



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR**

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COVINGTON COUNTY, MISSISSIPPI

**Audited Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2004**

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COVINGTON COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION 1

INDEPENDENT AUDITOR'S REPORT 3

MANAGEMENT'S DISCUSSION AND ANALYSIS 5

PRIMARY GOVERNMENT FINANCIAL STATEMENTS 21

 Statement of Net Assets 22

 Statement of Activities 23

 Balance Sheet - Governmental Funds 24

 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets 25

 Statement of Revenues, Expenditures and Changes in Fund Balances -
 Governmental Funds 26

 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities 27

 Statement of Fiduciary Assets and Liabilities 28

 Notes to Financial Statements 29

REQUIRED SUPPLEMENTARY INFORMATION 43

 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 General Fund 44

 Notes to the Required Supplementary Information 45

SPECIAL REPORTS 47

 Independent Auditor's Report on Internal Control Over Financial Reporting and on
 Compliance and Other Matters Based on an Audit of the Primary Government
 Financial Statements Performed in Accordance with *Government Auditing Standards* 49

 Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk
 Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)) 51

SCHEDULE OF FINDINGS 57

COVINGTON COUNTY

FINANCIAL SECTION

COVINGTON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors
Covington County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the county's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of Covington County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the county's legal entity. The financial statements do not include financial data for the county's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the county's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Covington County, Mississippi, as of September 30, 2004, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information for the primary government of Covington County, Mississippi, as of September 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2005, on our consideration of Covington County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



PHIL BRYANT
State Auditor



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

July 19, 2005

COVINGTON COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

COVINGTON COUNTY

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COVINGTON COUNTY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

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

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

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

FINANCIAL HIGHLIGHTS

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

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

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

COVINGTON COUNTY, MISSISSIPPI

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

COVINGTON COUNTY, MISSISSIPPI

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

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

COVINGTON COUNTY, MISSISSIPPI

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

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

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

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

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

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

COVINGTON COUNTY, MISSISSIPPI

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

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

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

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

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

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

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

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 29 - 41 of this report.

