

COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2016

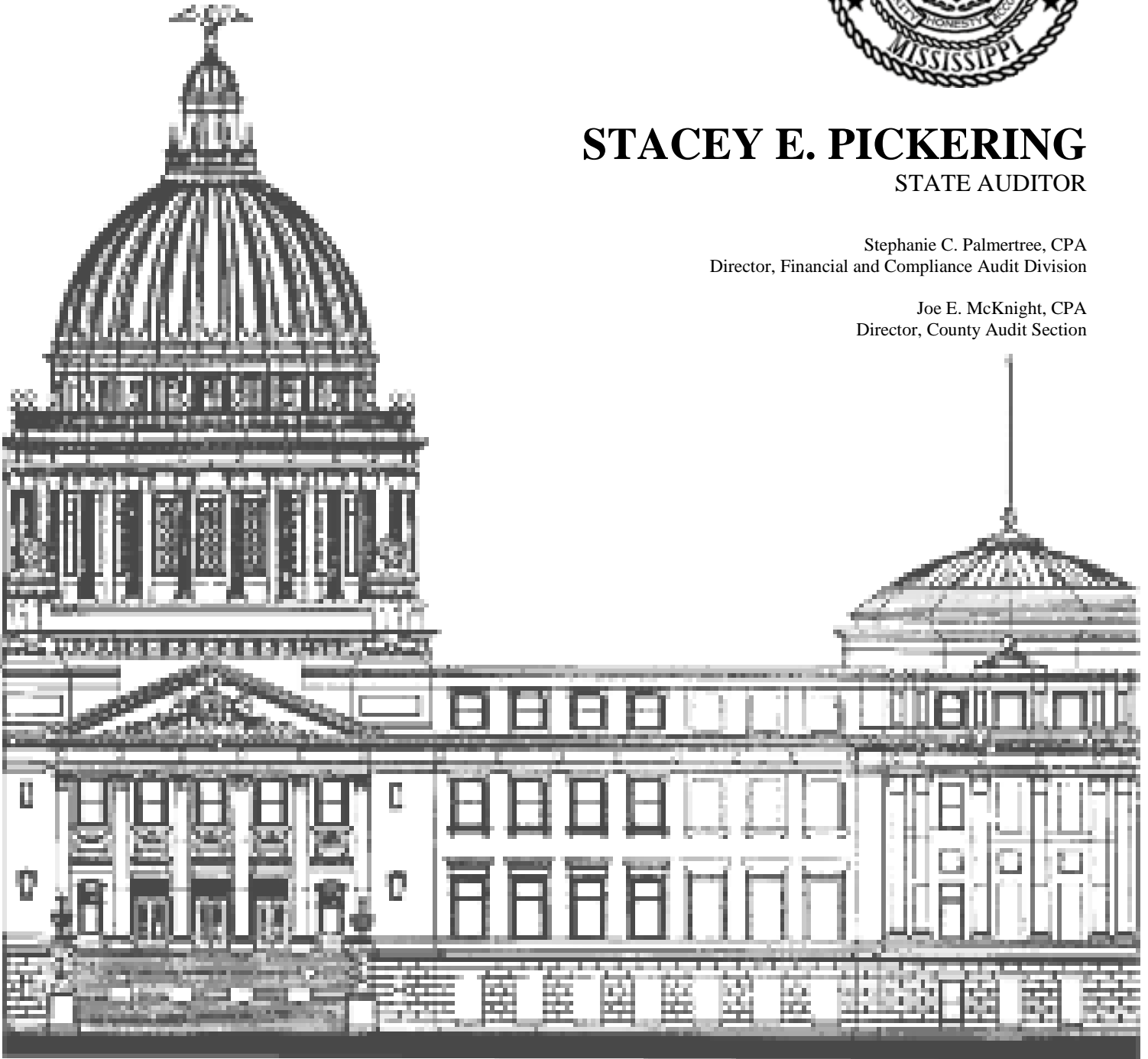


STACEY E. PICKERING

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

July 11, 2018

Members of the Board of Supervisors
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2016 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, 2016, 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 has not been determined.

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, 2016, 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.

Basis for Qualified Opinion on the General Fund

Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable of the Justice Court or the aging of these fines receivable. Adequate subsidiary records were not maintained and preserved for the Justice Court fines receivable aging schedules at September 30, 2016. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported in the General Fund at \$163,768, as of September 30, 2016. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

Qualified Opinion

In our opinion, except for the effects of such adjustments, if any, as might have been determined had we been able to examine evidence to determine the net realizable value of the fines receivable reported in the General Fund, the financial statements referred to previously present fairly, in all material respects, the financial position of the General Fund of Covington County, Mississippi, as of September 30, 2016, and the changes in financial position, thereof for the year then ended in conformity 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, the Hospital Bond Series 2015 Fund, the State Aid Road Fund, and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2016, 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 Schedules and corresponding notes, the Schedule of the County's Proportionate Share of the Net Pension Liability, and the Schedule of County 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 accompanying 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 July 11, 2018 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.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

July 11, 2018

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, 2016. 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 increased 3 mills over the last three years. This does not include the school taxes.

Total net position increased by \$1,878,919, which represents a 3.26% increase from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt, there was an increase of \$226,210 which represents a 2.47% increase from the prior fiscal year. The County's ending cash balance increased by \$111,040, which represents a .68% increase from the prior fiscal year.

COVINGTON COUNTY, MISSISSIPPI

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The County had \$13,794,454 in total revenues. Property tax revenues account for \$8,019,860 or 58% of total revenues. Operating grants, capital grants, and contributions account for \$3,460,088 or 25% of total revenues.

