

COVINGTON COUNTY, MISSISSIPPI

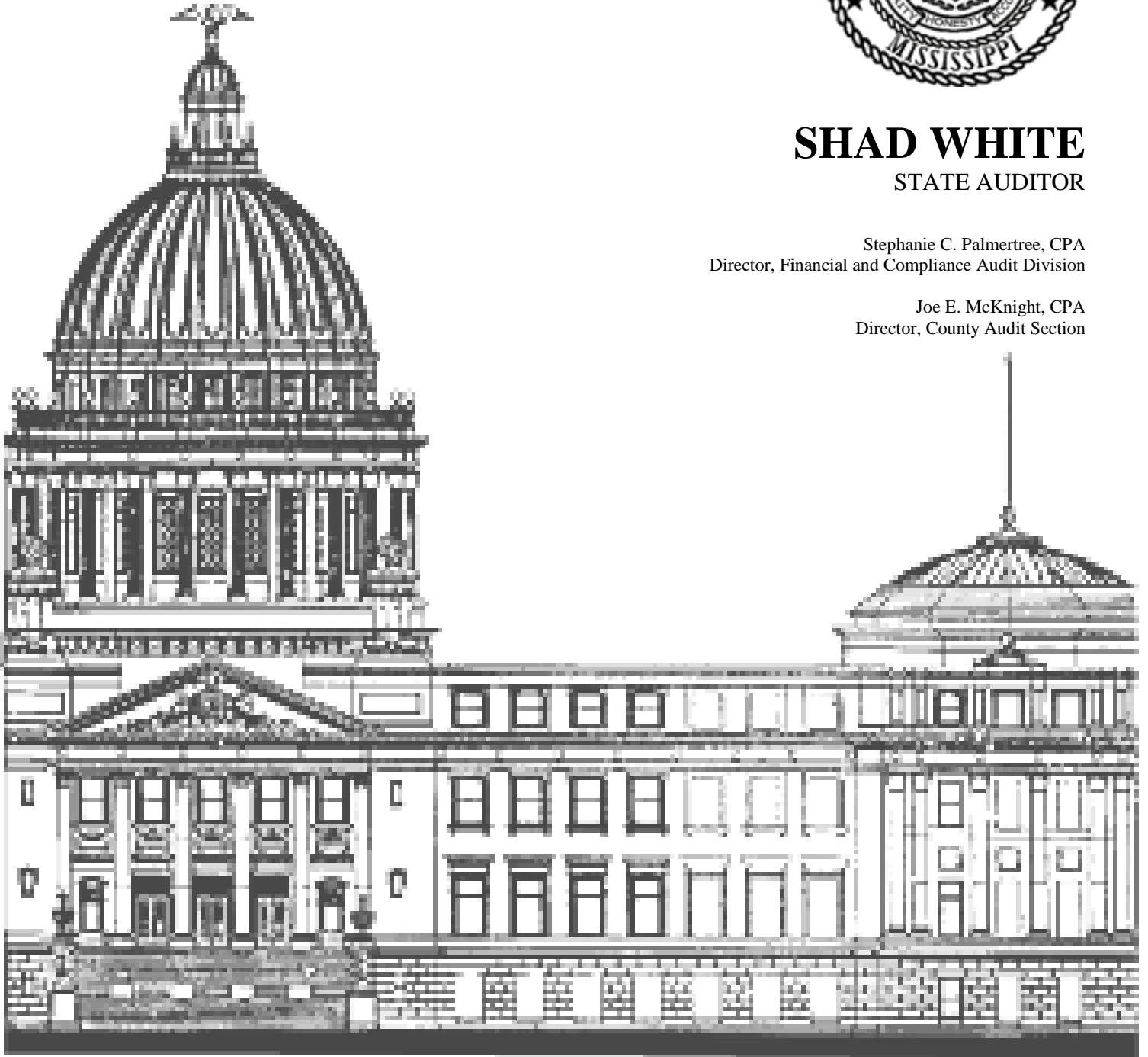
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2018



SHAD WHITE
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**

Shad White
AUDITOR

June 19, 2020

Members of the Board of Supervisors
Covington County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2018 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 "Shad White", is written over a horizontal line.

Shad White

COVINGTON COUNTY

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COVINGTON COUNTY

FINANCIAL SECTION

COVINGTON COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
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, 2018, 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, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2018, 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 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 June 19, 2020 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Covington County, Mississippi's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Covington County, Mississippi's internal control over financial reporting and compliance.

A handwritten signature in black ink, reading "Joe E. Mcknight". The signature is written in a cursive, flowing style.

JOE E. MCKNIGHT, CPA
Director, County Audit Section

June 19, 2020

COVINGTON COUNTY

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COVINGTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

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COVINGTON COUNTY, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

UNAUDITED

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, 2018. 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.

The tax rate for Covington County has increased by 8.31 mills over the last 3 years. In 2016, the millage increased from 80.75 mills to 82.75 mills in order to offset increases in operating expenses. In 2017, the millage increased from 82.75 mills to 85.75 mills due to a funding request by the Covington County School District and the Covington County Library and to help offset increases in operating expenses. In 2018, the millage increased from 85.75 mills to 89.06 mills due to a funding request by the Covington County School District and a funding request by the Covington County Fire Protection to help pay for the purchase of 10 new fire trucks.

Total net position decreased by \$319,656, which represents a 0.53% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt, there was a decrease of \$1,105,271 which represents a 12.63% decrease from the prior fiscal year. The County's ending cash balance decreased by \$116,275, which represents a 0.70% decrease from the prior fiscal year.

COVINGTON COUNTY, MISSISSIPPI

The County had \$13,178,119 in total revenues. Property tax revenues account for \$8,749,170 or 66% of total revenues. Operating grants, capital grants, and contributions account for \$1,642,406 or 12% of total revenues. General grants and contributions account for \$865,855 or 7% of total revenues.

The County had \$13,876,106 in total expenditures, which represents an increase of \$1,012,377 or an 8% increase from the prior fiscal year. Expenses in the amount of \$2,401,373 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues and cash balances of \$10,776,746.

Among major funds, the General Fund had \$7,390,981 in revenues and other financing sources and \$7,419,368 in expenditures and other financing uses. The General Fund's fund balance decreased \$28,387 over the prior year.

Capital assets, net of accumulated depreciation, increased by \$2,715,427. The difference was due to the addition of buildings associated with the construction of a kitchen inside of the new jail along with infrastructure, mobile equipment, furniture and equipment, and leased property under capital lease.

