

COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2015



STACEY E. PICKERING

STATE AUDITOR

Stephanie C. Palmertree, CPA
Director, Financial and Compliance Audit Division

Joe E. McKnight, CPA
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

September 27, 2017

Members of the Board of Supervisors
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2015 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 Joe McKnight of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering", is written over a horizontal line.

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington County, Mississippi, (the County) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

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 position, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of Covington County, Mississippi, as of September 30, 2015, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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 Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Reconciliation of Operating Costs of Solid Waste is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Reconciliation of Operating Costs of Solid Waste is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2017 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covington County, Mississippi's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Joe E. McKnight". The signature is fluid and cursive, with the first name "Joe" and last name "McKnight" clearly legible.

JOE E. MCKNIGHT, CPA
Director, County Audit Section

September 27, 2017

COVINGTON COUNTY

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COVINGTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

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COVINGTON COUNTY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

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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, 2015. 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 three years. This does not include the school taxes.

Total net position decreased by \$5,609,383, which represents a 9% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term capital debt there was a decrease of \$6,111,522 which represents a 40% decrease from the prior fiscal year. The County's ending cash balance increased by \$19,925, which represents a .12% increase from the prior fiscal year.

COVINGTON COUNTY, MISSISSIPPI

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The County had \$11,847,170 in total revenues. Property tax revenues account for \$7,384,060 or 62% of total revenues. Operating grants, capital grants, and contributions account for \$2,287,233 or 19% of total revenues.

The County had \$11,895,561 in total expenditures, which represents an increase of \$1,755,363 or a 17% increase from the prior fiscal year. Expenses in the amount of \$3,041,743 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues and cash of \$8,853,818.

Among major funds, the General Fund had \$7,196,397 in revenues and long-term capital debt issued and \$8,261,394 in expenditures and other financing uses. The General Fund's fund balance decreased \$1,064,997 over the prior year.

Capital assets, net of accumulated depreciation, increased by \$803,979. The difference was due to the addition of buildings associated with the construction of the new jail along with land, infrastructure, mobile equipment, and furniture and equipment

Long-term debt had a net increase of \$5,390,946. The main difference was due to the increase of the addition of general obligation bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

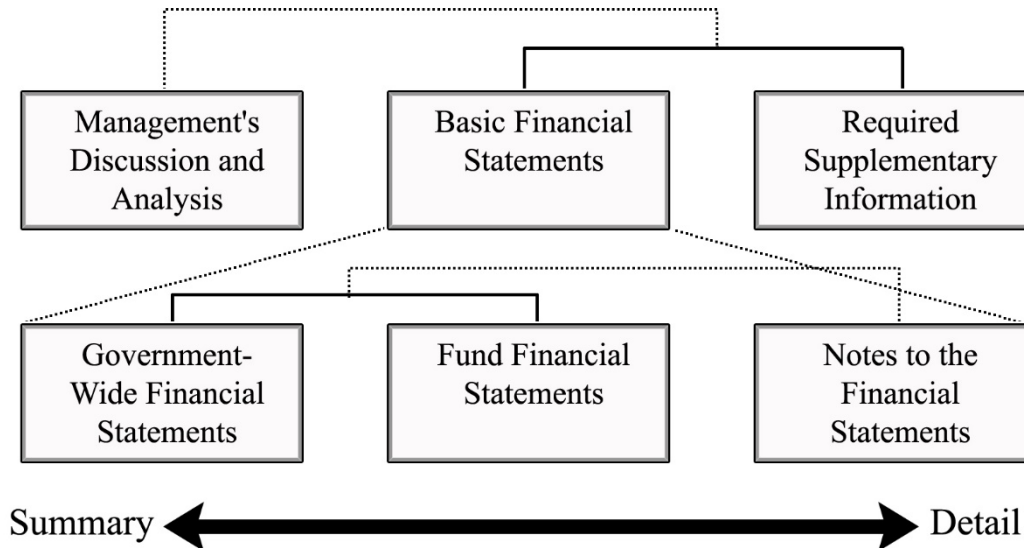


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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.

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

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

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

The **statement of net position** presents information on all County assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will 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; interest on long-term debt; and pension expense. 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:

- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System
- Southeast Covington Fire District

The Government-wide Financial Statements can be found on pages 27 and 28 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 30 and 32 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 29 and 31 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 33 of this report.

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Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 35 through 49 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents Required Supplementary Information. The Required Supplementary Information includes Management's Discussion and Analysis, the Budgetary Comparison Schedule and corresponding notes, the Schedule of the County's Proportionate Share of the Net Pension Liability, and Schedule of the County's Contributions to be presented to supplement the basic financial statements.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund. This required supplementary information can be found on page 53 of this report. There is also a schedule of the County's proportionate share of the net pension liability and schedule of County's contribution on pages 54 and 55 of this report.

Covington County, MS was not subject to a single audit for the year ended September 30, 2015.

GOVERNMENT-WIDE FINANCIAL

Net Position – Net position may serve over time as a useful indicator of government's financial position. In the case of Covington County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$57,584,232 as of September 30, 2015.

By far, the largest portion of the County's net position (84%) reflects its investment in capital assets (e.g. roads, bridges, land, construction in progress, 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 net 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

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The following table presents a summary of the County's net position for the fiscal year ended September 30, 2015, as compared to fiscal year ended September 30, 2014.

	9/30/2015 Governmental Activities	9/30/2014 Governmental Activities
Assets:		
Current Assets	30,356,396	23,992,552
Capital Assets, Net	\$ 52,283,184	51,479,205
Total Assets	<u>82,639,580</u>	<u>75,471,757</u>
 Deferred Outflows:	 <u>1,384,454</u>	 <u> </u>
Liabilities:		
Current Liabilities	2,076,416	1,134,019
Net Pension Liability	7,370,852	
Long-Term Debt Outstanding	<u>9,060,000</u>	<u>3,848,072</u>
Total Liabilities	<u>18,507,268</u>	<u>4,982,091</u>
 Deferred Inflows:	 <u>7,932,534</u>	 <u>7,296,051</u>
 Net Position:		
Net investment in capital assets	48,435,998	47,933,859
Restricted	9,888,722	3,927,389
Unrestricted	<u>(740,488)</u>	<u>11,332,367</u>
Total Net Position	<u>\$ 57,584,232</u>	<u>63,193,615</u>

COVINGTON COUNTY, MISSISSIPPI

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The following is a significant current year transaction that has had an impact on the Statement of Net Position.

- Capital assets had additions of \$1,961,569 from additions in land, reallocations of construction in progress to buildings for the jail project, mobile equipment, and furniture and equipment.
- The County implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The provisions of these standards have been incorporated into the financial statements and notes.