The County had \$11,915,535 in total expenditures, which represents an increase of \$19,974 or a .17% increase from the prior fiscal year. Expenses in the amount of \$4,234,330 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues and cash of \$7,681,205.

Among major funds, the General Fund had \$6,618,084 in revenues and \$5,792,767 in expenditures and other financing uses. The General Fund's fund balance increased \$825,317 over the prior year.

Capital assets, net of accumulated depreciation, increased by \$1,624,681. The difference was due to the addition of buildings associated with the construction of the new jail along with infrastructure, mobile equipment, and furniture and equipment

Long-term debt had a net decrease of \$348,028. The difference was due to the payoff of current debt.

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

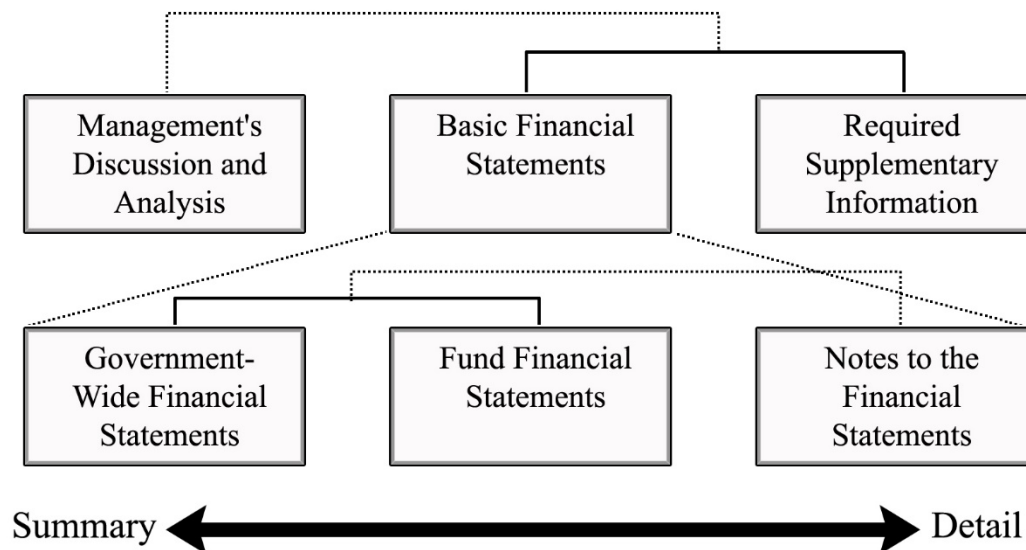


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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 23 and 24 of this report.

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, 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 26 and 28 respectively.

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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 25 and 27 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 29 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31 through 45 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 statement has been provided for the General Fund and the State Aid Road Fund. This required supplementary information can be found on pages 49 and 50 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 51 and 52.

Covington County, MS was not subject to a single audit for the year ended September 30, 2016.

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 exceeded liabilities by \$59,463,151 as of September 30, 2016.

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, 2016, as compared to fiscal year ended September 30, 2015.

	9/30/2016	09/30/15
	Governmental	Governmental
	Activities	Activities
Assets:		
Current Assets	\$ 30,361,875	30,356,396
Capital Assets, Net	53,907,865	52,283,184
Total Assets	<u>84,269,740</u>	<u>82,639,580</u>
Deferred Outflows:	<u>1,982,695</u>	<u>1,384,454</u>
Liabilities:		
Current Liabilities	1,265,948	2,076,416
Net Pension Liability	8,800,317	7,370,852
Long-Term Debt Outstanding	8,708,214	9,060,000
Total Liabilities	<u>18,774,479</u>	<u>18,507,268</u>
Deferred Inflows:	<u>8,014,805</u>	<u>7,932,534</u>
Net Position:		
Net investment in capital assets	50,088,707	48,435,998
Restricted	9,807,765	9,888,722
Unrestricted	(433,321)	(740,488)
Total Net Position	<u>\$ 59,463,151</u>	<u>57,584,232</u>

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

- Capital assets had additions of \$2,700,184 from additions in reallocations of construction in progress to buildings for the jail project, infrastructure, mobile equipment, and furniture and equipment.

Changes in Net Position – Covington County's total revenues for the fiscal year ended September 30, 2016 were \$13,794,454. The total cost for all services provided was \$11,915,535. The increase in net position was \$1,878,919. The following table presents a summary of the changes in net position for the fiscal year ended September 30, 2016, as compared to fiscal year ended September 30, 2015.