Long-term debt had a net increase of \$1,624,812. The main difference was due to the increase of the addition of capital leases due to the purchase of 10 new fire trucks.

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.

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

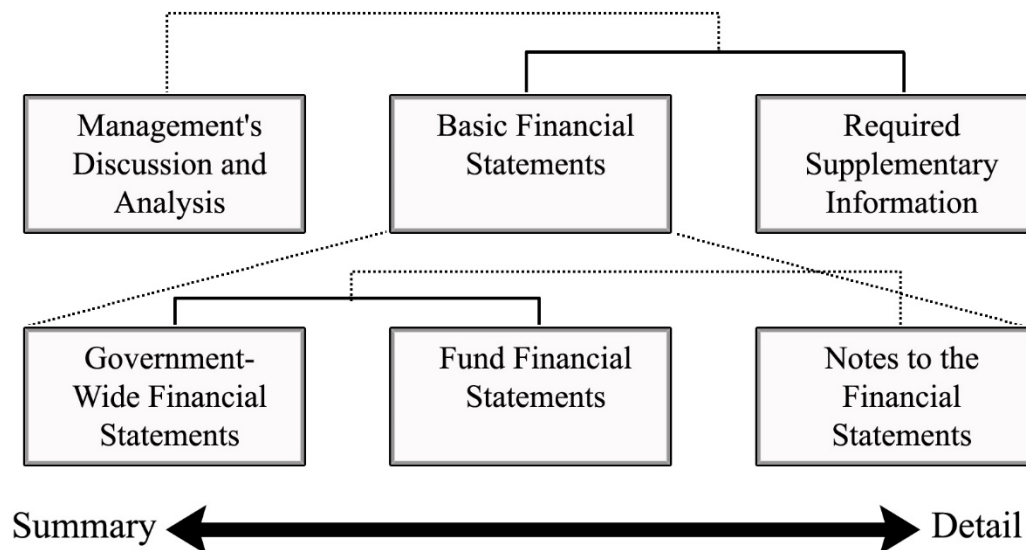


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

COVINGTON COUNTY, MISSISSIPPI

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.

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

COVINGTON COUNTY, MISSISSIPPI

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

The **statement of net 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.

COVINGTON COUNTY, MISSISSIPPI

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.

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.

COVINGTON COUNTY, MISSISSIPPI

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31 through 47 of this report.

Required Supplementary Information also provides additional information to the basic financial statements and accompanying notes. The Required Supplementary Information includes Management's Discussion and Analysis, the Budgetary Comparison Schedules, the Schedule of the County's Proportionate Share of the Net Pension Liability, the Schedule of the County's Contributions, and accompanying notes 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 Fire Protection Purposes Fund. This required supplementary information can be found on pages 51 and 52 of this report. There is also a schedule of the County's proportionate share of the net pension liability and schedule of the County's contributions on pages 53 and 54

Additional components included but not required by GASB are as follows:

Supplementary Information

- Reconciliation of Operating Costs of Solid Waste

Other Information

- Schedule of Surety Bonds for County Officials

Special Reports

- 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*
- 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))
- Limited Internal Control and Compliance Review Management Report

Schedule of Findings and Responses

Covington County, MS was not subject to a single audit for the year ended September 30, 2018.

GOVERNMENT-WIDE FINANCIAL

Net Position – Net position may serve over time as a useful indicator of government's financial position. In the case of Covington County, assets and deferred outflows exceeded liabilities and deferred inflows by \$59,472,348 as of September 30, 2018.

By far, the largest portion of the County's net position (87%) 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

The following table presents a summary of the County's net position for the fiscal year ended September 30, 2018, as compared to fiscal year ended September 30, 2017.

	9/30/2018	9/30/2017
	Governmental	Governmental
	Activities	Activities
Assets:		
Current Assets	\$ 31,402,525	30,971,622
Capital Assets, Net	57,518,842	54,803,415
Total Assets	<u>88,921,367</u>	<u>85,775,037</u>
Deferred Outflows:	<u>656,954</u>	<u>798,820</u>
Liabilities:		
Current Liabilities	1,962,688	1,342,544
Net Pension Liability	8,890,822	8,410,440
Long-term Debt Outstanding	9,687,133	8,321,720
Total Liabilities	<u>20,540,643</u>	<u>18,074,704</u>
Deferred Inflows:	<u>9,565,330</u>	<u>8,707,149</u>
Net Position:		
Net Investment in Capital Assets	51,829,533	51,043,918
Restricted	8,366,175	9,037,186
Unrestricted	(723,360)	(289,100)
Total Net Position	<u>\$ 59,472,348</u>	<u>59,792,004</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 \$3,962,186 from the additions in reallocations of construction in progress to buildings for a new kitchen within the jail, infrastructure, mobile equipment, and furniture and equipment.
- Debt had additions of \$2,149,605 due to the purchase of 10 new fire trucks.

Changes in Net Position – Covington County's total revenues for the fiscal year ended September 30, 2018 were \$13,178,119. The total cost for all services provided was \$13,876,106. The decrease in net position was \$697,987. The following table presents a summary of the changes in net position for the fiscal year ended September 30, 2018, as compared to fiscal year ended September 30, 2017.

