$ 45,338,053</u>	<u>658,591</u>	<u>53,571</u>	<u>0</u>	<u>45,943,073</u>

\* Adjustments are to reclassify completed construction in progress projects and to correct classification of capital assets from mobile equipment to furniture and equipment.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2010

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 19,626
Public safety	203,585
Public works	664,147
Health and welfare	35,566
Culture and recreation	2,968
Conservation of natural resources	5,760
Economic development and assistance	<u>19,723</u>
Total governmental activities depreciation expense	<u>\$ 951,375</u>

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2010, to January 1, 2011. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(9) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2010:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 467,053
Less: Accumulated depreciation	<u>144,638</u>
Leased Property Under Capital Leases	<u>\$ 322,415</u>

The following is a schedule by years of the total payments due as of September 30, 2010:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 88,632	8,961
2012	13,174	5,221
2013	13,613	4,782
2014	14,066	4,329
2015	<u>124,323</u>	<u>2,941</u>
Total	<u>\$ 253,808</u>	<u>26,234</u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2010

(10) Long-term Debt.

Debt outstanding as of September 30, 2010, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. Capital Leases:			
District 1 2007 Mack CV713 truck	\$ 25,294	4.31%	10-2010
District 5 (2) 2007 Mack CV713 trucks	50,589	4.31%	10-2010
District 5 Volvo G930 motor grader	<u>177,925</u>	3.28%	06-2015
Total Capital Leases	<u>\$ 253,808</u>		
B. Other Loans:			
District 5 420E backhoe	<u>\$ 55,495</u>	3.37%	06-2014

Year Ending September 30	Other Loans	
	Principal	Interest
2011	\$ 14,138	1,679
2012	14,626	1,192
2013	15,137	681
2014	<u>11,594</u>	<u>268</u>
Total	<u>55,495</u>	<u>3,820</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2010, the 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 ended September 30, 2010:

	Balance Oct. 1, 2009	Additions	Reductions	Adjustments	Balance Sept. 30, 2010	Amount due within one year
Governmental Activities:						
Capital leases	\$ 148,588	182,083	76,863		253,808	88,632
Other loans	<u>69,159</u>		<u>13,664</u>		<u>55,495</u>	<u>14,138</u>
Total	<u>\$ 217,747</u>	<u>182,083</u>	<u>90,527</u>	<u>0</u>	<u>309,303</u>	<u>102,770</u>

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2010

#### (11) Contingencies.

Federal Grants - The county 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 grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

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

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the Covington County Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2010, is \$6,770,000.

#### (12) Joint Ventures.

The county participates in the following joint ventures:

Covington County is a participant with the Counties of Greene, Perry and Stone in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. The joint venture was created to provide free library service to the citizens of the respective counties, and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$95,451 in fiscal year 2010. Complete financial statements for the Pine Forest Regional Library can be obtained from P.O. Box 1208, Richton, MS 39476.

Covington County is a participant with the Counties of Jones and Perry, and the Cities of Hattiesburg, Laurel and Petal in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Pine Belt Regional Solid Waste Authority. The joint venture was created to dispose of solid waste in members of the authority. The Covington County Board of Supervisors appoints one of twelve members of the board of directors. The authority is funded by user fees based on the volume of solid waste. Complete financial statements for the Pine Belt Regional Solid Waste Authority can be obtained from P.O. Box 1898, Hattiesburg, MS 39403.

#### (13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$20,000 for support of the district in fiscal year 2010.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Covington County Board of Supervisors appoints one of the nine members of the board of commissioners. The county appropriated \$35,500 for support of the entity in fiscal year 2010.



# COVINGTON COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2010

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Covington County Board of Supervisors appoints two of the 20 members of the college board of trustees. The county appropriated \$373,484 for maintenance and support of the college in fiscal year 2010.

Pearl River Valley Opportunity, Inc., operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Covington County Board of Supervisors appoints one of the 24 members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. The county provided no financial support to the district in fiscal year 2010.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Covington County Board of Supervisors appoints one of the nine members of the board of directors. The county appropriated \$72,500 for support of the district in fiscal year 2010.

### (14) Defined Benefit Pension Plan.

Plan Description. Covington County, Mississippi, 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 information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. At September 30, 2010, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2010 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2010, 2009 and 2008 were \$330,387, \$316,820 and \$275,305, respectively, equal to the required contributions for each year.