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

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

GOVERNMENT-WIDE FINANCIAL

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

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

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

COVINGTON COUNTY, MISSISSIPPI

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

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

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

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

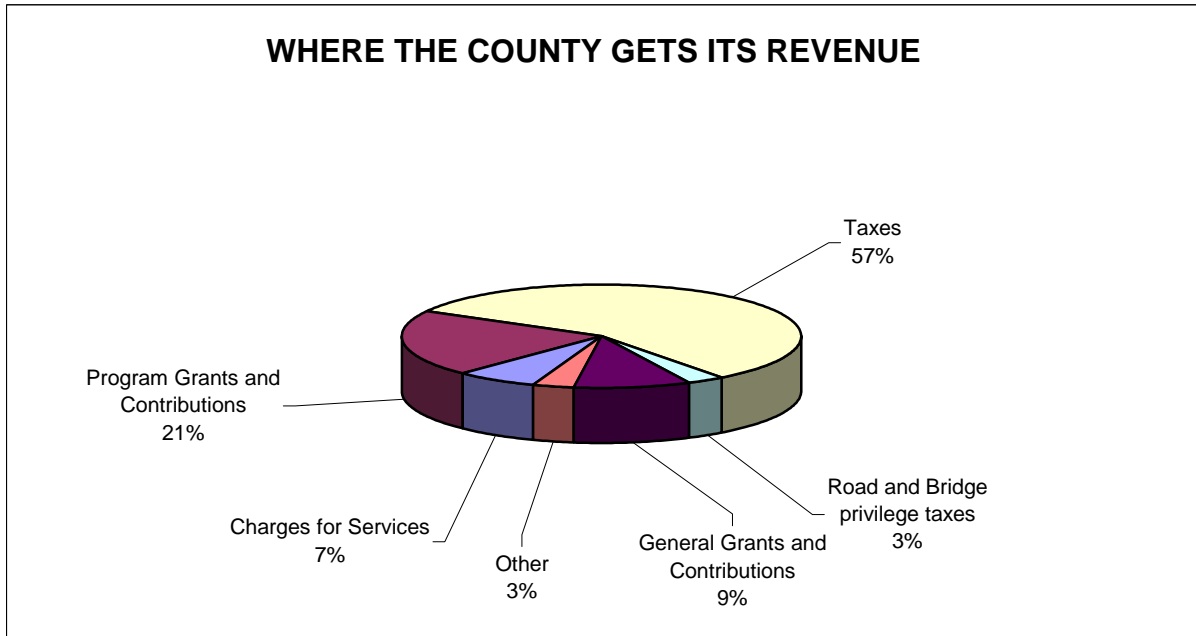
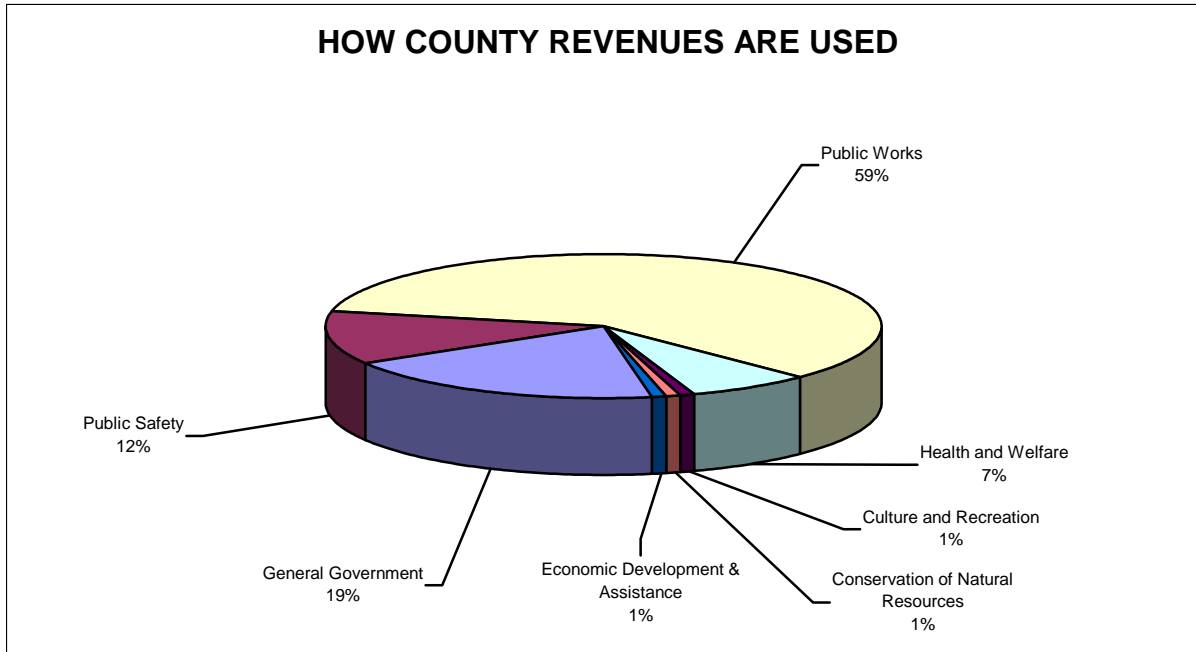
COVINGTON COUNTY, MISSISSIPPI

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

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

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, 2004.



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, and Economic Development and assistance.

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

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

FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

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

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

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

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

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

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

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

A schedule showing the original and final budget amounts compared to the County's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2004, Covington County's total capital assets were \$128,689,699. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$1,062,991.

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

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

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

COVINGTON COUNTY, MISSISSIPPI

Capital Asset Accumulated Depreciation

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

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

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

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

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

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

CURRENT AND FUTURE ITEMS OF IMPACT

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

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

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

COVINGTON COUNTY, MISSISSIPPI

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

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

COVINGTON COUNTY
Statement of Net Assets
September 30, 2004

Exhibit 1

	Primary Government
	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 9,396,364
Property tax receivable	3,821,000
Fines receivable (net of allowance for uncollectibles of \$300,918)	168,042
Loans receivable	300,000
Intergovernmental receivables	90,058
Other receivables, net	480
Capital assets, net	<u>55,018,559</u>
Total Assets	<u>68,794,503</u>
LIABILITIES	
Claims payable	525,294
Intergovernmental payables	88,923
Deferred revenue	3,821,000
Other payables	48,995
Long-term liabilities	
Due within one year:	
Capital related debt	22,398
Due in more than one year:	
Capital related debt	<u>185,992</u>
Total Liabilities	<u>4,692,602</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,810,169
Restricted:	
Expendable:	
Public safety	477,890
Public works	1,934,277
Culture and recreation	108,053
Unemployment compensation	11,103
Capital projects	4,457
Other purposes	300,000
Unrestricted	<u>6,455,952</u>
Total Net Assets	<u>\$ 64,101,901</u>