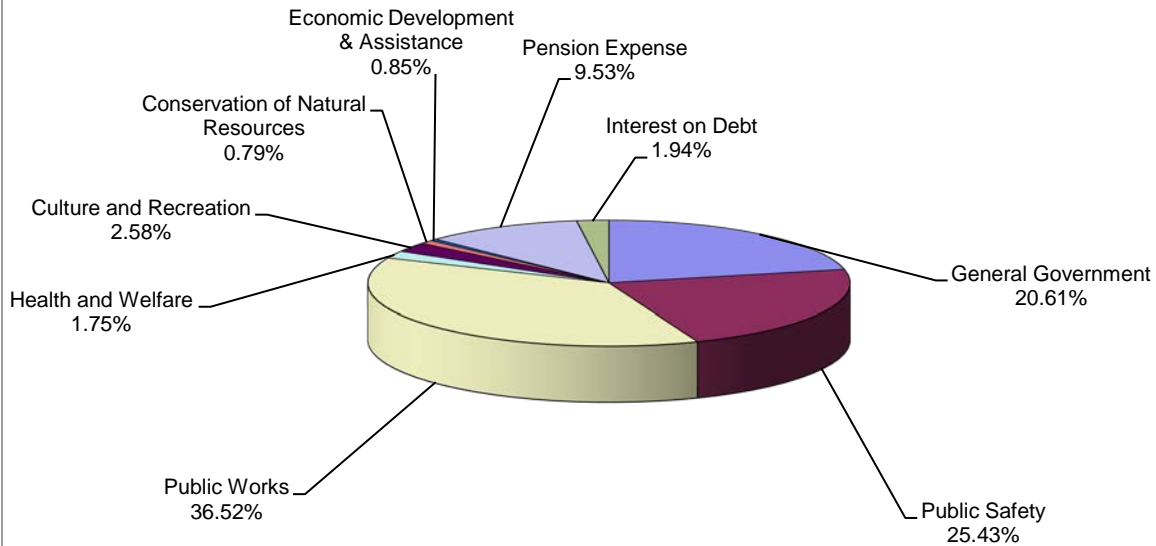
COVINGTON COUNTY, MISSISSIPPI

	<u>9/30/2018</u>	<u>9/30/2017</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 758,967	889,583
Program Grants and Contributions	1,642,406	2,493,971
General Revenues:		
Taxes	8,749,170	8,198,042
Road and Bridge Privilege Taxes	275,868	275,507
General Grants and Contributions	865,855	741,884
Other	885,853	593,595
Total Revenues	<u>13,178,119</u>	<u>13,192,582</u>
Expenses:		
General Government	2,859,197	2,773,939
Public Safety	3,529,145	2,889,605
Public Works	5,067,843	4,817,909
Health and Welfare	242,517	244,610
Culture and Recreation	358,405	318,810
Conservation of Natural Resources	109,116	116,260
Economic Development & Assistance	117,862	62,699
Interest Expense	269,061	276,902
Pension Expense	1,322,960	1,362,995
Total Expenses	<u>13,876,106</u>	<u>12,863,729</u>
Increase (Decrease) in Net Position	<u>\$ (697,987)</u>	<u>328,853</u>

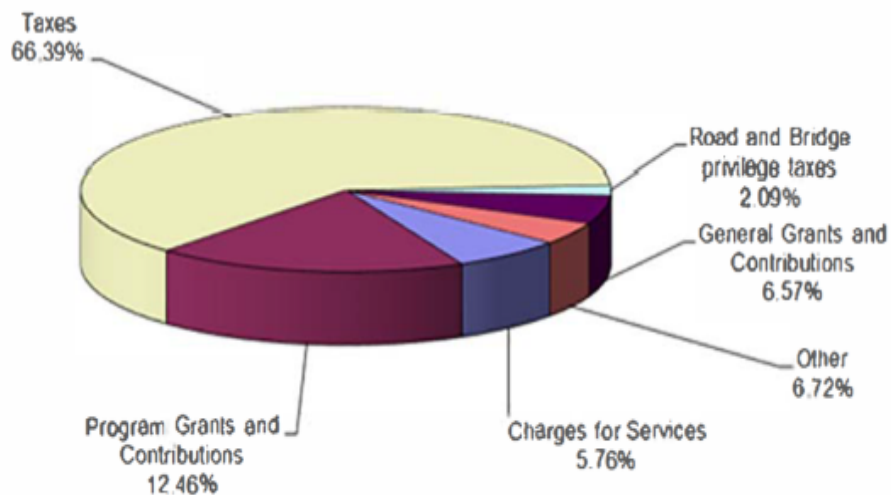
COVINGTON COUNTY, MISSISSIPPI

The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2018.

HOW COUNTY REVENUES ARE USED



WHERE THE COUNTY GETS ITS REVENUE



COVINGTON COUNTY, MISSISSIPPI

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

	Total Costs	Net Costs
General Government	\$ 2,859,197	2,395,762
Public Safety	3,529,145	2,919,875
Public Works	5,067,843	3,953,604
Health and Welfare	242,517	178,087
Culture and Recreation	358,405	208,406
Conservation of Natural Resources	109,116	109,116
Economic Development and Assistance	117,862	117,862
Interest on Long-term Debt	269,061	269,061
Pension Expense	1,322,960	1,322,960

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

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental funds – At the close of the fiscal year, Covington County's governmental funds reported a combined fund balance of \$20,502,235, a decrease of \$758,625. The decrease is 3.57% of the total fund balance.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year is \$28,387. This decrease is due to an increase in transfers out of the General Fund.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

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

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.
- Budgeted revenues were increased as better estimates became available.
- The most significant amendment to the general fund was an increase in revenue. This amendment is typically due to a lower estimation of revenues on the original budget.

Schedules showing the original and final budget amounts compared to the County's actual financial activity for the General Fund and the Fire Protection Purposes Fund are provided in this report as required supplementary information.

COVINGTON COUNTY, MISSISSIPPI

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2018, Covington County’s total capital assets were \$153,682,534. 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 \$2,521,278.

Total accumulated depreciation as of September 30, 2018 was \$96,163,692, including \$1,436,826 of depreciation expense for the year. The balance in total net capital assets was \$57,518,842 at year-end.

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

Capital Asset Values

Asset Classification	Balance 10/1/2017	Additions	Deletions	Adjustments	Balance 9/30/2018
Land	\$ 335,571	4,000			339,571
Construction in Progress	522,411	671,454		(819,685)	374,180
Infrastructure	127,332,705			819,685	128,152,390
Buildings	10,040,051	19,325		377,686	10,437,062
Mobile Equipment	9,359,366	669,859	1,385,011	10,000	8,654,214
Furniture and Equipment	3,292,169	47,943	443,583		2,896,529
Leased Property under Capital Leases	278,983	2,549,605			2,828,588
TOTALS	\$ 151,161,256	3,962,186	1,828,594	387,686	153,682,534

Capital Asset Accumulated Depreciation

Asset Classification	Balance 10/1/2017	Additions	Deletions	Adjustments	Balance 9/30/2018
Infrastructure	\$ 83,754,204	338,573			84,092,777
Buildings	2,569,315	183,791		7,555	2,760,661
Mobile Equipment	7,520,024	376,436	1,241,109	1,800	6,657,151
Furniture and Equipment	2,475,889	283,448	399,221		2,360,116
Leased Property under Capital Leases	38,409	254,578			292,987
	\$ 96,357,841	1,436,826	1,640,330	9,355	96,163,692

COVINGTON COUNTY, MISSISSIPPI

Debt Administration – At September 30, 2018, Covington County had \$10,464,309 in long-term debt outstanding. The debt outstanding as of September 30, 2018 is general obligation bonds, limited obligation bonds, and capital leases. Of this debt, \$777,176 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, 2018, Covington County's outstanding debt was equal to 3.09% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2018:

	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
General Obligation Bonds	\$ 5,080,000		305,000	4,775,000	315,000
Limited Obligation Bonds	3,515,000		170,000	3,345,000	175,000
Capital Leases	244,497	2,149,605	49,793	2,344,309	287,176
Total	\$ 8,839,497	2,149,605	524,793	10,464,309	777,176

Additional information on Covington County's long-term debt can be found in note 11 on pages 43 through 45 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

The budget for the next fiscal year reflected an increase of \$487,374 or 3.3% in revenues and an increase of \$852,086 or 4.8% in expenses. This is expected to decrease the County's net position. The increase in expenses is due to the addition of mobile equipment, furniture and equipment, and buildings.