COVINGTON COUNTY, MISSISSIPPI

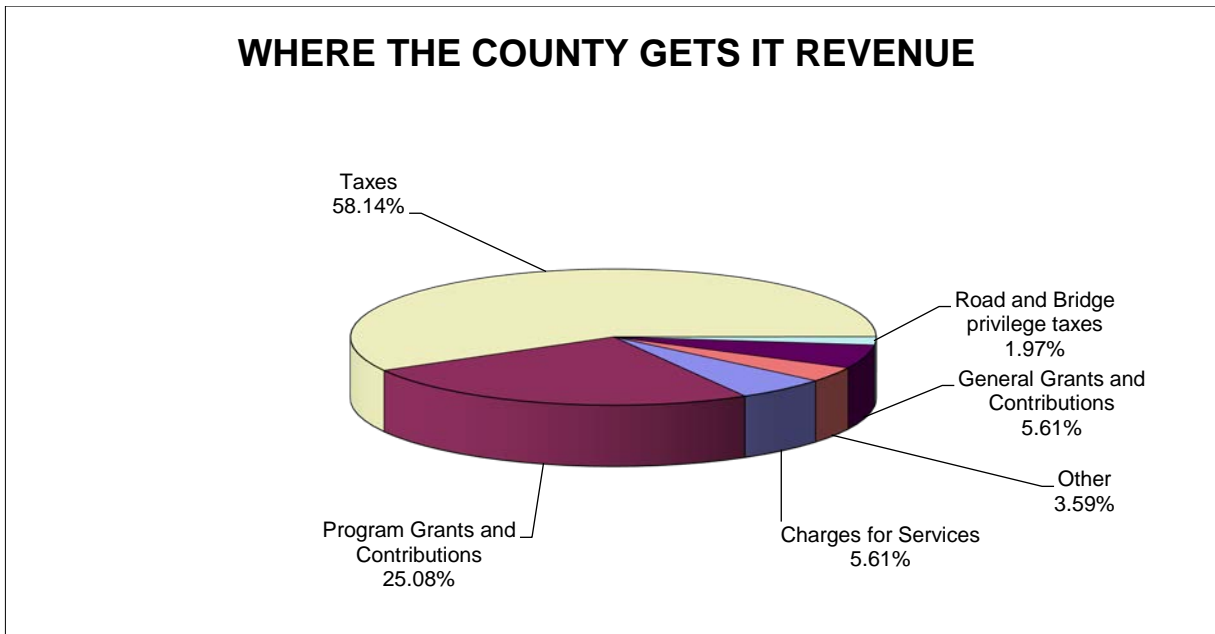
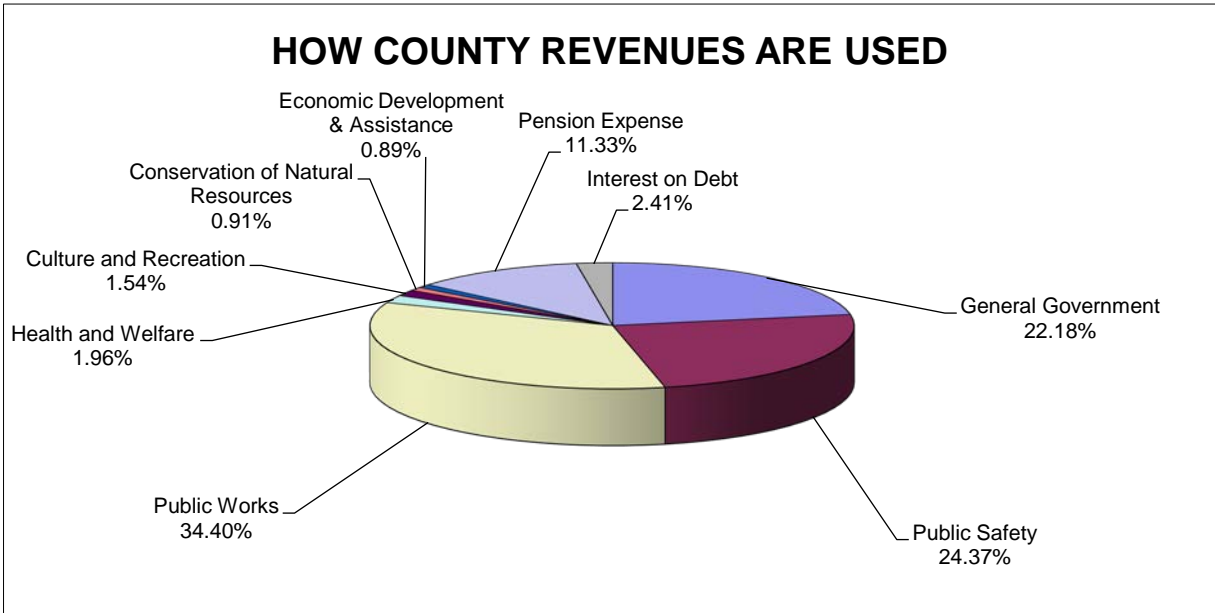
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	<u>9/30/2016</u>	<u>9/30/2015</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 774,242	754,510
Program Grants and Contributions	3,460,088	2,287,233
General Revenues:		
Taxes	8,019,860	7,384,060
Road and Bridge privilege taxes	272,086	270,270
General Grants and Contributions	773,465	986,645
Other	494,713	164,452
Total Revenues	<u>13,794,454</u>	<u>11,847,170</u>
Expenses:		
General Government	2,642,928	2,672,536
Public Safety	2,903,695	2,791,488
Public Works	4,099,469	4,769,035
Health and Welfare	233,796	281,776
Culture and Recreation	182,915	160,681
Conservation of Natural Resources	108,992	103,629
Economic Development & Assistance	106,587	56,115
Pension Expense	1,350,259	906,794
Interest on Debt	286,894	153,507
Total Expenses	<u>11,915,535</u>	<u>11,895,561</u>
Increase (Decrease) in Net Position	<u>1,878,919</u>	<u>(48,391)</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, 2016.



COVINGTON COUNTY, MISSISSIPPI

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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.

	<u>Total Costs</u>	<u>Net Costs</u>
General Government	\$ 2,642,928	\$ 2,167,239
Public Safety	2,903,695	2,307,616
Public Works	4,099,469	953,400
Health and Welfare	233,796	217,303
Culture and Recreation	182,915	182,915
Conservation of Natural Resources	108,992	108,992
Economic Development and Assistance	106,587	106,587
Interest on Long-Term Debt	286,894	286,894
Pension Expense	1,350,259	1,350,259

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 \$21,511,704 an increase of \$767,835. The increase is 3.7% of the total fund balance.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year is \$825,317. This increase is due to a decrease in expenses for 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, 2016, Covington County's total capital assets were \$149,164,873. 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 \$2,584,392.

Total accumulated depreciation as of September 30, 2016 was \$95,257,008, including \$1,045,647 of depreciation expense for the year. The balance in total net capital assets was \$53,907,865 at year-end.