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

COVINGTON COUNTY
Statement of Activities
For the Year Ended September 30, 2004

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets
					Primary Government
					Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 2,135,747	288,449			(1,847,298)
Public safety	1,353,780	206,589	139,439		(1,007,752)
Public works	6,620,417	19,677	598,980	92,683	(5,909,077)
Health and welfare	794,699		34,786	282,023	(477,890)
Culture and recreation	87,103				(87,103)
Conservation of natural resources	92,906				(92,906)
Economic development and assistance	105,155			447,355	342,200
Interest on long-term debt	3,542				(3,542)
Total Governmental Activities	\$ 11,193,349	514,715	773,205	822,061	(9,083,368)
General revenues:					
Property taxes				\$ 4,379,329	
Road & bridge privilege taxes				235,747	
Grants and contributions not restricted to specific programs				714,704	
Unrestricted interest income				130,892	
Miscellaneous				134,123	
Total General Revenues				5,594,795	
Changes in Net Assets					(3,488,573)
Net Assets - Beginning					67,799,731
Prior period adjustments					(209,257)
Net Assets - Beginning, as restated					67,590,474
Net Assets - Ending				\$	64,101,901

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

COVINGTON COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2004

Exhibit 3

	<u>Major Fund</u>	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
ASSETS			
Cash	\$ 6,681,195	2,715,169	9,396,364
Property tax receivable	1,813,000	2,008,000	3,821,000
Fines receivable (net of allowance for uncollectibles of \$300,918)	168,042		168,042
Loans receivable	300,000		300,000
Intergovernmental receivables	90,058		90,058
Other receivables	480		480
Due from other funds		46,383	46,383
Total Assets	<u><u>\$ 9,052,775</u></u>	<u><u>4,769,552</u></u>	<u><u>13,822,327</u></u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ 299,522	225,772	525,294
Intergovernmental payables	83,161		83,161
Due to other funds	52,145		52,145
Deferred revenue	1,981,042	2,008,000	3,989,042
Other payables	48,995		48,995
Total Liabilities	<u><u>2,464,865</u></u>	<u><u>2,233,772</u></u>	<u><u>4,698,637</u></u>
Fund balances:			
Reserved for:			
Unemployment compensation		11,103	11,103
Loans receivable	300,000		300,000
Unreserved, reported in:			
General Fund	6,287,910		6,287,910
Special Revenue Funds		2,520,220	2,520,220
Capital Project Funds		4,457	4,457
Total Fund Balances	<u><u>6,587,910</u></u>	<u><u>2,535,780</u></u>	<u><u>9,123,690</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 9,052,775</u></u>	<u><u>4,769,552</u></u>	<u><u>13,822,327</u></u>

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

COVINGTON COUNTY

Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2004

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 9,123,690
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$73,671,140.	55,018,559
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	168,042
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(208,390)</u>
Total Net Assets - Governmental Activities	<u>\$ 64,101,901</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, 2004