### (15) Subsequent Events.

Subsequent to September 30, 2010, the county issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>		<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
1/21/2011	3.12%	\$	81,178	Capital lease	Advalorem taxes
1/21/2011	3.12%		81,178	Capital lease	Advalorem taxes

COVINGTON COUNTY

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COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2010

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,179,000	3,138,931	3,138,931	
Licenses, commissions and other revenue	180,000	167,321	167,321	
Fines and forfeitures	275,000	284,551	284,551	
Intergovernmental revenues	2,500,000	1,116,855	1,116,855	
Charges for services	3,000	957	957	
Interest income	360,000	171,986	179,861	7,875
Miscellaneous revenues	228,500	186,533	186,533	
Total Revenues	<u>6,725,500</u>	<u>5,067,134</u>	<u>5,075,009</u>	<u>7,875</u>
EXPENDITURES				
Current:				
General government	2,866,700	2,506,055	2,347,739	158,316
Public safety	1,325,500	1,627,239	1,667,755	(40,516)
Public works	50,000	1,000	6,164	(5,164)
Health and welfare	856,100	739,500	732,418	7,082
Conservation of natural resources	111,000	115,500	114,246	1,254
Economic development and assistance	80,000	42,100	39,952	2,148
Total Expenditures	<u>5,289,300</u>	<u>5,031,394</u>	<u>4,908,274</u>	<u>123,120</u>
Excess of Revenues over (under) Expenditures	<u>1,436,200</u>	<u>35,740</u>	<u>166,735</u>	<u>130,995</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources	20,000	65,094	1,315,094	1,250,000
Other financing uses	<u>(2,070,000)</u>	<u>(1,013,000)</u>	<u>(2,036,650)</u>	<u>(1,023,650)</u>
Total Other Financing Sources and Uses	<u>(2,050,000)</u>	<u>(947,906)</u>	<u>(721,556)</u>	<u>226,350</u>
Net Change in Fund Balance	(613,800)	(912,166)	(554,821)	357,345
Fund Balances - Beginning	<u>12,830,301</u>	<u>11,896,212</u>	<u>11,896,212</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 12,216,501</u>	<u>10,984,046</u>	<u>11,341,391</u>	<u>357,345</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

## COVINGTON COUNTY

### Notes to the Required Supplementary Information For the Year Ended September 30, 2010

#### A. Budgetary Information.

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff and the Tax Assessor-Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

#### B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

#### C. Budget/GAAP Reconciliation.

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund:

	<u>Governmental Fund Type</u>
	<u>General Fund</u>
Budget (Cash Basis)	\$ (554,821)
Increase (Decrease)	
Net adjustments for revenue accruals	(1,308,971)
Net adjustments for expenditure accruals	<u>1,281,544</u>
GAAP Basis	<u>\$ (582,248)</u>

COVINGTON COUNTY

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COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Commerce - National Telecommunications and Information Administration/ Passed-through the Mississippi Wireless Communication Commission Public safety interoperable communications grant program	11.555	07PS313	\$ <u>47,991</u>
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program and non-Entitlement grants in Hawaii	*14.228	1123-06-016-PF-01	<u>210,073</u>
U.S. Department of Justice - Bureau of Justice Assistance/ Bulletproof vest partnership program (Direct Award)	16.607	N/A	<u>2,110</u>
U.S. Department of Justice/Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety Edward Byrne memorial justice assistance grant program	16.738	2007-DJ-BX-1357	10,055
Edward Byrne memorial justice assistance grant program	16.738	2009-DJ-BX-0523	<u>10,976</u>
Subtotal			<u>21,031</u>
(ARRA) Recovery Act - Edward Byrne memorial justice assistance grant (JAG) program/grants to units of local government (Direct Award)	16.804	N/A	<u>45,850</u>
Total U.S. Department of Justice			<u>68,991</u>
U.S. Department of Transportation - Federal Highway Administration/ Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	BR-NBIS-071-B(16)	<u>24,480</u>
U.S. Department of Transportation - National Highway Traffic Safety Administration/ Passed-through the Mississippi Department of Public Safety Division of Public Safety Planning Highway Safety Cluster			
State and community highway safety	20.600	09TA1611	6,481
State and community highway safety	20.600	10TA1611	<u>33,914</u>
Subtotal			<u>40,395</u>
U.S. Department of Transportation - Office of Pipeline and Hazardous Materials Safety Administration/ Passed-through the Mississippi Emergency Management Agency Interagency hazardous materials public sector training and planning	20.703	HM-HMP-0041-09-01-00	<u>5,785</u>
Total U.S. Department of Transportation			<u>70,660</u>
U.S. Department of Health and Human Services - Centers for Disease and Prevention/Passed-through the Mississippi State Department of Centers for disease control and prevention-investigations and technical assistance	93.283	N/A	<u>21,750</u>