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

Capital Asset Values

Asset Classification	Balance 10/1/2015	Additions	Deletions	Adjustments	Balance 9/30/2016
Land	\$ 335,571				335,571
Construction in Progress	421,134	45,319			466,453
Infrastructure	124,517,383	2,108,330			126,625,713
Buildings	9,990,051				9,990,051
Mobile Equipment	8,650,739	306,061	14,655	162,356	9,104,501
Furniture and Equipment	2,503,247	92,774	101,137		2,494,884
Leased Property under Capital Leases	162,356	147,700		(162,356)	147,700
Totals	\$ 146,580,481	2,700,184	115,792		149,164,873

Capital Asset Accumulated Depreciation

Asset Classification	Balance 10/1/2015	Additions	Deletions	Adjustments	Balance 9/30/2016
Infrastructure	\$ 83,123,968	308,058			83,432,026
Buildings	2,220,935	173,690			2,394,625
Mobile Equipment	6,730,425	456,853	13,189	73,060	7,247,149
Furniture and Equipment	2,148,909	93,750	72,747		2,169,912
Leased Property under Capital Leases	73,060	13,296		(73,060)	13,296
Totals	\$ 94,297,297	1,045,647	85,936		95,257,008

Debt Administration – At September 30, 2016, Covington County had \$9,199,158 in long-term debt outstanding. The debt outstanding as of September 30, 2016 is general obligation bonds, limited obligation bonds, and capital leases. Of this debt, \$490,944 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, 2016, Covington County's outstanding debt was equal to 3.4% of the latest property assessments.

COVINGTON COUNTY, MISSISSIPPI

UNAUDITED

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2016:

	Balance			Balance	Due Within
	10/1/2015	Additions	Reductions	9/30/2016	One Year
General Obligation Bonds	\$ 5,700,000		320,000	5,380,000	300,000
Limited Obligation Bonds	3,835,000		155,000	3,680,000	165,000
Capital Leases	12,186	147,700	20,728	139,158	25,944
Total	\$ 9,547,186	147,700	495,728	9,199,158	490,944

Additional information on Covington County's long-term debt can be found in note 10 on pages 43 and 44 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

Covington County, MS will begin the construction of a cafeteria for the new jail and will also begin the construction for a civic center for District 1.

The budget for the next fiscal year reflected a decrease of \$547,364 or 3.97% in revenues and an increase of \$4,054,103 or 34.02% in expenses. This is expected to decrease the County's net position. The increase in expenses is due to the increase of pay raises for deputies and the increase in the jail payment.

Covington County has an unemployment rate of 4.8% versus 5.5% a year ago. This compares favorably with the state average rate of 5.1%.

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, 2016

Exhibit 1

	Primary Government
	Governmental Activities
ASSETS	
Cash	\$ 16,447,922
Restricted cash	383
Property tax receivable	7,991,420
Fines receivable (net of allowance for uncollectibles of \$766,818)	163,768
Loans receivable	5,380,000
Intergovernmental receivables	373,849
Other receivables	4,533
Capital assets:	
Land and construction in progress	802,024
Other capital assets, net	53,105,841
Total Assets	84,269,740
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	1,982,695
Total Deferred Outflows of Resources	1,982,695
LIABILITIES	
Claims payable	441,564
Intergovernmental payables	176,621
Accrued interest payable	80,021
Other payables	76,798
Long-term liabilities	
Net pension liability	8,800,317
Due within one year:	
Capital debt	190,944
Non-capital debt	300,000
Due in more than one year:	
Capital debt	3,628,214
Non-capital debt	5,080,000
Total Liabilities	18,774,479
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	23,385
Deferred revenues - property taxes	7,991,420
Total Deferred Inflows of Resources	8,014,805
NET POSITION	
Net investment in capital assets	50,088,707
Restricted for:	
Expendable:	
General government	71,966
Public safety	1,752,801
Public works	2,618,467
Culture and recreation	3,380
Economic development and assistance	1,047
Debt service	5,339,979
Unemployment compensation	20,125
Unrestricted	(433,321)
Total Net Position	\$ 59,463,151

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

COVINGTON COUNTY
Statement of Activities
For the Year Ended September 30, 2016

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	\$ 2,642,928	461,737	13,952		(2,167,239)
Public safety	2,903,695	283,317	294,766	17,996	(2,307,616)
Public works	4,099,469	29,188	797,660	2,319,221	(953,400)
Health and welfare	233,796		16,493		(217,303)
Culture and recreation	182,915				(182,915)
Conservation of natural resources	108,992				(108,992)
Economic development and assistance	106,587				(106,587)
Interest on long-term debt	286,894				(286,894)
Pension expense	1,350,259				(1,350,259)
Total Governmental Activities	\$ 11,915,535	774,242	1,122,871	2,337,217	(7,681,205)
General revenues:					
Property taxes					\$ 8,019,860
Road & bridge privilege taxes					272,086
Grants and contributions not restricted to specific programs					773,465
Unrestricted interest income					83,879
Miscellaneous					410,834
Total General Revenues					9,560,124
Changes in Net Position					1,878,919
Net Position - Beginning					57,584,232
Net Position - Ending					\$ 59,463,151