Covington County has an unemployment rate of 4.6% versus 4.4% a year ago. This compares favorably with the state average rate of 5.0%.

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

FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY
Statement of Net Position
September 30, 2018

Exhibit 1

	Primary Government
	Governmental
	Activities
ASSETS	
Cash	\$ 16,573,109
Property tax receivable	9,333,546
Fines receivable (net of allowance for uncollectibles of \$1,087,810)	454,431
Loans receivable	4,775,000
Intergovernmental receivables	251,196
Other receivables	15,243
Capital assets:	
Land and construction in progress	713,751
Other capital assets, net	56,805,091
Total Assets	88,921,367
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	656,954
Total Deferred Outflows of Resources	656,954
LIABILITIES	
Claims payable	834,708
Intergovernmental payables	199,067
Accrued interest payable	73,199
Other payables	78,538
Long-term liabilities	
Net pension liability	8,890,822
Due within one year:	
Capital debt	462,176
Non-capital debt	315,000
Due in more than one year:	
Capital debt	5,227,133
Non-capital debt	4,460,000
Total Liabilities	20,540,643
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	231,784
Deferred revenues - property taxes	9,333,546
Total Deferred Inflows of Resources	9,565,330
NET POSITION	
Net investment in capital assets	51,829,533
Restricted for:	
Expendable:	
General government	12,610
Public safety	1,314,323
Public works	2,249,463
Culture and recreation	3,012
Economic development and assistance	1
Debt service	4,766,409
Unemployment compensation	20,357
Unrestricted	(723,360)
Total Net Position	\$ 59,472,348

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

COVINGTON COUNTY
Statement of Activities
For the Year Ended September 30, 2018

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	\$ 2,859,197	453,543	9,892		(2,395,762)
Public safety	3,529,145	290,538	306,835	11,897	(2,919,875)
Public works	5,067,843	14,886	731,799	367,554	(3,953,604)
Health and welfare	242,517		64,430		(178,087)
Culture and recreation	358,405			149,999	(208,406)
Conservation of natural resources	109,116				(109,116)
Economic development and assistance	117,862				(117,862)
Interest on long-term debt	269,061				(269,061)
Pension expense	1,322,960				(1,322,960)
Total Governmental Activities	\$ 13,876,106	758,967	1,112,956	529,450	(11,474,733)
General revenues:					
Property taxes				\$	8,749,170
Road & bridge privilege taxes					275,868
Grants and contributions not restricted to specific programs					865,855
Unrestricted interest income					199,675
Miscellaneous					686,178
Total General Revenues					10,776,746
Changes in Net Position					(697,987)
Net Position - Beginning, as previously reported					59,792,004
Prior period adjustment					378,331
Net Position - Beginning, as restated					60,170,335
Net Position - Ending				\$	59,472,348

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

COVINGTON COUNTY
Balance Sheet - Governmental Funds
September 30, 2018

Exhibit 3

	Major Funds			Other	Total
	General Fund	Hospital Bond Series 2015 Fund	Fire Protection Purposes Fund	Governmental Funds	Governmental Funds
ASSETS					
Cash	\$ 12,494,949	64,608	563,137	3,450,415	16,573,109
Property tax receivable	5,889,645		259,664	3,184,237	9,333,546
Fines receivable (net of allowance for uncollectibles of \$1,087,810)	454,431				454,431
Loans receivable		4,775,000			4,775,000
Intergovernmental receivables	214,181			37,015	251,196
Other receivables	11,979		469	2,795	15,243
Due from other funds	72,000		3,086	54,433	129,519
Total Assets	\$ 19,137,185	4,839,608	826,356	6,728,895	31,532,044
LIABILITIES					
Liabilities:					
Claims payable	\$ 339,349		2,315	493,044	834,708
Intergovernmental payables	192,077				192,077
Due to other funds	64,509			72,000	136,509
Other payables	78,538				78,538
Total Liabilities	674,473	0	2,315	565,044	1,241,832
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenue - property taxes	5,889,645		259,664	3,184,237	9,333,546
Unavailable revenue - fines	454,431				454,431
Total Deferred Inflows of Resources	6,344,076	0	259,664	3,184,237	9,787,977
Fund balances:					
Restricted for:					
General government				12,610	12,610
Public safety			564,377	749,946	1,314,323
Public works				2,249,463	2,249,463
Culture and recreation				3,012	3,012
Economic development and assistance				1	1
Debt service		4,839,608			4,839,608
Unemployment compensation				20,357	20,357
Assigned to:					
General government	5,413				5,413
Public safety	666				666
Culture and recreation	94,731				94,731
Unassigned	12,017,826			(55,775)	11,962,051
Total Fund Balances	12,118,636	4,839,608	564,377	2,979,614	20,502,235
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 19,137,185	4,839,608	826,356	6,728,895	31,532,044

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, 2018

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 20,502,235
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 \$96,163,692.	57,518,842
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	454,431
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(10,464,309)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(8,890,822)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(73,199)
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	656,954
Deferred inflows of resources related to pensions	<u>(231,784)</u>
Total Net Position - Governmental Activities	\$ <u>59,472,348</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, 2018