<u>Explanation</u>	<u>Amount</u>
Implementation of GASB 68 and 71:	
Net pension liability (9/30/2014)	\$ (5,676,536)
Deferred outlaws - contributions	<u>115,544</u>
Total prior period adjustments	<u>\$ (5,560,992)</u>

- On September 3, 2015, the County issued the \$5,700,000 General Obligation Refunding Bonds, Series 2015. These bonds were issued for the purpose of providing funds to refinance, prepay and advance refund of the \$6,000,000 Mississippi Development Bank Special Obligation Bonds, Series 2006A (Covington County, Mississippi Hospital/Nursing Home Project), date August 28, 2006. On September 3, 2015, the County entered into a loan agreement with Covington County Hospital (Hospital) for the Hospital to pay the County the principal sum of \$5,700,000 with interest. The amount the Hospital is to pay the County each year corresponds with the retirement schedule of the \$5,700,000 General Obligation Refunding Bonds, Series 2015.

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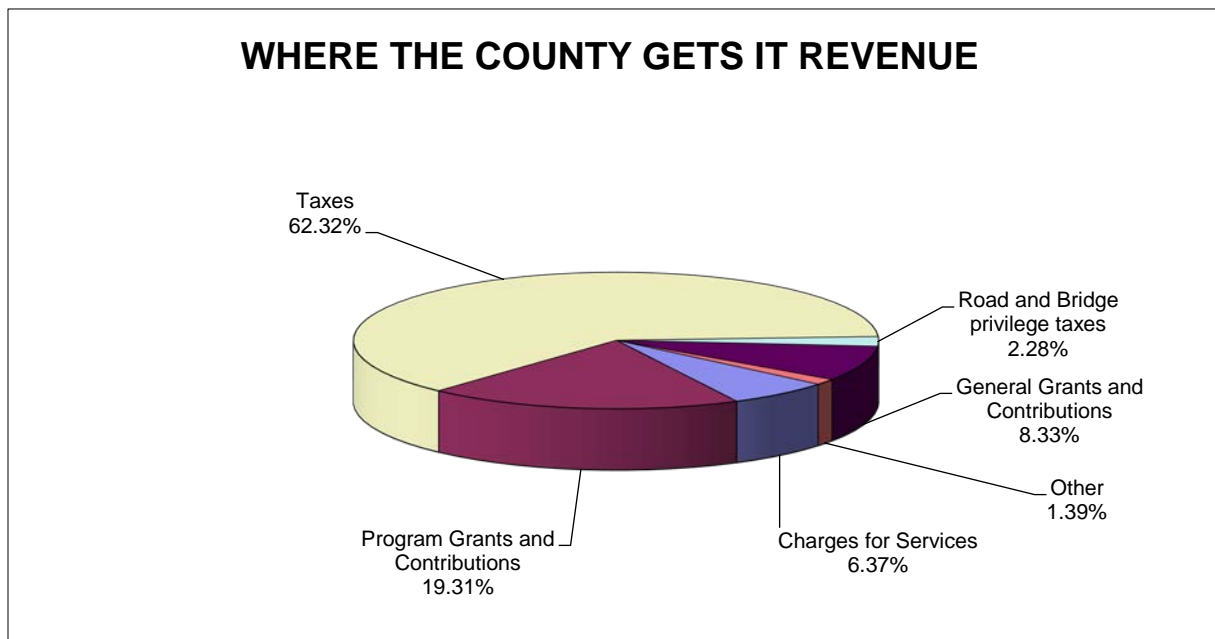
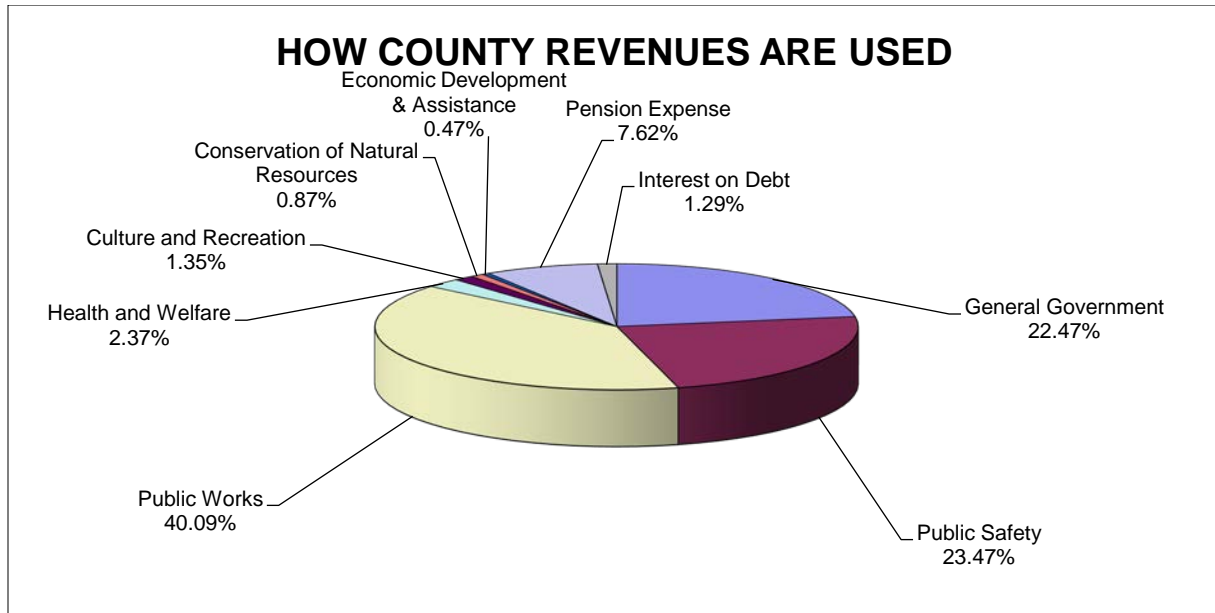
Changes in Net Position—Covington County’s total revenues for the fiscal year ended September 30, 2015 were \$11,847,170. The total cost for all services provided was \$11,895,561. The decrease in net position was \$48,391. The following table presents a summary of the changes in net position for the fiscal year ended September 30, 2015, as compared to fiscal year ended September 30, 2014.