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

COVINGTON COUNTY
Balance Sheet - Governmental Funds
September 30, 2016

Exhibit 3

	Major Funds			Other	Total
	General Fund	Hospital Bond Series 2015 Fund	State Aid Road Fund	Governmental Funds	Governmental Funds
ASSETS					
Cash	\$ 11,831,043	40,000	5,216	4,571,663	16,447,922
Restricted cash	383				383
Property tax receivable	5,039,000			2,952,420	7,991,420
Fines receivable (net of allowance for uncollectibles of \$766,818)	163,768				163,768
Loans receivable		5,380,000			5,380,000
Due from other funds				55,458	55,458
Intergovernmental receivables	204,965			168,884	373,849
Other receivables	4,002			531	4,533
Total Assets	\$ 17,243,161	5,420,000	5,216	7,748,956	30,417,333
LIABILITIES					
Liabilities:					
Claims payable	\$ 107,215		5,177	329,172	441,564
Intergovernmental payables	170,089				170,089
Due to other funds	61,990				61,990
Other payables	76,798				76,798
Total Liabilities	416,092	0	5,177	329,172	750,441
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - property taxes	5,039,000			2,952,420	7,991,420
Unavailable revenue - fines	163,768				163,768
Total Deferred Inflows of Resources	5,202,768	0	0	2,952,420	8,155,188
Fund balances:					
Restricted for:					
General government				71,966	71,966
Public safety	383			1,752,418	1,752,801
Public works			39	2,618,428	2,618,467
Culture and recreation				3,380	3,380
Economic development and assistance				1,047	1,047
Debt service		5,420,000			5,420,000
Unemployment compensation				20,125	20,125
Assigned to:					
General government	7,464				7,464
Public safety	17,978				17,978
Culture and recreation	75,823				75,823
Unassigned	11,522,653				11,522,653
Total Fund Balances	11,624,301	5,420,000	39	4,467,364	21,511,704
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 17,243,161	5,420,000	5,216	7,748,956	30,417,333

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, 2016

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 21,511,704
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 \$95,257,008.	53,907,865
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	163,768
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(9,199,158)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(8,800,317)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(80,021)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	1,982,695
Deferred inflows of resources related to pensions	<u>(23,385)</u>
Total Net Position - Governmental Activities	\$ <u><u>59,463,151</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, 2016

	Major Funds				
	General Fund	Hospital Bond Series 2015 Fund	State Aid Road Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 5,067,969			2,951,891	8,019,860
Road and bridge privilege taxes				272,086	272,086
Licenses, commissions and other revenue	200,159			18,773	218,932
Fines and forfeitures	319,483			865	320,348
Intergovernmental revenues	834,003		2,341,641	1,057,909	4,233,553
Charges for services	4,525			213,978	218,503
Interest income	77,839			6,040	83,879
Miscellaneous revenues	114,106	172,160		124,568	410,834
Total Revenues	6,618,084	172,160	2,341,641	4,646,110	13,777,995
EXPENDITURES					
Current:					
General government	2,604,298			238,982	2,843,280
Public safety	2,195,052			735,818	2,930,870
Public works	57,143		2,341,641	3,638,870	6,037,654
Health and welfare	198,230				198,230
Culture and recreation	75,357			119,298	194,655
Conservation of natural resources	107,160				107,160
Economic development and assistance	42,202			44,662	86,864
Debt service:					
Principal	155,000	320,000		20,728	495,728
Interest	130,390	132,160		869	263,419
Total Expenditures	5,564,832	452,160	2,341,641	4,799,227	13,157,860
Excess of Revenues over (under) Expenditures	1,053,252	(280,000)	0	(153,117)	620,135
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued				147,700	147,700
Transfers in				230,621	230,621
Transfers out	(227,935)			(2,686)	(230,621)
Total Other Financing Sources and Uses	(227,935)	0	0	375,635	147,700
Net Changes in Fund Balances	825,317	(280,000)	0	222,518	767,835
Fund Balances - Beginning	10,798,984	5,700,000	39	4,244,846	20,743,869
Fund Balances - Ending	\$ 11,624,301	5,420,000	39	4,467,364	21,511,704

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, 2016

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 767,835
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 \$2,700,184 exceeded depreciation of \$1,045,647 in the current period.	1,654,537
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 \$29,856.	(29,856)
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.	16,459
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 repayments of \$495,728 exceeded debt proceeds of \$147,700.	348,028
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	(23,475)
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	(1,350,259)
Recording of contributions made during the year	<u>495,650</u>
Change in Net Position of Governmental Activities	\$ <u>1,878,919</u>

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

COVINGTON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2016

Exhibit 5

	Agency Funds
ASSETS	
Cash	\$ 691,665
Due from other funds	6,532
Total Assets	\$ <u>698,197</u>
LIABILITIES	
Amounts held in custody for others	\$ 691,665
Intergovernmental payables	6,532
Total Liabilities	\$ <u>698,197</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, 2016

(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, 2016

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, deferred outflows, liabilities, deferred inflows, fund balances, 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.

State Aid Road Fund - This fund is used to account for monies from specified revenue sources that are restricted for state aid road construction and maintenance.

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, 2016

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 board 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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

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

	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 9 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.

Deferred inflows related to pensions - This amount represents the County's proportionate share of the deferred inflows of resources reported by the pension plan in which the County participates. See Note 9 for additional details.

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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

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.

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 expense 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 expenses are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the 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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

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) 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.

(2) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2016, was \$17,139,970, and the bank balance was \$18,135,956. 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 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

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2016

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 payments of the Covington County jail project. Accordingly, this cash is classified as restricted on the financial statements.

(3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2016:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 55,458
Agency Funds	General Fund	6,532
Total		<u>\$ 61,990</u>

The receivables represent the tax revenue collected in September, 2016, but not settled until October, 2016. 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>
Other Governmental Funds	General Fund	\$ 227,935
Other Governmental Funds	Other Governmental Funds	2,686
Total		<u>\$ 230,621</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.