	<u>Major Fund</u>	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
REVENUES			
Property taxes	\$ 2,405,886	1,973,443	4,379,329
Road and bridge privilege taxes		235,747	235,747
Licenses, commissions and other revenue	161,482	17,670	179,152
Fines and forfeitures	254,127		254,127
Intergovernmental revenues	1,116,340	1,193,630	2,309,970
Charges for services	7,645	166,591	174,236
Interest income	93,310	37,582	130,892
Miscellaneous revenues	90,654	53,989	144,643
Total Revenues	<u>4,129,444</u>	<u>3,678,652</u>	<u>7,808,096</u>
EXPENDITURES			
Current:			
General government	2,052,630	214,370	2,267,000
Public safety	881,642	552,195	1,433,837
Public works	46,748	2,661,022	2,707,770
Health and welfare	748,419	44,000	792,419
Culture and recreation		148,691	148,691
Conservation of natural resources	87,312		87,312
Economic development and assistance	39,079	457,283	496,362
Debt service:			
Principal	18,761	24,111	42,872
Interest	778	2,764	3,542
Total Expenditures	<u>3,875,369</u>	<u>4,104,436</u>	<u>7,979,805</u>
Excess of Revenues over (under) Expenditures	<u>254,075</u>	<u>(425,784)</u>	<u>(171,709)</u>
OTHER FINANCING SOURCES (USES)			
Long-term capital debt issued		212,990	212,990
Proceeds from sale of capital assets		42,673	42,673
Transfers in	130,000	322,159	452,159
Transfers out	(322,159)	(130,000)	(452,159)
Total Other Financing Sources and Uses	<u>(192,159)</u>	<u>447,822</u>	<u>255,663</u>
Net Changes in Fund Balances	<u>61,916</u>	<u>22,038</u>	<u>83,954</u>
Fund Balances - Beginning	6,638,669	2,513,742	9,152,411
Prior period adjustment	(112,675)		(112,675)
Fund Balances - Beginning, as restated	<u>6,525,994</u>	<u>2,513,742</u>	<u>9,039,736</u>
Fund Balances - Ending	<u>\$ 6,587,910</u>	<u>2,535,780</u>	<u>9,123,690</u>

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, 2004

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 83,954
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$1,353,227 were exceeded by depreciation of \$4,619,125 in the current period.	(3,265,898)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$1,038 and the proceeds from the sale of \$42,673 in the current period.	(43,711)
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.	(92,800)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$42,872 were exceeded by debt proceeds of \$212,990.	<u>(170,118)</u>
Change in Net Assets of Governmental Activities	<u>\$ (3,488,573)</u>

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

COVINGTON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2004

Exhibit 5

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 50,450
Due from other funds	<u>5,762</u>
Total Assets	<u>\$ 56,212</u>
LIABILITIES	
Amounts held in custody for others	\$ 44,399
Intergovernmental payables	<u>11,813</u>
Total Liabilities	<u>\$ 56,212</u>

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

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

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

The Government-wide and Fiduciary Funds 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.

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

The county reports the following major Governmental Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

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

FIDUCIARY FUND TYPE

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

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

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 column in the government-wide financial statement. 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 meets this criteria but has elected to report infrastructure retroactively. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are reported in the government-wide financial statements. Also, general infrastructure assets acquired after October 1, 2002, are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

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

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

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

I. Long-term Liabilities.

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

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

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved.

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

K. Property Tax Revenues.

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

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

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

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

L. Intergovernmental Revenues in Governmental Funds.

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

(2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
To adjust capital assets for prior year's mobile equipment.	\$ (96,582)
To adjust for intergovernmental payables for homestead exemption revenues not recognized in the prior year.	<u>(112,675)</u>
Total	<u>\$ (209,257)</u>

Exhibit 4 - Statement of Revenues, Expenditure and Changes in Fund Balances.

<u>Explanation</u>	<u>Amount</u>
To adjust for intergovernmental payables for homestead exemption revenues not recognized in the prior year.	<u>\$ (112,675)</u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2004, was \$9,446,814, and the bank balance was \$10,154,991. 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 Depository Insurance Corporation.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General	\$ 46,383
Agency Funds	General	<u>5,762</u>
Total		<u>\$ 52,145</u>

The receivables represent the tax revenue collected but not settled until October, 2004. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 130,000
Other Governmental Funds	General Fund	<u>322,159</u>
Total		<u>\$ 452,159</u>

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2004, consisted of the following:

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 87,012
Reimbursement, welfare	2,806
Reimbursement, state prisoners	<u>240</u>
Total Governmental Activities	<u>\$ 90,058</u>

(6) Loans Receivable.