	Major Funds			Other	Total
	General	Hospital Bond	Fire Protection	Governmental	Governmental
	Fund	Series 2015 Fund	Purposes Fund	Funds	Funds
REVENUES					
Property taxes	\$ 5,520,825		249,285	2,979,060	8,749,170
Road and bridge privilege taxes				275,868	275,868
Licenses, commissions and other revenue	223,678			15,578	239,256
Fines and forfeitures	181,909			2,463	184,372
Intergovernmental revenues	1,091,426			1,416,835	2,508,261
Charges for services	15,359			196,370	211,729
Interest income	163,635		4,196	31,844	199,675
Miscellaneous revenues	178,346	175,000		43,958	397,304
Total Revenues	7,375,178	175,000	253,481	4,961,976	12,765,635
EXPENDITURES					
Current:					
General government	2,711,900			317,068	3,028,968
Public safety	2,597,230		2,632,944	631,163	5,861,337
Public works	123,140			5,367,148	5,490,288
Health and welfare	205,011	1,940			206,951
Culture and recreation	399,812			154,579	554,391
Conservation of natural resources	113,623				113,623
Economic development and assistance	39,142			58,997	98,139
Debt service:					
Principal	170,000	305,000		49,793	524,793
Interest	119,510	147,256		5,747	272,513
Total Expenditures	6,479,368	454,196	2,632,944	6,584,495	16,151,003
Excess of Revenues over (under) Expenditures	895,810	(279,196)	(2,379,463)	(1,622,519)	(3,385,368)
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued			2,100,000	49,605	2,149,605
Proceeds from sale of capital assets			450,000	17,376	467,376
Compensation for loss of capital assets	9,762				9,762
Transfers in	6,041			1,029,022	1,035,063
Transfers out	(940,000)		(82,650)	(12,413)	(1,035,063)
Total Other Financing Sources and Uses	(924,197)	0	2,467,350	1,083,590	2,626,743
Net Changes in Fund Balances	(28,387)	(279,196)	87,887	(538,929)	(758,625)
Fund Balances - Beginning	12,147,023	5,118,804	476,490	3,518,543	21,260,860
Fund Balances - Ending	\$ 12,118,636	4,839,608	564,377	2,979,614	20,502,235

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, 2018

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (758,625)
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 \$3,962,186 exceeded depreciation of \$1,436,826 in the current period.	2,525,360
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 gain of \$288,874 and the proceeds from the sale of \$467,376 and the compensation for loss of \$9,762 in the current period.	(188,264)
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.	123,610
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt proceeds of \$2,149,605 exceeded debt repayments of \$524,793.	(1,624,812)
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 decrease in accrued interest payable	3,452
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	(1,322,960)
Recording of contributions made during the year	<u>544,252</u>
Change in Net Position of Governmental Activities	\$ <u>(697,987)</u>

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

COVINGTON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2018

Exhibit 5

	Agency Funds
ASSETS	
Cash	\$ 921,963
Due from other funds	6,990
Total Assets	\$ 928,953
LIABILITIES	
Amounts held in custody for others	\$ 921,963
Intergovernmental payables	6,990
Total Liabilities	\$ 928,953

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, 2018

(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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2018

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.

Fire Protection Purposes Fund - This fund is used to account for monies from specific revenue sources that are restricted for fire protection purposes.

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, 2018

FIDUCIARY FUND TYPE

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

H. Capital Assets.

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

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2018

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 Notes 10 and 14 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.

Deferred revenues – property taxes/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 Notes 10 and 14 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, 2018

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 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, 2018

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.

O. Compensated Absences.

The County has adopted a policy of compensation for accumulated unpaid employee benefits; however, adequate records are not maintained for determining the amount of the liability. Therefore, no liability is recorded in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. We believe the effects of the unrecorded liability on the financial statements are immaterial.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

(2) Prior Period Adjustment.

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

Exhibit 2 – Statement of Activities – Governmental Activities.

Explanation	Amount
To correct prior year errors in capital assets, net	\$ <u>378,331</u>

(3) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2018, was \$17,495,072, and the bank balance was \$18,510,878. 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 the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2018:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 72,000
Fire Protection Purposes Fund	General Fund	3,086
Other Governmental Funds	General Fund	54,433
Agency Funds	General Fund	<u>6,990</u>
Total		\$ <u>136,509</u>

The receivables represent the tax revenue collected in September, 2018, but not settled until October, 2018. Other loans represent receivables created to correct posting errors. All interfund balances are expected to be repaid within one year from the date of the financial statements.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

B. Transfers In/Out:

Transfers In	Transfers Out	Amount
General Fund	Other Governmental Funds	\$ 6,041
Other Governmental Funds	General Fund	940,000
Other Governmental Funds	Fire Protection Purposes Fund	82,650
Other Governmental Funds	Other Governmental Funds	6,372
Total		\$ 1,035,063

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2018, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 121,825
Housing prisoners reimbursement	3,660
DHS reimbursement	2,181
Youth court reimbursement	6,400
Economic development grant - Seminary voting precinct	80,115
DUI grant	10,458
Emergency management performance grant reimbursement	21,829
State Aid Road reimbursements	4,728
Total Governmental Activities	\$ 251,196

(6) Loans Receivable.

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

Loans receivable balances at September 30, 2018, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Covington County Hospital	09/2015	2.00-3.375%	07/2031	\$ 4,775,000

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2018:

Governmental activities:

	Balance Oct. 1, 2017	Additions	Deletions	Adjustments*	Balance Sept. 30, 2018
Non-depreciable capital assets:					
Land	\$ 335,571	4,000			339,571
Construction in progress	522,411	671,454		(819,685)	374,180
Total non-depreciable capital assets	857,982	675,454	0	(819,685)	713,751
Depreciable capital assets:					
Infrastructure	127,332,705			819,685	128,152,390
Buildings	10,040,051	19,325		377,686	10,437,062
Mobile equipment	9,359,366	669,859	1,385,011	10,000	8,654,214
Furniture and equipment	3,292,169	47,943	443,583		2,896,529
Leased property under capital leases	278,983	2,549,605			2,828,588
Total depreciable capital assets	150,303,274	3,286,732	1,828,594	1,207,371	152,968,783
Less accumulated depreciation for:					
Infrastructure	83,754,204	338,573			84,092,777
Buildings	2,569,315	183,791		7,555	2,760,661
Mobile equipment	7,520,024	376,436	1,241,109	1,800	6,657,151
Furniture and equipment	2,475,889	283,448	399,221		2,360,116
Leased property under capital leases	38,409	254,578			292,987
Total accumulated depreciation	96,357,841	1,436,826	1,640,330	9,355	96,163,692
Total depreciable capital assets, net	53,945,433	1,849,906	188,264	1,198,016	56,805,091
Governmental activities capital assets, net	\$ 54,803,415	2,525,360	188,264	378,331	57,518,842

*Adjustments are for the reclassification of completed construction in progress to infrastructure and to correct prior year errors in capital assets, net.

Depreciation expense was charged to the following functions:

	Amount
Governmental activities:	
General government	\$ 28,383
Public safety	591,518
Public works	731,403
Health and welfare	35,566
Culture and recreation	25,252
Conservation of natural resources	4,981
Economic development and assistance	19,723
Total governmental activities depreciation expense	\$ 1,436,826

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

Commitments with respect to unfinished capital projects at September 30, 2018, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Jail kitchen	\$ 584,354	November, 2019
Seminary voting precinct	96,288	December, 2018

(8) Claims and Judgments.

Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2018, to January 1, 2019. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(9) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2018:

Classes of Property	Governmental Activities
Mobile equipment	\$ 2,828,588
Less: Accumulated depreciation	(292,987)
Leased Property Under Capital Leases	\$ 2,535,601

The following is a schedule by years of the total payments due as of September 30, 2018:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2019	\$ 287,176	89,181
2020	207,800	80,797
2021	294,835	71,797
2022	196,716	62,491
2023	204,625	54,583
2024 - 2028	1,153,157	142,885
Total	\$ 2,344,309	501,734

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2018

(10) Defined Benefit Pension Plan.

General Information about the Pension Plan

Plan Description. Covington County, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. 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, 2018, 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, 2018 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, 2018, 2017 and 2016 were \$544,252, \$517,058 and \$495,650, respectively, equal to the required contributions for each year.

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

At September 30, 2018, the County reported a liability of \$8,890,822 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, 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, 2018 net pension liability was 0.053453 percent, which was based on a measurement date of June 30, 2018. This was an increase of 0.002859 percent from its proportionate share used to calculate the September 30, 2017 net pension liability, which was based on a measurement date of June 30, 2017.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

For the year ended September 30, 2018, the County recognized pension expense of \$1,322,960. At September 30, 2018, 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	\$ 36,589	35,475
Net difference between projected and actual earnings on pension plan investments		191,784
Changes of assumptions	4,966	4,525
Changes in the proportion and differences between the County's contributions and proportionate share of contributions	475,897	
County contributions subsequent to the measurement date	139,502	
Total	\$ 656,954	231,784

\$139,502 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, 2019. 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	Amount
2019	\$ 305,501
2020	111,808
2021	(91,659)
2022	(39,982)
Total	\$ 285,668

Actuarial Assumptions. The total pension liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.00 percent
Salary increases	3.25 – 18.50 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2022, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2012 to June 30, 2016. The experience report is dated April 18, 2017.

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.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018, 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	27.00 %	4.60 %
International Equity	18.00	4.50
Emerging Markets Equity	4.00	4.75
Global	12.00	4.75
Fixed Income	18.00	0.75
Real Estate	10.00	3.50
Private Equity	8.00	5.10
Emerging Debt	2.00	2.25
Cash	1.00	-
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>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
County's proportionate share of the net pension liability	\$ 11,706,661	8,890,822	6,550,488

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

(11) Long-term Debt.

Debt outstanding as of September 30, 2018, consisted of the following:

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2018

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
GO Refunding Bonds, Series 2015	\$ <u>4,775,000</u>	2.00-3.375%	07/2031
B. Limited Obligation Bonds:			
Certificates of Participation, Jail Project	\$ <u>3,345,000</u>	3.40%	06/2033
C. Capital Leases:			
District 1 John Deere 60G compact excavator	\$ 43,441	1.49%	06/2019
District 5 John Deere 60G compact excavator	43,440	1.49%	06/2019
District 4 2017 Mack dump truck	114,840	2.10%	01/2021
(10) 2018 DeepSouth custom-built fire trucks	2,100,000	4.02%	07/2028
District 5 Caterpillar 259D skid steer	<u>42,588</u>	3.78%	11/2020
Total Capital Leases	\$ <u>2,344,309</u>		

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

Governmental Activities:

Year Ending September 30	General Obligation Bonds		Limited Obligation Bonds	
	Principal	Interest	Principal	Interest
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	330,000	118,856	195,000	95,370
2023	340,000	108,956	200,000	88,740
2024 - 2028	1,870,000	384,881	1,105,000	337,110
2029 - 2033	<u>1,280,000</u>	<u>86,189</u>	<u>1,305,000</u>	<u>136,170</u>
Total	\$ <u>4,775,000</u>	<u>1,101,876</u>	<u>3,345,000</u>	<u>980,560</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2018, the amount of outstanding debt was equal to 3.09% 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, 2018

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2018:

	Balance Oct. 1, 2017	Additions	Reductions	Balance Sept. 30, 2018	Amount due within one year
Governmental Activities:					
General obligation bonds	\$ 5,080,000		305,000	4,775,000	315,000
Limited obligation bonds	3,515,000		170,000	3,345,000	175,000
Capital leases	244,497	2,149,605	49,793	2,344,309	287,176
Total	\$ 8,839,497	2,149,605	524,793	10,464,309	777,176

(12) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances or net position at September 30, 2018:

Fund	Deficit Amount
New Jail	\$ 85,164
District 1 Recreation	127
Seminary Community Center	78,131
Blueberry Facility	45,469
District 4 Road Maintenance	10,306

(13) 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.

(14) Effect of Deferred Amounts on Net Position.

The governmental activities' unrestricted net position amount of \$(723,360) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflows of resources related to pensions in the amount of \$139,502 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, 2019. The \$517,452 balance of the deferred outflows of resources related to pensions at September 30, 2018, will be recognized in pension expense over the next three years. The \$231,784 balance of the deferred inflows of resources related to pensions at September 30, 2018, will be recognized in pension expense over the next four years.

(15) 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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2018

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.

(16) 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 the fiscal year 2018.

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 2018.

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 \$464,372 for maintenance and support of the college in fiscal year 2018.

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 \$92,758 for support of the district in fiscal year 2018.

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 2018.

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.

(17) Tax Abatements.

As of September 30, 2018, Covington County provides tax exempt status to one recreational facility subject to the requirements of GASB Statement No. 77. The recreational facility is exempt from real property taxes and personal property taxes except for levies involving the school; the mandatory mill and the community college tax levies. These exemptions are authorized under Sections 27-31-101 and 27-31-105 of the Miss. Code Ann. (1972). These exemptions encourage businesses to locate or expand operations in the County and to create jobs. The amount of taxes abated during fiscal year 2018 totaled \$20,513 for the recreational facility.