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2016, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 121,781
MDOT reimbursement	72,000
Litter grant	7,935
Youth court reimbursement	3,249
DUI grant	26,901
Emergency management performance grants	23,545
Disaster grant	80,938
Hazard mitigation grant	<u>37,500</u>
Total Governmental Activities	<u>\$ 373,849</u>

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2016

(5) 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, 2016, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Covington County Hospital	09/2015	2.00-3.375%	07/2031	\$ 5,380,000

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2016:

Governmental activities:

	Balance Oct. 1, 2015	Additions	Deletions	Adjustments *	Balance Sept. 30, 2016
<u>Non-depreciable capital assets:</u>					
Land	\$ 335,571				335,571
Construction in progress	421,134	45,319			466,453
Total non-depreciable capital assets	756,705	45,319	-	-	802,024
<u>Depreciable capital assets:</u>					
Infrastructure	124,517,383	2,108,330			126,625,713
Buildings	9,990,051				9,990,051
Mobile equipment	8,650,739	306,061	14,655	162,356	9,104,501
Furniture and equipment	2,503,247	92,774	101,137		2,494,884
Leased property under capital leases	162,356	147,700		(162,356)	147,700
Total depreciable capital assets	145,823,776	2,654,865	115,792	-	148,362,849
<u>Less accumulated depreciation for:</u>					
Infrastructure	83,123,968	308,058			83,432,026
Buildings	2,220,935	173,690			2,394,625
Mobile equipment	6,730,425	456,853	13,189	73,060	7,247,149
Furniture and equipment	2,148,909	93,750	72,747		2,169,912
Leased property under capital leases	73,060	13,296		(73,060)	13,296
Total accumulated depreciation	94,297,297	1,045,647	85,936	-	95,257,008
Total depreciable capital assets, net	51,526,479	1,609,218	29,856	-	53,105,841
Governmental activities capital assets, net	\$ 52,283,184	1,654,537	29,856	-	53,907,865

*Adjustments are to reclassify paid-off capital leases from leased property to mobile equipment.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2016

Depreciation expense was charged to the following functions:

	Amount
Governmental activities:	
General government	\$ 32,093
Public safety	226,358
Public works	717,928
Health and welfare	35,566
Culture and recreation	12,147
Conservation of natural resources	1,832
Economic development and assistance	19,723
	<hr/>
Total governmental activities depreciation expense	\$ 1,045,647

Commitments with respect to unfinished capital projects at September 30, 2016, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Pickering Rogers Road - STPBR 0016 28(B)	\$ 27,577	October, 2016
Jail kitchen	Unknown	Unknown

(7) 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, 2016, to January 1, 2017. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(8) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2016:

Class of Property	Governmental Activities
Mobile Equipment	\$ 147,700
Less: Accumulated depreciation	<hr/> (13,296)
Leased Property Under Capital Leases	\$ <hr/> <hr/> 134,404

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

The following is a schedule by years of the total payments due as of September 30, 2016:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2017	\$ 25,944	1,896
2018	26,334	1,506
2019	86,880	870
Total	\$ 139,158	4,272

(9) 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. Plan provisions and the Board of Trustees' authority to determine contribution rates are established by Miss. Code Ann. Section 25-11-1 et seq., (1972, as amended) 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.

Contributions. At September 30, 2016, 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, 2016 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, 2016, 2015 and 2014 were \$495,650, \$481,388 and \$454,375, 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

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2016

At September 30, 2016, the County reported a liability of \$8,800,317 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, 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. The County's proportionate share used to calculate the September 30, 2016 net pension liability was 0.049267 percent, which was based on a measurement date of June 30, 2016. This was an increase of 0.001584 from its proportionate share used to calculate the September 30, 2015 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended September 30, 2016, the County recognized pension expense of \$1,350,259. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 145,177	
Net difference between projected and actual earnings on pension plan investments	695,409	
Changes of assumptions		23,385
Remaining balance of prior years	845,416	
Changes in the proportion and differences between the County's contributions and proportionate share of contributions	169,683	
County contributions subsequent to the measurement date	127,010	
Total	\$ 1,982,695	23,385

\$127,010 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, 2017. 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:

2017	\$ 702,667
2018	617,696
2019	338,085
2020	173,852
Total	\$ 1,832,300

Actuarial Assumptions. The total pension liability in the June 30, 2016 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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

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, 2016 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, 2016, 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. 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:

	<u>1% Decrease (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
County's proportionate share of the net pension liability	\$ 11,283,978	8,800,317	6,739,681

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

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2016

(10) Long-term Debt.

Debt outstanding as of September 30, 2016, 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	\$ 5,380,000	2.00-3.375%	07/2031
B. Limited Obligation Bonds:			
Certificates of Participation, Jail Project	\$ 3,680,000	3.40%	06/2033
C. Capital Leases:			
District 1 John Deere 60G compact excavator	\$ 69,579	1.49%	06/2019
District 5 John Deere 60G compact excavator	69,579	1.49%	06/2019
Total Capital Leases	\$ 139,158		

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
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	325,000	126,982	185,000	101,660
2022 - 2026	1,760,000	492,131	1,035,000	408,680
2027 - 2031	2,060,000	206,751	1,220,000	220,490
2032 - 2036			550,000	28,220
Total	\$ 5,380,000	1,402,388	3,680,000	1,225,190

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, 2016, the amount of outstanding debt was equal to 3.40% of the latest property assessments.

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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2016:

	Balance			Balance	Amount due
	Oct. 1, 2015	Additions	Reductions	Sept. 30, 2016	within one
					year
Governmental Activities:					
General obligation bonds	\$ 5,700,000		320,000	5,380,000	300,000
Limited obligation bonds	3,835,000		155,000	3,680,000	165,000
Capital leases	12,186	147,700	20,728	139,158	25,944
Total	\$ 9,547,186	147,700	495,728	9,199,158	490,944

(11) Contingencies.

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

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

(12) Effect of Deferred Amounts on Net Position.