	<u>9/30/2015</u>	<u>9/30/2014</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 754,510	802,727
Program Grants and Contributions	2,287,233	2,430,208
General Revenues:		
Taxes	7,384,060	7,197,652
Road and Bridge privilege taxes	270,270	267,109
General Grants and Contributions	986,645	885,648
Other	<u>164,452</u>	<u>232,916</u>
 Total Revenues	 <u>\$ 11,847,170</u>	 <u>11,816,260</u>
Expenses:		
General Government	\$ 2,672,536	2,819,454
Public Safety	2,791,488	2,046,656
Public Works	4,769,035	4,453,033
Health and Welfare	281,776	262,649
Culture and Recreation	160,681	178,331
Conservation of Natural Resources	103,629	167,254
Economic Development & Assistance	56,115	65,665
Pension Expense	906,794	
Interest on Debt	<u>153,507</u>	<u>147,156</u>
 Total Expenses	 <u>11,895,561</u>	 <u>10,140,198</u>
 Increase (Decrease) in Net Position	 <u>(48,391)</u>	 <u>1,676,062</u>

COVINGTON COUNTY, MISSISSIPPI

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The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2015.



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

	Total Costs	Net Costs
General Government	\$ 2,672,536	\$ 2,183,122
Public Safety	2,791,488	2,252,140
Public Works	4,769,035	2,778,021
Health and Welfare	281,776	259,809
Culture and Recreation	160,681	160,681
Conservation of Natural Resources	103,629	103,629
Economic Development and Assistance	56,115	56,115
Interest on Long-Term Debt	153,507	153,507
Pension Expense	906,794	906,794

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 \$20,743,869, an increase of \$4,958,003. The increase is 31% 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 is \$1,064,997. This decrease is due to an increase in transfers out of the general fund.

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.

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- There were not any significant amendments in the General Fund budget during the year. Budgeted expenditures were increased (decreased) as better estimates became available.

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, 2015, Covington County's total capital assets were \$146,580,481. 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 \$1,531,045.

Total accumulated depreciation as of September 30, 2015 was \$94,297,297, including \$1,015,217 of depreciation expense for the year. The balance in total net capital assets was \$52,283,184 at year-end.

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

Capital Asset Values

<u>Asset Classification</u>	<u>Balance 10/1/2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance 9/30/2015</u>
Land	\$ 335,571				335,571
Construction in Progress	4,311,262	1,648,648		(5,538,776)	421,134
Infrastructure	123,313,383			1,204,000	124,517,383
Buildings	5,545,332	109,943		4,334,776	9,990,051
Mobile Equipment	8,778,977	114,472	248,441	5,731	8,650,739
Furniture and Equipment	2,420,472	88,506		(5,731)	2,503,247
Leased Property under Capital Leases	344,439		182,083		162,356
Totals	\$ 145,049,436	1,961,569	430,524		146,580,481

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Capital Asset Accumulated Depreciation

Asset Classification	Balance 10/1/2014	Additions	Deletions	Adjustments	Balance 9/30/2015
Infrastructure	\$ 82,858,102	265,866			83,123,968
Buildings	1,967,067	253,868			2,220,935
Mobile Equipment	6,541,875	389,603	206,211	5,158	6,730,425
Furniture and Equipment	2,062,799	91,268		(5,158)	2,148,909
Leased Property under Capital Leases	\$ 140,388	14,612	81,940		73,060
Totals	\$ 93,570,231	1,015,217	288,151		94,297,297

Debt Administration – At September 30, 2015, Covington County had \$9,547,186 in long-term debt outstanding. The debt outstanding as of September 30, 2015 is general obligation bonds, limited obligation bonds, and capital leases. Of this debt, \$487,186 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, 2015, Covington County's outstanding debt was equal to 2.01% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2015:

	Balance 10/1/2014	Additions	Reductions	Balance 9/30/2015	Due Within One Year
General Obligation Bonds	\$	5,700,000		5,700,000	320,000
Limited Obligation Bonds	3,985,000		150,000	3,835,000	155,000
Capital Leases	171,240		159,054	12,186	12,186
Total	\$ 4,156,240	5,700,000	309,054	9,547,186	487,186

Additional information on Covington County's long-term debt can be found in note 11 on page 47 through 48 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

For the year 2015-2016, Covington County, MS has completed the construction of the new jail, and the jail is currently in operation. The tax levy for the county will increase by 2 mills for the current year.

The budget for the next fiscal year reflected a decrease of \$181,633 or 1.570% in revenues and a decrease of \$884,839 or 5.8% in expenses. This is expected to increase the County's net position.

COVINGTON COUNTY, MISSISSIPPI

UNAUDITED

Covington County has an unemployment rate of 5.5% versus 6.9% a year ago. This compares favorably with the state average rate of 6.1%.

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 Position
September 30, 2015

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
ASSETS	
Cash	\$ 16,336,882
Restricted cash	383
Property tax receivable	7,932,534
Fines receivable (net of allowance for uncollectibles of \$554,061)	147,309
Loans receivable	5,700,000
Intergovernmental receivables	237,129
Other receivables	2,159
Capital assets:	
Land and construction in progress	756,705
Other capital assets, net	51,526,479
Total Assets	<u>82,639,580</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	1,384,454
Total Deferred Outflows of Resources	<u>1,384,454</u>
LIABILITIES	
Claims payable	1,300,846
Intergovernmental payables	163,968
Accrued interest payable	56,546
Other payables	67,870
Long-term liabilities	
Net pension liability	7,370,852
Due within one year:	
Capital debt	167,186
Non-capital debt	320,000
Due in more than one year:	
Capital debt	3,680,000
Non-capital debt	5,380,000
Total Liabilities	<u>18,507,268</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred revenues - property taxes	7,932,534
Total Deferred Inflows of Resources	<u>7,932,534</u>
NET POSITION	
Net investment in capital assets	48,435,998
Restricted for:	
Expendable:	
General government	69,765
Public safety	1,737,711
Public works	2,414,587
Culture and recreation	2,946
Economic development and assistance	159
Debt service	5,643,454
Unemployment compensation	20,100
Unrestricted	(740,488)
Total Net Position	<u>\$ 57,584,232</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, 2015

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 2,672,536	455,219	34,195		(2,183,122)
Public safety	2,791,488	276,597	224,515	38,236	(2,252,140)
Public works	4,769,035	22,694	731,415	1,236,905	(2,778,021)
Health and welfare	281,776		21,967		(259,809)
Culture and recreation	160,681				(160,681)
Conservation of natural resources	103,629				(103,629)
Economic development and assistance	56,115				(56,115)
Interest on long-term debt	153,507				(153,507)
Pension expense	906,794				(906,794)
Total Governmental Activities	\$ 11,895,561	754,510	1,012,092	1,275,141	(8,853,818)
General revenues:					
Property taxes				\$ 7,384,060	
Road & bridge privilege taxes				270,270	
Grants and contributions not restricted to specific programs				986,645	
Unrestricted interest income				55,192	
Miscellaneous				109,260	
Total General Revenues				8,805,427	
Changes in Net Position					(48,391)
Net Position - Beginning, as previously reported					63,193,615
Prior period adjustments					(5,560,992)
Net Position - Beginning, as restated					57,632,623
Net Position - Ending				\$	57,584,232