COVINGTON COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2010

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance (presidentially declared)	97.036	1837-DR-MS	<u>58,444</u>
Hazard mitigation grant	*97.039	DR-1604-MS-0246	<u>202,098</u>
Emergency management performance grants	97.042	9EMPL000	768
Emergency management performance grants	97.042	10EMPL00	17,364
Emergency management performance grants	97.042	2010-EP-00-0008	<u>13,000</u>
Subtotal			<u>31,132</u>
Passed-through the Mississippi Department of Public Safety Homeland security grant program	97.067	080LE016	<u>20,000</u>
Total U.S. Department of Homeland Security			<u>311,674</u>
Total Expenditures of Federal Awards			\$ <u><u>731,139</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

\*Denotes major federal award program

COVINGTON COUNTY  
Reconciliation of Operating Costs of Solid Waste  
For the Year Ended September 30, 2010

Operating Expenditures, Cash Basis:

Salaries	\$	243,075
Expendable Commodities:		
Gasoline and petroleum products		40,772
Repair parts		1,621
Maintenance		3,334
Contractual services		140,222
Supplies		<u>774</u>
Solid Waste Cash Basis Operating Expenditures		429,798
Full Cost Expenses:		
Indirect administrative costs		2,815
Depreciation on equipment		<u>54,285</u>
Solid Waste Full Cost Operating Expenses	\$	<u><u>486,898</u></u>

## COVINGTON COUNTY

### SPECIAL REPORTS

COVINGTON COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

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

Members of the Board of Supervisors  
Covington County, Mississippi

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the county's basic financial statements and have issued our report thereon dated July 6, 2012. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Covington County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 10-1 and 10-2 to be material weaknesses.

### Compliance and Other Matters

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

However, we noted certain matters that we reported to the management of Covington County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated July 6, 2012, included within this document.

Covington County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Covington County's responses and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink, appearing to read "Will R. Dooss", with a stylized flourish at the end.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

July 6, 2012



**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

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

Members of the Board of Supervisors  
Covington County, Mississippi

Compliance

We have audited the compliance of Covington County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. Covington County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Covington County, Mississippi's management. Our responsibility is to express an opinion on Covington County, Mississippi's compliance based on our audit.

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

In our opinion, Covington County, Mississippi, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

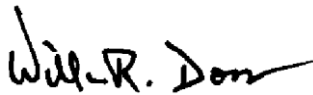
Internal Control Over Compliance

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

A deficiency in a county's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

A handwritten signature in black ink that reads "Will. R. Dooss". The signature is written in a cursive, slightly stylized font.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

July 6, 2012





**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,  
INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES  
(REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))**

Members of the Board of Supervisors  
Covington County, Mississippi

We have examined Covington County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2010. The Board of Supervisors of Covington County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Covington County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

In our opinion, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2010.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

This report is intended for use in evaluating the central purchasing system and inventory control system of Covington County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "Will R. Doss". The signature is fluid and cursive, with a long horizontal stroke at the end.

WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

July 6, 2012

COVINGTON COUNTY

Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2010

Schedule 1

Our test results did not identify any purchases from other than the lowest bidder.

COVINGTON COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2010

Schedule 2

Our test results did not identify any emergency purchases.

COVINGTON COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2010

Schedule 3

Our test results did not identify any purchases made noncompetitively from a sole source.

COVINGTON COUNTY

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**STATE OF MISSISSIPPI**  
**OFFICE OF THE STATE AUDITOR**  
**STACEY E. PICKERING**  
AUDITOR

**LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors  
Covington County, Mississippi

In planning and performing our audit of the financial statements of Covington County, Mississippi for the year ended September 30, 2010, we considered Covington County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Covington County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 6, 2012, on the financial statements of Covington County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Assistant Receiving Clerks.