The governmental activities' unrestricted net position (deficit) amount of (\$433,321) includes the effect of deferred inflows of resources and deferred outflows of resources related to pensions. A portion of the deferred outflows of resources related to pensions in the amount of \$127,010 resulting from county contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$1,855,685 balance of the deferred outflows of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next four years. The \$23,385 balance of the deferred inflows of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next three years.

(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 \$29,000 for support of the district in fiscal year 2016.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2016

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 2016.

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 \$442,772 for maintenance and support of the college in fiscal year 2016.

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 2016.

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 2016.

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 July 11, 2018, and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2016, the County issued the following debt obligation:

<u>Issue</u>	<u>Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
01/09/2017		2.10%	\$ 131,283	Capital lease	Ad valorem taxes
12/29/2017		3.78%	49,605	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, 2016
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 5,025,334	5,061,761	5,061,761	
Licenses, commissions and other revenue	265,000	279,296	279,296	
Fines and forfeitures	279,000	278,421	278,421	
Intergovernmental revenues	925,600	774,108	774,108	
Charges for services	500	2,295	2,295	
Interest income	31,650	77,502	77,502	
Miscellaneous revenues	140,475	141,145	141,145	
Total Revenues	<u>6,667,559</u>	<u>6,614,528</u>	<u>6,614,528</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	2,942,855	2,625,726	2,625,726	
Public safety	2,756,990	1,951,914	1,951,914	
Public works	58,500	57,585	57,585	
Health and welfare	214,120	198,307	198,307	
Culture and recreation	49,325	72,731	72,731	
Conservation of natural resources	114,525	104,924	104,924	
Economic development and assistance	35,400	42,202	42,202	
Debt service:				
Principal		155,000	155,000	
Interest		130,390	130,390	
Total Expenditures	<u>6,171,715</u>	<u>5,338,779</u>	<u>5,338,779</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>495,844</u>	<u>1,275,749</u>	<u>1,275,749</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(2,378,500)	(1,487,665)	(1,487,665)	
Total Other Financing Sources and Uses	<u>(2,378,500)</u>	<u>(1,487,665)</u>	<u>(1,487,665)</u>	<u>0</u>
Net Change in Fund Balance	(1,882,656)	(211,916)	(211,916)	
Fund Balances - Beginning	<u>8,495,489</u>	<u>11,761,630</u>	<u>11,761,630</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 6,612,833</u>	<u>11,549,714</u>	<u>11,549,714</u>	<u>0</u>

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

COVINGTON COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 State Aid Road Fund
 For the Year Ended September 30, 2016
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 200,000	220,208	220,208	
Total Revenues	<u>200,000</u>	<u>220,208</u>	<u>220,208</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	200,000	231,956	231,956	
Total Expenditures	<u>200,000</u>	<u>231,956</u>	<u>231,956</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(11,748)</u>	<u>(11,748)</u>	<u>0</u>
Net Change in Fund Balance		(11,748)	(11,748)	
Fund Balances - Beginning	<u>0</u>	<u>16,964</u>	<u>16,964</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>5,216</u>	<u>5,216</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, 2016

UNAUDITED

	<u>2016</u>	<u>2015</u>
County's proportion of the net pension liability (asset)	0.049267%	0.047683%
County's proportionate share of the net pension liability (asset)	\$ 8,800,317	7,370,852
County's covered-employee payroll	\$ 3,151,708	2,978,984
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	279.22%	247.43%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%

* The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of June of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. 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
Schedule of County Contributions
Last 10 Fiscal Years*
For the Year Ended September 30, 2016
UNAUDITED

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 495,650	481,388
Contributions in relation to the contractually required contribution	<u>495,650</u>	<u>481,388</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>
County's covered-employee payroll	\$ 3,146,981	3,056,431
Contributions as a percentage of covered-employee payroll	15.75%	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

Notes to the Required Supplementary Information For the Year Ended September 30, 2016 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 and the major Special Revenue Fund:

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>State Aid Road Fund</u>
Budget (Cash Basis)	\$ (211,916)	(11,748)
Increase (Decrease)		
Net adjustments for revenue accruals	3,556	2,121,433
Net adjustments for expenditure accruals	<u>1,033,677</u>	<u>(2,109,685)</u>
GAAP Basis	\$ <u><u>825,317</u></u>	<u><u>0</u></u>

COVINGTON COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2016 UNAUDITED

Pension Schedules

A. Changes of assumptions.

2015

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.

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.

Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.

The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

2016

The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

B. Changes in benefit provisions.

2016

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contribution rates in the schedule of employer contributions are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported (2016 Employer contributions are developed from 2014 valuation).

The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule.

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, open
Remaining amortization period	29.2 years
Asset valuation method	5-year smoothed market
Price Inflation	3.50 percent
Salary increase	4.25 percent to 19.50 percent, including inflation
Investment rate of return	8.00 percent, net of pension plan investment expense, including inflation

COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2016

Operating Expenditures, Cash Basis:

Salaries	\$	258,761
Expendable Commodities:		
Gasoline and petroleum products		30,240
Repair parts		7,981
Maintenance		4,848
Contractual services		205,597
Supplies		<u>189</u>

Solid Waste Cash Basis Operating Expenditures	507,616
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Full Cost Expenses:

Indirect administrative costs	3,288
Depreciation on equipment	<u>41,334</u>

Solid Waste Full Cost Operating Expenses	\$ <u><u>552,238</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, 2016
UNAUDITED