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

COVINGTON COUNTY
Balance Sheet - Governmental Funds
September 30, 2015

Exhibit 3

	<u>Major Funds</u>		<u>Other</u>	<u>Total</u>
	<u>General</u>	<u>Hospital Bond</u>	<u>Governmental</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Series 2015 Fund</u>	<u>Funds</u>	<u>Funds</u>
ASSETS				
Cash	\$ 12,015,365		4,321,517	16,336,882
Restricted cash	383			383
Property tax receivable	4,998,334		2,934,200	7,932,534
Fines receivable (net of allowance for uncollectibles of \$554,061)	147,309			147,309
Loans receivable		5,700,000		5,700,000
Intergovernmental receivables	203,119		34,010	237,129
Other receivables	1,814		345	2,159
Due from other funds			55,506	55,506
Total Assets	<u>\$ 17,366,324</u>	<u>5,700,000</u>	<u>7,345,578</u>	<u>30,411,902</u>
LIABILITIES				
Liabilities:				
Claims payable	\$ 1,134,353		166,493	1,300,846
Intergovernmental payables	157,531			157,531
Due to other funds	61,943			61,943
Other payables	67,870			67,870
Total Liabilities	<u>1,421,697</u>	<u>0</u>	<u>166,493</u>	<u>1,588,190</u>
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue - property taxes	4,998,334		2,934,200	7,932,534
Unavailable revenue - fines	147,309			147,309
Total deferred inflows of resources	<u>5,145,643</u>	<u>0</u>	<u>2,934,200</u>	<u>8,079,843</u>
Fund balances:				
Restricted for:				
General government			69,765	69,765
Public safety	383		1,737,328	1,737,711
Public works			2,414,587	2,414,587
Culture and recreation			2,946	2,946
Economic development and assistance			159	159
Debt service		5,700,000		5,700,000
Unemployment compensation			20,100	20,100
Assigned to:				
General government	7,189			7,189
Public safety	60,105			60,105
Culture and recreation	88,276			88,276
Unassigned	10,643,031			10,643,031
Total Fund Balances	<u>10,798,984</u>	<u>5,700,000</u>	<u>4,244,885</u>	<u>20,743,869</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 17,366,324</u>	<u>5,700,000</u>	<u>7,345,578</u>	<u>30,411,902</u>

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

COVINGTON COUNTY

Exhibit 3-1Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2015

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 20,743,869
Amounts reported for governmental activities in the statement of net position 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 \$94,297,297.	52,283,184
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	147,309
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(9,547,186)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(7,370,852)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(56,546)
Deferred outflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	<u>1,384,454</u>
Total Net Position - Governmental Activities	\$ <u><u>57,584,232</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, 2015

	Major Funds		Other	Total
	General	Hospital Bond	Governmental	Governmental
	Fund	Series 2015 Fund	Funds	Funds
REVENUES				
Property taxes	\$ 4,459,442		2,924,618	7,384,060
Road and bridge privilege taxes			270,270	270,270
Licenses, commissions and other revenue	189,128		15,899	205,027
Fines and forfeitures	317,159			317,159
Intergovernmental revenues	1,114,754		2,159,124	3,273,878
Charges for services	1,962		213,000	214,962
Interest income	51,476		3,716	55,192
Miscellaneous revenues	40,537		68,723	109,260
Total Revenues	6,174,458	0	5,655,350	11,829,808
EXPENDITURES				
Current:				
General government	2,593,207		241,657	2,834,864
Public safety	2,830,964		622,305	3,453,269
Public works	58,550		5,347,354	5,405,904
Health and welfare	246,210			246,210
Culture and recreation	35,531		117,966	153,497
Conservation of natural resources	108,261			108,261
Economic development and assistance	36,392			36,392
Debt service:				
Principal	150,000		159,054	309,054
Interest	137,340		4,784	142,124
Total Expenditures	6,196,455	0	6,493,120	12,689,575
Excess of Revenues over (under) Expenditures	(21,997)	0	(837,770)	(859,767)
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	1,021,939	4,678,061		5,700,000
Proceeds from sale of capital assets			117,770	117,770
Transfers in		1,021,939	1,140,307	2,162,246
Transfers out	(2,064,939)		(97,307)	(2,162,246)
Total Other Financing Sources and Uses	(1,043,000)	5,700,000	1,160,770	5,817,770
Net Changes in Fund Balances	(1,064,997)	5,700,000	323,000	4,958,003
Fund Balances - Beginning	11,863,981	0	3,921,885	15,785,866
Fund Balances - Ending	\$ 10,798,984	5,700,000	4,244,885	20,743,869

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, 2015

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 4,958,003
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 position differs from the change in fund balances by the amount that capital outlays of \$1,961,569 exceeded depreciation of \$1,015,217 in the current period.	946,352
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 position differs from the change in fund balances by the amount of the net loss of \$24,603 and the proceeds from the sale of \$117,770 in the current period.	(142,373)
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.	17,362
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt proceeds of \$5,700,000 exceeded debt repayments of \$309,054.	(5,390,946)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
The amount of increase in accrued interest payable	(11,383)
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:	
Recording of pension expense for the current period	(906,794)
Recording of contributions made during the fiscal year	<u>481,388</u>
Change in Net Position of Governmental Activities	\$ <u>(48,391)</u>

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

COVINGTON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2015

Exhibit 5

	Agency Funds
ASSETS	
Cash	\$ 572,260
Due from other funds	6,437
Total Assets	\$ <u>578,697</u>
LIABILITIES	
Amounts held in custody for others	\$ 572,260
Intergovernmental payables	6,437
Total Liabilities	\$ <u>578,697</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, 2015

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Covington County, Mississippi (the 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 accordance with accounting principles generally accepted in the United States of America.

- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District
- Covington County Library System
- Southeast Covington Fire 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 Position 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 Position 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.

The Statement of Net Position 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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

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 as Other Governmental Funds.

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 Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Hospital Bond Series 2015 Fund - This fund is used to account for resources accumulated and used for the payment of long-term debt principal, interest and related costs on general obligation bonds issued to refund outstanding bonds of Covington County Hospital, a component unit of the County.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

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 2012 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 Position.

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.

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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
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 leases	*	*

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

I. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows related to pensions – This amount represents the County’s proportionate share of the deferred outflows of resources reported by the pension plan in which the County participates. See Note 10 for additional details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

J. Pensions.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees’ Retirement System of Mississippi (PERS) and additions to/deductions from PERS’ fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. 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 Position.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

Net investment in capital assets - 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 position - Consists of net position 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 position - All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

Net Position Flow Assumption:

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

Fund Financial Statements:

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

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the County:

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

Assigned fund balance includes amounts that are constrained by the County’s intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the General Fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Board of Supervisors pursuant to authorization established by the board minutes.