Loans receivable balances at September 30, 2004, are as follows:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Covington County Hospital	10-29-03	0%	N/A	<u>\$ 300,000</u>

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments *	Balance Sept. 30, 2004
<u>Non-depreciable capital assets:</u>					
Land	\$ 177,973				177,973
Construction in progress	303,840	521,987		(825,827)	
Total non-depreciable capital assets	<u>481,813</u>	<u>521,987</u>	<u>0</u>	<u>(825,827)</u>	<u>177,973</u>
<u>Depreciable capital assets:</u>					
Infrastructure	119,344,549				119,344,549
Buildings	2,037,942	41,681		825,827	2,905,450
Mobile equipment	4,913,429	327,908	193,654	(31,582)	5,016,101
Furniture and equipment	783,975	248,661			1,032,636
Leased property under capital leases	65,000	212,990		(65,000)	212,990
Total depreciable capital assets	<u>127,144,895</u>	<u>831,240</u>	<u>193,654</u>	<u>729,245</u>	<u>128,511,726</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	65,293,492	4,076,505			69,369,997
Buildings	691,221	32,182			723,403
Mobile equipment	2,740,133	338,172	149,943	23,400	2,951,762
Furniture and equipment	453,712	147,247			600,959
Leased property under capital leases	23,400	25,019		(23,400)	25,019
Total accumulated depreciation	<u>69,201,958</u>	<u>4,619,125</u>	<u>149,943</u>	<u>0</u>	<u>73,671,140</u>
Total depreciable capital assets, net	<u>57,942,937</u>	<u>(3,787,885)</u>	<u>43,711</u>	<u>729,245</u>	<u>54,840,586</u>
Governmental activities capital assets, net	<u>\$ 58,424,750</u>	<u>(3,265,898)</u>	<u>43,711</u>	<u>(96,582)</u>	<u>55,018,559</u>

* Adjustments were made to remove prior year mobile equipment amount included in error, the reclassification of completed construction in progress and reclassification of paid out capital leases.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 86,280
Public safety	122,107
Public works	4,334,276
Health and welfare	2,280
Conservation of natural resources	5,594
Economic development	66,076
Culture and recreation	<u>2,512</u>
Total governmental activities depreciation expense	<u>\$ 4,619,125</u>

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement, fire fighters and road construction personnel and \$400,000 for all other employees 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, 2004, to January 1, 2005. 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, 2004:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 212,990
Less: Accumulated depreciation	<u>25,019</u>
Leased Property Under Capital Leases	<u>\$ 187,971</u>

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

The following is a schedule by years of the total payments due as of September 30, 2004:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 19,165	5,382
2006	19,698	4,850
2007	20,244	4,303
2008	20,805	3,742
2009	125,245	2,175
Total	\$ <u>205,157</u>	<u>20,452</u>

(10) Long-term Debt.

Debt outstanding as of September 30, 2004, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
A. Capital Leases:			
District 5 Caterpillar motorgrader	\$ 155,457	2.74%	05-25-09
District 5 Caterpillar backhoe loader	49,700	2.74%	05-25-09
Total Capital Leases	\$ <u>205,157</u>		
B. Other Loans:			
Colonial Chapel office building	\$ <u>3,233</u>	5.76%	11-15-04

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

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ <u>3,233</u>	<u>22</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, 2004, the county had no outstanding debt limited by the legal debt margin.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

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

	Balance Oct. 1, 2003	Additions	Reductions	Adjustments	Balance Sept. 30, 2004	Amount due within one year
Capital leases	\$ 16,278	212,990	24,111		205,157	19,165
Other loans	21,994		18,761		3,233	3,233
Total	<u>\$ 38,272</u>	<u>212,990</u>	<u>42,872</u>	<u>0</u>	<u>208,390</u>	<u>22,398</u>

(11) Contingencies.

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

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

General Obligation Debt Contingencies - The county issued general obligation notes to provide funds for constructing and improving capital facilities of the Covington County Hospital. Such debt is being retired from pledged resources of this entity and, therefore, is reported as a liability of this entity. However, because general obligation notes are backed by the full faith, credit and taxing power of the county, the county remains contingently liable for its retirement. The principal amount of such debt outstanding at year end is as follows:

<u>Description</u>	<u>Balance at Sept. 30, 2004</u>
General obligation hospital note 1979	\$ 518,606
General obligation hospital note 2000	<u>1,467,241</u>
Total	<u>\$ 1,985,847</u>

(12) Joint Ventures.