Name	Position	Company	Bond
John Sterling Craft	Supervisor District 1	FCCI Insurance Company	\$100,000
John N. Holifield	Supervisor District 2	FCCI Insurance Company	\$100,000
Jimmy D. White	Supervisor District 3	FCCI Insurance Company	\$100,000
Guy Cecil Easterling	Supervisor District 4	FCCI Insurance Company	\$100,000
Aurthur Keys	Supervisor District 5	FCCI Insurance Company	\$100,000
Joseph Warren	Chancery Clerk	FCCI Insurance Company	\$100,000
Joseph Warren	Purchase Clerk	FCCI Insurance Company	\$75,000
Pamela Mechelle Beasley	Assistant Purchase Clerk	RLI Insurance Company	\$50,000
Jeana Humphrey	Assistant Purchase Clerk	FCCI Insurance Company	\$50,000
Gina C. Sanford	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
Leon Lott	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Mamie Theresa Knight	Inventory Control Clerk	FCCI Insurance Company	\$75,000
Roger P. Dickens	Constable	FCCI Insurance Company	\$50,000
Anthony Jerome Graham	Constable	RLI 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 Mooney	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
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
Brittany T. Hicks	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Sherry Barker	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, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 11, 2018. 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. Additionally, our report includes a qualified opinion on the General Fund because the County did not maintain and preserve adequate subsidiary records documenting the existence and valuation of the Justice Court fines receivable, net, and the aging of these receivables at September 30, 2016.

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 certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as 2016-001 and 2016-002 that we consider to be material weaknesses.

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 Limited Internal Control and Compliance Review Management Report dated July 11, 2018, included within this document.

Covington County's Responses to Findings

Covington County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. Covington County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

July 11, 2018



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, 2016. 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.

In our opinion, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2016.

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.

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.

A handwritten signature in black ink, reading "Joe E. Mcknight". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

JOE E. MCKNIGHT, CPA
Director, County Audit Section

July 11, 2018

COVINGTON COUNTY

Schedule 1

Schedule of Purchases From Other Than the Lowest Bidder

For the Year Ended September 30, 2016

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, 2016

Schedule 2

Our tests did not identify any emergency purchases.

COVINGTON COUNTY

Schedule 3Schedule of Purchases Made Noncompetively From a Sole Source
For the Year Ended September 30, 2016

<u>Date</u>	<u>Item Purchased</u>		<u>Amount Paid</u>	<u>Vendor</u>
08/16/2016	Tasers	\$	16,150	Taser International

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, 2016, we considered Covington County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Covington County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 11, 2018, 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:

Chancery Clerk.

1. The Chancery Clerk should reconcile bank statements monthly to the fee journal.

Repeat Finding No

Criteria An effective system of internal control should include maintaining a fee journal and reconciling bank statements to the fee journal.

Condition The Chancery Clerk's bank statements were not reconciled to the fee journal on a monthly basis.

Cause Unknown

Effect The failure to reconcile the bank statements to the fee journal could result in the loss of public funds.

Recommendation The Chancery Clerk should ensure that the bank statements are reconciled to the fee journal each month.

Views of Responsible Official	I will work closer with the CPA firm I have hired to ensure that this will not happen again.
2.	<u>The Chancery Clerk should reconcile bank statements for land redemption on a monthly basis.</u>
Repeat Finding	No
Criteria	An effective system of internal control over cash should include reconciliation of land redemption bank accounts on a monthly basis.
Condition	The bank statements for the land redemption account were not reconciled.
Cause	Unknown
Effect	As a result, fees paid to the Chancery Clerk, County and Sheriff's department were over settled. This resulted in a shortage in the Land Redemption account of \$4,594.43.
Recommendation	The Chancery Clerk should implement a system that ensures the land redemption bank statements are reconciled each month.
Views of Responsible Official	I am now fully informed regarding the event of double settlement for the tax deeds. I will see this does not happen again.
Auditors Note	Amounts were repaid by the Covington County General Fund on November 9, 2017, check number 067006 in the amount of \$1,393, and the Covington County Chancery Clerk on October 23, 2017, check number 1076 in the amount of \$2,991.43. All amounts were receipted into the Covington County Chancery Clerk Land Redemption account. The remaining \$210 is made up of immaterial amounts due from various other Sheriff's departments and will be covered by the Chancery Clerk if necessary.

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.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

July 11, 2018

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, 2016

Section 1: Summary of Auditor's Results

Financial Statements:

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

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

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

2016-001.	<u>Financial data for County's component units should be included in the County's financial statements.</u>
Repeat Finding	Yes
Criteria	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.
Condition	As reported in the prior nine years' audit reports, the financial statements do not include the financial data for the County's legally separate component units.
Cause	Unknown
Effect	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.
Views of Responsible Officials	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.

COVINGTON COUNTY

Schedule of Findings and Responses
For the Year Ended September 30, 2016

Justice Court Clerk.

Material Weakness

2016-002. The Justice Court Clerk should ensure effective controls over fines receivable.

Repeat Finding No

Criteria An effective system of internal control over fines receivable records should include maintaining adequate subsidiary records to substantiate the total fines receivable balance.

Condition Management did not maintain adequate subsidiary records documenting the existence and valuation of fines receivable for Justice Court fines and aging of fines receivable as of September 30, 2016.

Cause Unknown

Condition The Independent Auditor's Report includes a qualified opinion on the General Fund because we were unable to satisfy ourselves as to the fair presentation of the Justice Court fines receivable.

Recommendation The Justice Court Clerk should establish procedures documenting the existence and valuation of Justice Court fines receivable, including the aging schedule of fines receivable.

Views of Responsible Officials The accounts receivable report was run on October 2, 2017 for the 2016 year. The correct dates were entered, as to why the wrong dates were reported, I can't answer.

Auditors Note On October 2, 2017, the fiscal year 2017 report was run; however, that is not the report in question for fiscal year 2016. The fiscal year 2016 report is dated March 3, 2017. We were unable to verify the accuracy of the report totals at that date.