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

Fund Balance Flow Assumption:

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

M. 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.

N. 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.

O. Changes in Accounting Standards.

The County implemented the following standards issued by the Governmental Accounting Standards Board (GASB) in the current fiscal year as required: GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The provisions of these standards have been incorporated into the financial statements and notes.

(2) Prior Period Adjustment.

A summary of the significant fund equity adjustment is as follows:

Exhibit 2 – Statement of Activities – Governmental Activities

Explanation	Amount
Implementation of GASB 68 and 71:	
Net pension liability as of 9/30/2014	\$ (5,676,536)
Deferred outflows - contributions	115,544
Total governmental activities prior period adjustment	\$ (5,560,992)

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

(3) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2015, was \$16,909,525, and the bank balance was \$17,943,202. 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).

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. In the event of a 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). 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.

Restricted Cash.

As approved by Section 91-13-8, Miss. Code Ann. (1972), the cash balance amount of \$383 is managed through a trust indenture between the County and the trustee related to the construction and debt payment of the new Covington County jail project. Accordingly, this cash is classified as restricted on the financial statements.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2015:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 55,506
Agency Funds	General Fund	6,437
Total		<u>\$ 61,943</u>

The receivables represent the tax revenue collected in September 2015, but not settled until October, 2015. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Hospital Bond Series 2015 Fund	General Fund	\$ 1,021,939
Other Governmental Funds	General Fund	1,043,000
Other Governmental Funds	Other Governmental Funds	97,307
Total		<u>\$ 2,162,246</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.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2015

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2015, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 121,414
MDOT reimbursement	72,000
Litter grant	9,705
DUI grant	10,928
Emergency management performance grants	23,082
Total Governmental Activities	<u>\$ 237,129</u>

(6) Loans Receivable.

On September 3, 2015, the County issued the \$5,700,000 General Obligation Refunding Bonds, Series 2015. These bonds were issued for the purpose of providing funds to refinance, prepay and advance refund of the \$6,000,000 Mississippi Development Bank Special Obligation Bonds, Series 2006A (Covington County, Mississippi Hospital/Nursing Home Project), dated August 28, 2006, previously reported as a long-term liability of the Covington County Hospital. On September 3, 2015, the County entered into a loan agreement with Covington County Hospital (Hospital) for the Hospital to pay the County the principal sum of \$5,700,000 with interest. The amount the Hospital is to pay the County each year corresponds with the retirement schedule of the \$5,700,000 General Obligation Refunding Bonds, Series 2015.

Loans receivable balances at September 30, 2015, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Covington County Hospital	09/2015	2.00-3.375%	07/2031	<u>\$ 5,700,000</u>

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2015:

Governmental activities:

	Balance Oct. 1, 2014	Additions	Deletions	Adjustments*	Balance Sept. 30, 2015
Non-depreciable capital assets:					
Land	\$ 335,571				335,571
Construction in progress	4,311,262	1,648,648		(5,538,776)	421,134
Total non-depreciable capital assets	<u>4,646,833</u>	<u>1,648,648</u>	<u>0</u>	<u>(5,538,776)</u>	<u>756,705</u>
Depreciable capital assets:					
Infrastructure	123,313,383			1,204,000	124,517,383
Buildings	5,545,332	109,943		4,334,776	9,990,051
Mobile equipment	8,778,977	114,472	248,441	5,731	8,650,739
Furniture and equipment	2,420,472	88,506		(5,731)	2,503,247
Leased property under capital leases	344,439		182,083		162,356
Total depreciable capital assets	<u>140,402,603</u>	<u>312,921</u>	<u>430,524</u>	<u>5,538,776</u>	<u>145,823,776</u>

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2015

Governmental activities:

	Balance Oct. 1, 2014	Additions	Deletions	Adjustments *	Balance Sept. 30, 2015
<u>Less accumulated depreciation for:</u>					
Infrastructure	82,858,102	265,866			83,123,968
Buildings	1,967,067	253,868			2,220,935
Mobile equipment	6,541,875	389,603	206,211	5,158	6,730,425
Furniture and equipment	2,062,799	91,268		(5,158)	2,148,909
Leased property under capital leases	140,388	14,612	81,940		73,060
Total accumulated depreciation	<u>93,570,231</u>	<u>1,015,217</u>	<u>288,151</u>	<u>0</u>	<u>94,297,297</u>
Total depreciable capital assets, net	<u>46,832,372</u>	<u>(702,296)</u>	<u>142,373</u>	<u>5,538,776</u>	<u>51,526,479</u>
Governmental activities capital assets, net	\$ <u>51,479,205</u>	<u>946,352</u>	<u>142,373</u>	<u>0</u>	<u>52,283,184</u>

*Adjustments are to reclassify completed construction in progress projects to the proper classification and to reclassify furniture and equipment to mobile equipment.

Depreciation expense was charged to the following functions:

	Amount
Governmental activities:	
General government	\$ 29,647
Public safety	320,081
Public works	600,522
Health and welfare	35,566
Culture and recreation	7,846
Conservation of natural resources	1,832
Economic development and assistance	<u>19,723</u>
Total governmental activities depreciation expense	\$ <u>1,015,217</u>

Commitments with respect to unfinished capital projects at September 30, 2015, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Pickering Rogers Road - STPBR 0016 28(B)	\$ 40,680	October, 2015

(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, 2015, to January 1, 2016. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2015

(9) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2015:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 162,356
Less: Accumulated depreciation	<u>(73,060)</u>
Leased Property Under Capital Leases	<u>\$ 89,296</u>

The following is a schedule by years of the total payments due as of September 30, 2015:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2016	\$ <u>12,186</u>	<u>131</u>

(10) Defined Benefit Pension Plan.

General Information about the 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.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

Contributions. At September 30, 2015, 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 employer's rate at September 30, 2015 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2015, 2014 and 2013 were \$481,388, \$454,375 and \$408,511, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2015, the County reported a liability of \$7,370,852 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. At June 30, 2015, the County's proportion was 0.047683 percent, which was an increase of 0.000917 percent from its proportion measured as of June 30, 2014.