1. Finding

Assistant Receiving Clerks should be properly bonded.

Section 31-7-124, Miss. Code Ann. (1972), requires the Assistant Receiving Clerks to execute a bond for \$50,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by securing a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Assistant Receiving Clerks' bonds were written for an indefinite time rather than for a term. This would limit the amount available for recovery if a loss occurred over multiple terms.

### Recommendation

The Assistant Receiving Clerks should cancel the current bonds and secure new ones for the duration of the current term.

### Assistant Receiving Clerks' Response

The problem has been addressed and corrected.

Sheriff.

## 2. Finding

### Sheriff Deputies should be properly bonded.

Section 45-5-9, Miss. Code Ann. (1972), requires Sheriff's deputies hired under this section to execute a bond for \$50,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The deputies' bonds were written for an indefinite period of time. This would limit the amount available for recovery if a loss occurred over multiple terms.

### Recommendation


The Sheriff should ensure that the deputies cancel the current bonds and secure new ones for the duration of the current term.

### Sheriff's Response

The issue has been corrected.

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

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

July 6, 2012



COVINGTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

COVINGTON COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2010

Section 1: Summary of Auditor's Results

***Financial Statements:***

1. Type of auditor's report issued on the financial statements:
 

Governmental activities	Unqualified
Aggregate discretely presented component units	Adverse
General Fund	Unqualified
Aggregate remaining fund information	Unqualified
2. Internal control over financial reporting:
  - a. Material weaknesses identified? Yes
  - b. Significant deficiency identified? None Reported
3. Noncompliance material to the financial statements noted? No

***Federal Awards:***

4. Internal control over major programs:
  - a. Material weakness identified? No
  - b. Significant deficiency identified? None Reported
5. Type of auditor's report issued on compliance for major federal programs: Unqualified
6. Any audit finding disclosed that is required to be reported in accordance with Section \_\_\_\_510(a) of OMB Circular A-133? No
7. Federal programs identified as major programs:
  - a. Community development block grants/state's program and non-Entitlement grants in Hawaii, CFDA # 14.228
  - b. Hazard mitigation grant, CFDA # 97.039
8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? No
10. Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_\_\_315(b) of OMB Circular A-133? No

## COVINGTON COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

#### Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

10-1. Financial data for county's component units should be included in the county's financial statements

Finding

Generally accepted accounting principles require the financial data for the county's component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. As reported in the prior three years' audit reports, the financial statements do not include the financial data for the county's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for inclusion in the county's financial statements.

Board of Supervisors' Response

The Board of Supervisors recognizes the failure to include financial data of the county's component units has resulted in an adverse opinion. The cost of providing this data is not feasible and for some of the units financial data may not be available to the Board.

Justice Court Clerk.

Material Weakness

10-2. The Justice Court Clerk should maintain the cash journal and supporting documentation.

Finding

An effective system of internal control for collecting, recording and disbursing cash in the Justice Court Clerk's office should include maintaining the cash journal and supporting documentation. As reported in the prior three years' audit reports, the following deficiencies were noted:

- a. Bank statements were not reconciled on a timely basis.
- b. The subsidiary ledger was not maintained and did not tie to the outstanding bond balance.
- c. The distribution of cash form was not accurate.
- d. A cash count performed August 3, 2011, revealed a net cash overage of \$4,517.25 in the civil, criminal and clearing accounts.

Without adequate accounting records, inaccurate information may be reported resulting in an increased possibility of loss or misappropriation of public funds.

## COVINGTON COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2010

#### Recommendation

The Justice Court Clerk should maintain the cash journal and supporting documentation to ensure public funds are not misappropriated. The bank statement should be reconciled to the cash journal on a monthly basis. The cash overage should be researched and identified.

#### Justice Court Clerk's Response

- a. Every effort is being made to reconcile bank statements timely.
- b. New procedures are being put in place to maintain proper bond balance.
- c. Discrepancy in distribution of cash is being investigated. Most likely cause may be due to incorrect year-end rollover.
- d. Overage is being investigated with the assistance of Delta Computer Systems.

#### Section 3: Federal Award Findings and Questioned Costs

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