(18) 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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2018

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 June 19, 2020, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2018, the County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
06/03/2019	3.25%	\$ 57,924	Capital lease	Ad valorem taxes
04/17/2020	2.09%	305,800	Capital Lease	Ad valorem taxes
06/05/2020	2.38%	145,000	Capital Lease	Ad valorem taxes
06/05/2020	2.38%	145,000	Capital Lease	Ad valorem taxes

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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, 2018
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 5,438,800	5,522,885	5,522,885	
Licenses, commissions and other revenue	269,000	239,923	237,076	(2,847)
Fines and forfeitures	227,725	174,689	174,689	
Intergovernmental revenues	814,500	934,413	946,310	11,897
Charges for services	25,000	15,212	15,212	
Interest income	65,695	157,205	157,205	
Miscellaneous revenues	252,200	231,605	231,605	
Total Revenues	<u>7,092,920</u>	<u>7,275,932</u>	<u>7,284,982</u>	<u>9,050</u>
EXPENDITURES				
Current:				
General government	3,079,665	2,702,191	2,702,191	
Public safety	3,654,520	2,477,507	2,477,507	
Public works	58,500	109,787	109,787	
Health and welfare	226,862	205,691	205,691	
Culture and recreation	46,800	374,596	374,596	
Conservation of natural resources	118,962	112,413	112,413	
Economic development and assistance	35,400	32,142	32,142	
Debt service:				
Principal		170,000	170,000	
Interest		119,510	119,510	
Total Expenditures	<u>7,220,709</u>	<u>6,303,837</u>	<u>6,303,837</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(127,789)</u>	<u>972,095</u>	<u>981,145</u>	<u>9,050</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets		9,762	9,762	
Transfers in	1,041,000	6,041	6,041	
Transfers out	(3,576,500)	(940,000)	(940,000)	
Total Other Financing Sources and Uses	<u>(2,535,500)</u>	<u>(924,197)</u>	<u>(924,197)</u>	<u>0</u>
Net Change in Fund Balance	(2,663,289)	47,898	56,948	9,050
Fund Balances - Beginning	<u>4,740,944</u>	<u>12,143,508</u>	<u>12,143,508</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 2,077,655</u>	<u>12,191,406</u>	<u>12,200,456</u>	<u>9,050</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)
 Fire Protection Purposes Fund
 For the Year Ended September 30, 2018
 UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 247,950	248,217	248,217	
Interest income	900	3,877	3,877	
Total Revenues	<u>248,850</u>	<u>252,094</u>	<u>252,094</u>	<u>0</u>
EXPENDITURES				
Current:				
Public safety	175,959	2,265,294	2,265,294	
Total Expenditures	<u>175,959</u>	<u>2,265,294</u>	<u>2,265,294</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>72,891</u>	<u>(2,013,200)</u>	<u>(2,013,200)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		2,100,000	2,100,000	
Transfers out	(82,650)			
Total Other Financing Sources and Uses	<u>(82,650)</u>	<u>2,100,000</u>	<u>2,100,000</u>	<u>0</u>
Net Change in Fund Balance	(9,759)	86,800	86,800	0
Fund Balances - Beginning	<u>450,000</u>	<u>476,337</u>	<u>476,337</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 440,241</u>	<u>563,137</u>	<u>563,137</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, 2018

UNAUDITED

		<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
County's proportion of the net pension liability (asset)		0.053453%	0.050594%	0.049267%	0.047683%
County's proportionate share of the net pension liability (asset)	\$	8,890,822	8,410,440	8,800,317	7,370,852
Covered payroll	\$	3,413,504	3,245,654	3,151,708	2,978,984
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll		260.46%	259.13%	279.22%	247.43%
Plan fiduciary net position as a percentage of the total pension liability		62.54%	61.49%	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 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year 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, 2018
UNAUDITED

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 544,252	517,058	495,650	481,388
Contributions in relation to the contractually required contribution	<u>544,252</u>	<u>517,058</u>	<u>495,650</u>	<u>481,388</u>
Contribution deficiency (excess)	<u>\$ 0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Covered payroll	\$ 3,455,568	3,282,906	3,146,981	3,056,431
Contributions as a percentage of covered payroll	15.75%	15.75%	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, 2018

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 supplementary 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:

	Governmental Fund Types	
	General Fund	Fire Protection Purposes Fund
Budget (Cash Basis)	\$ 56,948	86,800
Increase (Decrease)		
Net adjustments for revenue accruals	90,196	451,387
Net adjustments for expenditure accruals	(175,531)	(450,300)
GAAP Basis	\$ (28,387)	87,887

COVINGTON COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2018

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%.

2017

The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Mortality Table projected with Scale BB to 2022 rather than projected with Scale BB to 2016, which was used prior to 2017. Small adjustments were also made to the Mortality Table for disabled lives.

The wage inflation assumptions was reduced from 3.75% to 3.25%.

Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.

The percentage of active member disabilities assumed to be in the line of duty was increased from 6.00% to 7.00%.

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.

COVINGTON COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2018

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	36.6 years
Asset valuation method	5-year smoothed market
Price inflation	3.00 percent
Salary increase	3.75 percent to 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

COVINGTON COUNTY

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COVINGTON COUNTY

SUPPLEMENTARY INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2018

Operating Expenditures, Cash Basis:

Salaries	\$	320,262
Expendable Commodities:		
Gasoline and petroleum products		40,745
Repair parts		6,338
Maintenance		12,913
Contractual Services		477,512
Supplies		738
Equipment		<u>143,494</u>

Solid Waste Cash Basis Operating Expenditures		1,002,002
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Full Cost Expenses:

Indirect administrative costs		3,258
Depreciation on equipment		<u>43,222</u>

Solid Waste Full Cost Operating Expenses	\$	<u><u>1,048,482</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, 2018
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
Brandy Lee	Assistant Purchase Clerk	FCCI 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
James Barnes	Assistant Receiving Clerk	RLI Insurance Company	\$50,000
Jason McNair	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Richard Sanford	Assistant Receiving Clerk	FCCI Insurance Company	\$50,000
Donald McRaney	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
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
Virginia Coulter	Deputy Tax Collector	FCCI Insurance Company	\$50,000
Amy C. Beach	Deputy Tax Collector	Western Surety Insurance Company	\$50,000
Frieda Whiddon	Deputy Tax Collector	Travelers 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
SHAD WHITE
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, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 19, 2020. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as 2018-001 and 2018-002 that we consider to be significant deficiencies.

Compliance and Other Matters

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

We noted certain matters that we reported to the management of Covington County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated June 19, 2020, 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

June 19, 2020



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
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, 2018. The Board of Supervisors of Covington County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

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

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

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

Inventory Control Clerk.

1. The Inventory Control Clerk should maintain an inventory control system.

Repeat Finding No

Criteria An effective system of internal control over capital assets should include that certain data elements be captured in capital asset records for all capital assets. Required data elements include a description of assets, cost, locations, acquisition dates, disposition dates, method of disposition, and other relevant information. The presence of these data elements in capital asset records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation.