For the year ended September 30, 2015, the County recognized pension expense of \$906,794. At September 30, 2015, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 113,434
Net difference between projected and actual earnings on pension plan investments	431,274
Changes of assumptions	634,974
Changes in the proportion and differences between the County's contributions and proportionate share of contributions	77,018
County contributions subsequent to the measurement date	127,754
Total	\$ 1,384,454

\$127,754 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2016	\$ 411,284
2017	411,284
2018	326,313
2019	107,819
	\$ 1,256,700

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

Actuarial Assumptions. The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases	3.75 – 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Broad	34.00 %	5.20 %
International Equity	19.00	5.00
Emerging Markets Equity	8.00	5.45
Fixed Income	20.00	0.25
Real Assets	10.00	4.00
Private Equity	8.00	6.15
Cash	1.00	(0.50)
Total	<u>100.00 %</u>	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent, a decrease of 0.25 percentage points since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1- percentage-point higher (8.75 percent) than the current rate:

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2015

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$ 9,715,458	7,370,852	5,425,267

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

(11) Long-term Debt.

Debt outstanding as of September 30, 2015, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
GO Refunding Bonds, Series 2015	\$ 5,700,000	2.00-3.375%	07/2031
B. Limited Obligation Bonds:			
Certificates of Participation, Jail Project	\$ 3,835,000	3.40%	06/2033
C. Capital Leases:			
District 4 New Holland tractor with boom mower	\$ 5,822	3.12%	01/2016
District 5 New Holland tractor with boom mower	6,364	3.12%	01/2016
Total Capital Leases	\$ 12,186		

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Position are as follows:

Year Ending September 30	General Obligation Bonds		Limited Obligation Bonds	
	Principal	Interest	Principal	Interest
2016	\$ 320,000	132,160	155,000	130,390
2017	300,000	153,256	165,000	125,120
2018	305,000	147,256	170,000	119,510
2019	315,000	141,156	175,000	113,730
2020	315,000	134,856	180,000	107,780
2021 - 2025	1,710,000	541,806	1,000,000	442,680
2026 - 2030	1,985,000	268,870	1,180,000	260,610
2031 - 2035	450,000	15,188	810,000	55,760
Total	\$ 5,700,000	1,534,548	3,835,000	1,355,580

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, 2015, the amount of outstanding debt was equal to 2.01% of the latest property assessments.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

Certificates of Participation – In accordance with Section 31-8-1 et seq. Miss. Code Ann. (1972), the County issued Certificates of Participation and transferred the proceeds to the Southern Mississippi Investment Co., Inc. (Corporation). The funds are to be used to construct a new Covington County jail facility. At completion, the Corporation will enter into a twenty year lease with the County. The County is obligated to pay the Corporation rent equal to the principal and interest on the debt. At the completion of the lease, the County will assume ownership of the facility. This obligation is not a general obligation and does not constitute a pledge of full faith and credit of the County.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2015:

	Balance Oct. 1, 2014	Additions	Reductions	Balance Sept. 30, 2015	Amount due within one year
Governmental Activities:					
General obligation bonds	\$	5,700,000		5,700,000	320,000
Limited obligation bonds	3,985,000		150,000	3,835,000	155,000
Capital leases	171,240		159,054	12,186	12,186
Total	\$ 4,156,240	5,700,000	309,054	9,547,186	487,186

(12) 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.

(13) Joint Venture.

The County participates in the following joint venture:

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 to 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.

(14) 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 \$33,000 for support of the district in fiscal year 2015.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2015

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 \$35,000 for support of the entity in fiscal year 2015.

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 \$442,563 for maintenance and support of the college in fiscal year 2015.

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 2015.

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 appropriated \$10,000 for support of the district in fiscal year 2015.

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.

(15) Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Covington County evaluated the activity of the County through September 27, 2017, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2015, 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>
05/13/2016	1.49%	\$	73,850	Capital lease	Ad valorem taxes
05/13/2016	1.49%		73,850	Capital lease	Ad valorem taxes
01/09/2017	2.10%		131,283	Capital lease	Ad valorem taxes

COVINGTON COUNTY

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COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2015
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,397,742	4,458,863	4,458,863	
Licenses, commissions and other revenue	265,000	258,907	258,907	
Fines and forfeitures	300,000	279,355	279,355	
Intergovernmental revenues	840,000	1,037,355	1,037,355	
Charges for services	2,200	1,951	1,951	
Interest income	74,070	51,416	51,416	
Miscellaneous revenues	227,600	1,113,647	1,113,647	
Total Revenues	<u>6,106,612</u>	<u>7,201,494</u>	<u>7,201,494</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	3,151,945	2,631,206	2,631,206	
Public safety	2,780,600	2,917,889	2,917,889	
Public works	57,500	58,372	58,372	
Health and welfare	263,120	247,727	247,727	
Culture and recreation	69,222	36,948	36,948	
Conservation of natural resources	159,158	108,067	108,067	
Economic development and assistance	80,000	36,392	36,392	
Debt service:				
Principal		150,000	150,000	
Interest		135,490	135,490	
Total Expenditures	<u>6,561,545</u>	<u>6,322,091</u>	<u>6,322,091</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(454,933)</u>	<u>879,403</u>	<u>879,403</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		2,549	2,549	
Transfers out	(2,356,000)	(1,043,000)	(1,043,000)	
Total Other Financing Sources and Uses	<u>(2,356,000)</u>	<u>(1,040,451)</u>	<u>(1,040,451)</u>	<u>0</u>
Net Change in Fund Balance	(2,810,933)	(161,048)	(161,048)	
Fund Balances - Beginning	<u>11,306,422</u>	<u>11,922,678</u>	<u>11,922,678</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 8,495,489</u>	<u>11,761,630</u>	<u>11,761,630</u>	<u>0</u>

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

COVINGTON COUNTY
Schedule of the County's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*
For the Year Ended September 30, 2015
UNAUDITED

		<u>2015</u>
County's proportion of the net pension liability (asset)		0.047683%
County's proportionate share of the net pension liability (asset)	\$	7,370,852
County's covered-employee payroll	\$	2,978,984
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		247.43%
Plan fiduciary net position as a percentage of the total pension liability		61.70%

* The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of June 30, of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year is compiled, the County has only presented information for the years in which information is available.

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

COVINGTON COUNTY
Schedule of County Contributions
Last 10 Fiscal Years *
For the Year Ended September 30, 2015
UNAUDITED

	<u>2015</u>
Contractually required contribution	\$ 481,388
Contributions in relation to the contractually required contribution	<u>481,388</u>
Contribution deficiency (excess)	\$ <u>-</u>
County's covered-employee payroll	\$ 3,056,431
Contributions as a percentage of covered-employee payroll	15.75%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until, a full 10 year trend is compiled, the County has only presented information for the years in which information is available.

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

COVINGTON COUNTY

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COVINGTON COUTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2015

UNAUDITED

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 and each major Special Revenue 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:

	Governmental Fund Type
	General Fund
Budget (Cash Basis)	\$ (161,048)
Increase (Decrease)	
Net adjustments for revenue accruals	(7,646)
Net adjustments for expenditure accruals	(893,849)
Other reconciling items:	
Interfund loans made and repaid	(2,454)
GAAP Basis	\$ <u>(1,064,997)</u>

COVINGTON COUTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2015

UNAUDITED

Pension Schedules

A. Changes of assumptions.

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

COVINGTON COUNTY

SUPPLEMENTARY INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2015

Operating Expenditures, Cash Basis:

Salaries	\$	345,762
Expendable Commodities:		
Gasoline and petroleum products		42,599
Repair parts		9,988
Maintenance		12,859
Contractual Services		202,131
Supplies		<u>6,372</u>

Solid Waste Cash Basis Operating Expenditures		619,711
-----------------------------------------------	--	---------

Full Cost Expenses:

Indirect administrative costs		4,722
Depreciation on equipment		<u>41,358</u>

Solid Waste Full Cost Operating Expenses	\$	<u><u>665,791</u></u>
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COVINGTON COUNTY

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COVINGTON COUNTY

OTHER INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2015
UNAUDITED

Name	Position	Company	Bond
Mason Stringer	Supervisor District 1	Western Surety Company	\$100,000
John N. Holifield	Supervisor District 2	FCCI Insurance Company	\$100,000
Jimmy D. White	Supervisor District 3	Western Surety Company	\$100,000
Guy Cecil Easterling	Supervisor District 4	FCCI Insurance Company	\$100,000
Donnie R. Barnes	Supervisor District 5	FCCI Insurance Company	\$100,000
Jimmie Baggett	Chancery Clerk	FCCI Insurance Company	\$100,000
Jimmie Baggett	Purchase Clerk	FCCI Insurance Company	\$75,000
Mamie Theresa Knight	Assistant Purchase Clerk	FCCI Insurance Company	\$50,000
Pamela Mechelle Beasley	Assistant Purchase Clerk	RLI Insurance Company	\$50,000
Maxine Anderson	Receiving Clerk	Hartford Insurance Company	\$75,000
Joe Ponder	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
James Beasley	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Pamela Wade Smith	Assistant Receiving Clerk	RLI Insurance Company	\$50,000
Bobby Booth	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Richard L. Rutland	Assistant Receiving Clerk	Travelers Insurance Company	\$50,000
Sylvester Gray	Assistant Receiving Clerk	Travelers Insurance Company	\$50,000
Courtney Leigh Noverise	Inventory Control Clerk	FCCI Insurance Company	\$75,000
Joe Ponder	Constable	FCCI Insurance Company	\$50,000
Billy Pitts	Constable	FCCI Insurance Company	\$50,000
Melissa Duckworth	Circuit Clerk	FCCI Insurance Company	\$100,000
Alice Hayes	Deputy Circuit Clerk	FCCI Insurance Company	\$50,000
Mary Ann Shoemake	Deputy Circuit Clerk	FCCI Insurance Company	\$50,000
Stann Smith	Sheriff	FCCI Insurance Company	\$100,000
John Laz Sanford	Justice Court Judge	FCCI Insurance Company	\$50,000
Bobby Wayne Mooney	Justice Court Judge	FCCI Insurance Company	\$50,000
Cassity Booker	Justice Court Clerk	FCCI Insurance Company	\$50,000
Paula Owen	Deputy Justice Court Clerk	FCCI Insurance Company	\$50,000
Cindy Aultman Sanford	Tax Assessor-Collector	FCCI Insurance Company	\$100,000
Laurie Seymour	Deputy Tax Assessor	FCCI Insurance Company	\$10,000
Dannie Jean Abercrombie	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Minnie Rankin	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Sharon Nancy Walley	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Frieda Whiddon	Deputy Tax Collector	Travelers Insurance Company	\$50,000
Jennifer Crosby	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Virginia Coulter	Deputy Tax Collector	FCCI Insurance Company	\$50,000

COVINGTON COUNTY

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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington County, Mississippi (the County), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated September 27, 2017. 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.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Covington County, Mississippi's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Covington County, Mississippi's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Responses as 2015-001 that we consider to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of Covington County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated September 27, 2017, included within this document.

Covington County's Response to Finding

Covington County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Covington County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



JOE E. MCKNIGHT, CPA
Director, County Audit Section

September 27, 2017



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

**INDEPENDENT ACCOUNTANT'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 bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2015. 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 such 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.

The results of our audit procedures disclosed a certain instance of noncompliance with the aforementioned code sections. This instance of noncompliance was considered in forming our opinion on compliance. Our finding and recommendation and your response is disclosed below:

Board of Supervisors.

1. Sole source purchases should be authorized and documented in the Board of Supervisors' minutes and included on the Purchase Clerk's schedules.

Finding

Section 31-7-13(m), Miss. Code Ann. (1972), requires the Board of Supervisors to authorize and document purchases made noncompetitively from a sole source on its minutes. The Board of Supervisors did not document the approval of a sole source on its minutes. The lack of proper approval and documentation could result in unauthorized purchases.

Recommendation

The Board of Supervisors should approve and document in its minutes all purchases made noncompetitively from a sole source.

Board of Supervisors' Response

The Board of Supervisors agrees that sole source purchases should be authorized and documented in the Board of Supervisor's minutes and included on the Purchase Clerk's schedules and will be implemented more closely, to prevent further error.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2015.

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 and, in our opinion, is fairly presented in relation to that examination.

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

This report is intended for use in evaluating Covington County, Mississippi's compliance with the aforementioned requirements, 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.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

September 27, 2017

COVINGTON COUNTY

Schedule 1

Schedule of Purchases From Other Than the Lowest Bidder

For the Year Ended September 30, 2015

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

COVINGTON COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2015

Schedule 2

Our tests did not identify any emergency purchases.

COVINGTON COUNTY

Schedule 3Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2015

<u>Date</u>	<u>Item Purchased</u>		<u>Amount Paid</u>	<u>Vendor</u>
05/08/2015	Tasers	\$	8,033	Taser International
05/08/2015	BlueBox interoperability system		8,170	Falcon Direct, Inc.

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, 2015, 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 September 27, 2017, 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 areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. The County should establish and test a disaster recovery process.

Finding

During our review of the information systems controls of the County, we noted that the County has not established a disaster recovery process. As a result, the County cannot fully ensure that the information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. Control Objectives for Information and Related Technology (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the County's ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and periodically restoring these files and programs as part of a formal, documented disaster recovery exercise. Such actions maintain the organization's ability to restore data files, which may be impossible to recreate.