Condition	During the audit, we noted that some assets were included in the inventory listing which were previously disposed of. Additionally, the disposals were not approved in the Board of Supervisors' minutes.
Cause	The Inventory Control Clerk lacks the necessary control procedures to accurately maintain an internal control system and adequate subsidiary records.
Effect	The failure to maintain an effective inventory control system could result in the reporting of inaccurate amounts and increase the possibility of loss or misappropriation of public funds.
Recommendation	The Inventory Control Clerk should implement control procedures to maintain accurate inventory records which document the existence, valuation, and completeness of capital assets, and the Board of Supervisors should approve all disposals in the minutes.
Views of Responsible Official(s)	We have corrected the issue and the Board of Supervisors has ordered the assets be taken off of inventory by board order.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2018.

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

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

This report is intended for use in evaluating Covington County, Mississippi's compliance with the aforementioned requirements, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

June 19, 2020

COVINGTON COUNTY

Schedule 1

Schedule of Purchases From Other Than the Lowest Bidder
For the Year Ended September 30, 2018

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, 2018

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
03/05/2018	Repairs	\$ 21,000	Ellis Dozer Service, LLC	Repair of two bridges
03/23/2018	Repairs	20,000	Ellis Dozer Service, LLC	Spill at rubbish site

COVINGTON COUNTY

Schedule 3

Schedule of Purchases Made Noncompetively From a Sole Source
For the Year Ended September 30, 2018

Our tests did not identify any purchases made noncompetively from a sole source.

COVINGTON COUNTY

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
SHAD WHITE
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, 2018, 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 June 19, 2020, on the financial statements of Covington County, Mississippi.

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

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors.

1. Part-time employees paid as full-time employees.

Repeat Finding No

Criteria According to the Public Employees' Retirement System of Mississippi (PERS) Regulation, Title 27, Part 210, Chapter 36, any person who works half-time or more based on a full-time equivalent position and whose employment is anticipated to exceed four and one-half consecutive months shall be covered, whether probationary or otherwise.

Condition According to test work performed, it was noted that employees who worked consistently over twenty hours a week were considered part-time employees by the County. These employees were eligible to participate in PERS; however, the County did not contribute to PERS on their behalf.

Cause The County did not follow the regulation set forth by PERS.

Effect	Failure to transition employees to full-time status breaks the contractual obligation made to PERS, and retirement settled to PERS could be directly understated as a result.
Recommendation	The County should transition employees working over twenty hours a week to full-time status.
Views of Responsible Official(s)	The County has made this correction.

Board of Supervisors and Payroll Clerk.

2. PERS Retirees should not be paid more than one-half salary of their position.

Repeat Finding	No
Criteria	Section 25-11-127(4)(a), Miss. Code Ann. (1972), requires retirees to receive no more than one-half of the salary in effect for the position at the time of employment in a fiscal year.
Condition	During our test work, we noted that a PERS retiree was paid more than one-half of the salary for his position during fiscal year 2018.
Cause	The Board of Supervisors and Payroll Clerk did not comply with state laws.
Effect	By overpaying PERS retirees, the County is not in compliance with state legal requirements.
Recommendation	The County should ensure that PERS retirees are not being paid more than the allowable amount.
Views of Responsible Official(s)	The County has resolved the issue.

Chancery Clerk.

3. The Chancery Clerk should reconcile bank statements for land redemption on a monthly basis.

Repeat Finding	Yes
Criteria	An effective system of internal control over cash should include reconciliation of land redemption bank accounts on a monthly basis.
Condition	As reported in the prior two years' audit reports, the bank statements for the land redemption account were not reconciled.
Cause	The Chancery Clerk lacked the necessary internal controls over cash.
Effect	Failure to properly reconcile the bank statements could result in the loss or misappropriation of public funds.
Recommendation	The Chancery Clerk should implement a system that ensures the land redemption bank statements are reconciled each month.
Views of Responsible Official(s)	We will comply with the findings.

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

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

A handwritten signature in black ink, 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

June 19, 2020

COVINGTON COUNTY

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COVINGTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2018

Section 1: Summary of Auditor's Results

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

Governmental activities	Unmodified
Aggregate discretely presented component units	Adverse
General Fund	Unmodified
Hospital Bond Series 2015 Fund	Unmodified
Fire Protection Purposes Fund	Unmodified
Aggregate remaining fund information	Unmodified
2. Internal control over financial reporting:
 - a. Material weakness identified? No
 - b. Significant deficiencies identified? Yes
3. Noncompliance material to the financial statements noted? No

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency

2018-001. The Inventory Control Clerk should maintain an inventory control system.

Repeat Finding No

Criteria An effective system of internal control over capital assets should include that certain data elements be captured in capital asset records for all capital assets. Required data elements include a description of assets, cost, locations, acquisition dates, disposition dates, method of disposition, and other relevant information. The presence of these data elements in capital assets records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation.

Condition During the audit, we noted that some assets were included in the inventory listing which were previously disposed of. Additionally, the disposals were not approved in the Board of Supervisors' minutes.

Cause The Inventory Control Clerk lacks the necessary control procedures to accurately maintain an internal control system and adequate subsidiary records.

Effect The failure to maintain an effective inventory system could result in the reporting of inaccurate amounts and increase the possibility of loss or misappropriation of public funds.

Recommendation The Inventory Control Clerk should implement controls procedures to maintain accurate inventory records which document the existence, valuation, and completeness of capital assets, and the Board of Supervisors should approve all disposals in the minutes.

Views of Responsible Official(s) We have corrected the issue and the Board of Supervisors has ordered the assets to be taken off of inventory by board order.

COVINGTON COUNTY

Schedule of Findings and Responses
For the Year Ended September 30, 2018

Payroll Clerk.

Significant Deficiency

2018-002. Payroll Clerk should maintain adequate records for compensated absences liability.

Repeat Finding No

Criteria The County has adopted a policy of compensated absences for its employees. The Payroll Clerk should maintain records that account for the number of leave hours each employee accumulates on a monthly basis and the current hourly rate of pay for each employee. This information is needed to calculate the end of the year compensated absences liability. Generally accepted accounting principles require the resulting liability to be reported in the financial statements.

Condition The Payroll Clerk did not maintain the necessary records to calculate the compensated absences liability.

Cause The Payroll Clerk failed to maintain adequate documentation for leave balances.

Effect Failure to properly account for compensated absences could result in the incorrect payments being made to employees leaving County service, and result in not reporting the compensated absences liability in the financial statements.

Recommendation The Payroll Clerk should maintain adequate records so the total compensated absences liability can be calculated and reported in the financial statements as required by generally accepted accounting principles.

Views of Responsible Official(s) The County has corrected the problem.