The County is currently creating backup files, but is not restoring such files as part of a formal, documented disaster recovery exercise. Without proper assurance that backup files can be utilized to adequately restore all critical data in a timely manner in the event of a disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's buildings and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Without proper assurance that backup files can be utilized to adequately restore all critical data in a timely manner in the event of disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Recommendation

We recommend that the County develop, implement, and test a plan to ensure that critical data and applications are recoverable in case of a disaster scenario. In order to do this it will be necessary to gain an understanding from vendors involved in the backup process of the types of backups that should be created, on what frequency these backups should be created, the processes necessary to create the various types of backups and the responsibilities of the various parties involved, including county personnel and vendor personnel. Furthermore, these procedures and responsibilities should be documented and agreed upon by all parties involved.

We also recommend that the County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster. The plan should be stored in a safe, accessible location and updated when needed in order to maintain readiness for a disaster scenario.

Board of Supervisors' Response

Covington County agrees with finding. We will be working with Itech and Delta Computer systems to implement the recommended plan, policies, and procedures. We are currently working on the written portion.

2. Covington County should implement a formal information security policy.

Finding

As reported in the prior four years' audit reports, Covington County has not adopted a formal Information Security Policy or Enterprise Security Plan. The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and internet protocol.

Recommendation

A robust set of Information Technology Policies should cover at least the following areas:

- Acceptable Use
- Portable Computing
- Change Management
- Encryption
- Security Incident Response
- Risk Management
- Backup and Recovery
- Business Continuity / Disaster Recovery

While full compliance with all facets of such a policy may be an economic challenge for the County, beginning steps to become compliant with a policy covering areas such as those listed above are necessary. We recommend that the County create a plan of compliance with industry standards to ensure progress towards a robust documented

information security plan. This policy should be reviewed and approved by the County's Board of Supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

Board of Supervisors' Response

Covington County agrees with the finding. We will be working with Delta Computer Systems and Itech Systems to implement the recommended plan, policy and procedures.

3. The County should perform a network security assessment.

Finding

Factors noted during the Information Technology General Control (ITGC) assessment at the County indicate a network assessment is warranted.

Best business practices as well as standards for information technology provide various guidelines for frequency and criteria for performing network reviews. The Mississippi Enterprise Security Policy requires network reviews be performed, at minimum, every three years or more frequently whenever business situations change that might raise the level of risk for unauthorized access to an entity's data assets. Examples of such change criteria would be:

- A major change in the network topology
- Implementation of new financial applications
- Length of time since the last network review
- Recent network penetration or malware infection (and possible data loss) due to the activity of unauthorized parties
- Changes in support levels for hardware and software
- Lack of security event monitoring
- Insufficient anti-virus

Network reviews should include vulnerability scans as well as penetration tests. A vulnerability scan or assessment looks for known vulnerabilities in your systems and reports potential exposures, many times in the form of a risk assessment. A penetration test is designed to actually exploit weaknesses in the architecture of systems.

Hacks into networks, especially internet facing networks, are a common occurrence in today's information technology environment. Data breaches can cost breached entities fines, regulatory oversight, bad public relations, customer distrust and personnel time to correct issues caused by unauthorized access. Consequences can be both short-term (e.g., notification of breached parties) and long-term (e.g., lawsuits).

Recommendation

It is recommended that the County perform a network security assessment as soon as possible. All factors that might increase the risk of unauthorized access to an entity's data assets should be considered when determining the exact scope of the network review to be performed. This review should consist of risk assessments, vulnerability scans and penetration tests. These type tests should be conducted by qualified personnel that specialize in such assessments.

Board of Supervisors' Response

Covington County agrees with the finding and we will have our IT Department perform a network security assessment as recommended.

4. The County should perform periodic physical and logical access reviews.

Finding

As reported in the prior year's audit report, the County does not have both formal policies and procedures that cover granting or removing logical access for terminated employees. We also noted that the County does not periodically review the levels of access that active users have been granted and determine if the access is appropriate.

These reviews should include both physical and logical access. Physical access would be inclusive of buildings, rooms or cages where physical computer hardware and the supporting infrastructure such as wiring, environmental controls, etc. are housed. In dealing with physical access, reviews should include keys, proximity cards and biometric devices. An accurate inventory of such items issued for access should be kept and include the job title of persons with such access to facilitate review for appropriateness by management and auditors. Also, security of systems that control access such as personal computers that control proximity card access should also be under tight security controls.

Logical access usually refers to access to data and associated computer environments such as application software and operating systems. Areas that should be kept in mind in determining proper logical access are technical issues such as alternate indexes and back doors such as function keys and ability to travel directly from one menu to another. As with physical access user IDs, such as those used for network, application, or database security administration should be highly restricted and protected.

Recommendation

We recommend that the County implement periodic reviews of access for all individual users. These reviews should include both physical and logical access. Documentation of such reviews should be retained for reference and audit purposes for a reasonable period. Such retention should be according to guidelines such as policies of the County and regulations such as Internal Revenue Service guidelines. The County should seek legal counsel in determining retention periods.

In determining the appropriateness of both physical and logical access the reviewer should remain cognizant of job responsibilities, prior job responsibilities which persons may have held that are no longer pertinent, level of expertise of the user, segregation of duties, and regulatory guidelines which may be applicable. Both logical and physical access should be covered by formal written policy for granting, terminating and changing access. These policies should be approved by management and distributed to employees through procedures that have those granted access to information assets indicate in writing or electronically that they have read and understand the policies and agree to follow them.

Board of Supervisors' Response

The County is currently working with our IT group to help clean up the areas mentioned above. We will implement periodic reviews of access for all users and document such reviews.

5. The County should replace obsolete computer hardware and software.

Finding

As reported in the prior year's audit report, the County is running operating systems as well as applications on some of its servers and/or personal computers (PCs) that might not be supported by vendors. Due to the lack of such support, these systems could become vulnerable to hackers and malware such as viruses.

Recommendation

We recommend that the County develop a plan to replace the operating systems, applications, and hardware where necessary that is no longer supported by vendors as soon as possible. Computers that originally included operating systems or applications that are no longer supported by vendors will have hardware that most likely cannot run the newest operating systems or applications, thereby requiring replacement of hardware, operating systems and applications in many cases.

Board of Supervisors' Response

The Covington County Board of Supervisors has developed a plan to replace operating systems, applications, and hardware where necessary that is no longer supported by vendors. We are replacing as funds allow.

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.

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

JOE E. MCKNIGHT, CPA
Director, County Audit Section

September 27, 2017

COVINGTON COUNTY

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COVINGTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2015

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued:

Governmental activities	Unmodified
Aggregate discretely presented component units	Adverse
General Fund	Unmodified
Hospital Bond Series 2015 Fund	Unmodified
Aggregate remaining fund information	Unmodified
2. Internal control over financial reporting:
 - a. Material weakness identified? Yes
 - b. Significant deficiency identified? None Reported
3. Noncompliance material to the financial statements noted? No

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

2015-001. 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 includes the financial data for its component units. As reported in the prior eight 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.