The county participates in the following joint ventures:

Covington County is a participant with the Counties of Greene, Perry and Stone in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. The joint venture was created to provide free library service to the citizens of the respective counties, and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$79,763 in fiscal year 2004. Complete financial statements for the Pine Forest Regional Library can be obtained from P.O. Box 1208, Richton, MS 39476.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

Covington County is a participant with the Counties of Jones and Perry, and the Cities of Hattiesburg, Laurel and Petal in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Pine Belt Regional Solid Waste Authority. The joint venture was created to dispose of solid waste in members of the authority. The Covington County Board of Supervisors appoints one of the 12 members of the board of directors. The authority is funded by user fees based on the volume of solid waste. Complete financial statements for the Pine Belt Regional Solid Waste Authority can be obtained from P.O. Box 1898, Hattiesburg, MS 39403.

(13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The county appropriated \$20,000 for support of the district in fiscal year 2004.

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 \$36,500 for support of the entity in fiscal year 2004.

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 \$369,898 for maintenance and support of the college in fiscal year 2004.

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.

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

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Covington County Board of Supervisors appoints one of the nine members of the board of directors. The county provides only modest financial support for the district.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

(14) Defined Benefit Pension Plan.

Plan Description. Covington County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2004, 2003 and 2002 were \$191,357, \$181,281 and \$164,068, respectively, equal to the required contributions for each year.

COVINGTON COUNTY

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COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,420,000	2,395,500	2,405,216	9,716
Licenses, commissions and other revenue	175,000	158,000	163,692	5,692
Fines and forfeitures	225,000	259,000	267,060	8,060
Intergovernmental revenues	485,000	972,050	988,156	16,106
Charges for services	5,000	400	5,202	4,802
Interest income	102,500	90,860	94,144	3,284
Miscellaneous revenues	132,500	164,350	167,678	3,328
Total Revenues	<u>3,545,000</u>	<u>4,040,160</u>	<u>4,091,148</u>	<u>50,988</u>
EXPENDITURES				
Current:				
General government	2,776,540	2,130,540	2,059,286	71,254
Public safety	900,430	1,049,195	977,096	72,099
Public works	57,000	57,000	46,654	10,346
Health and welfare	291,800	694,350	672,033	22,317
Conservation of natural resources	70,500	90,350	87,285	3,065
Economic development and assistance	106,000	78,150	39,079	39,071
Debt service:				
Principal	25,000	24,000	18,761	5,239
Interest		1,000	778	222
Total Expenditures	<u>4,227,270</u>	<u>4,124,585</u>	<u>3,900,972</u>	<u>223,613</u>
Excess of Revenues over (under) Expenditures	<u>(682,270)</u>	<u>(84,425)</u>	<u>190,176</u>	<u>274,601</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets		11,500	11,580	80
Transfers in		146,000	143,781	(2,219)
Transfers out	(2,810,000)	(2,290,350)	(322,159)	1,968,191
Other financing uses			(300,000)	(300,000)
Total Other Financing Sources and Uses	<u>(2,810,000)</u>	<u>(2,132,850)</u>	<u>(466,798)</u>	<u>1,666,052</u>
Net Change in Fund Balance	(3,492,270)	(2,217,275)	(276,622)	1,940,653
Fund Balances - Beginning	<u>(1,251,635)</u>	<u>1,613,319</u>	<u>6,780,717</u>	<u>5,167,398</u>
Fund Balances - Ending	<u>\$ (4,743,905)</u>	<u>(603,956)</u>	<u>6,504,095</u>	<u>7,108,051</u>

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

COVINGTON COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2004

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	<u>Governmental Fund Type</u>
	<u>General</u>
	<u>Fund</u>
Budget (Cash Basis)	\$ (276,622)
Increase (Decrease)	
Net adjustments for revenue accruals	12,935
Net adjustments for expenditure accruals	325,603
GAAP Basis	\$ 61,916

COVINGTON COUNTY

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COVINGTON COUNTY

SPECIAL REPORTS

COVINGTON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Covington County, Mississippi

We have audited the primary government financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated July 19, 2005. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Covington County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

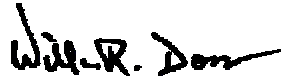
Compliance and Other Matters

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

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT
State Auditor



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

July 19, 2005



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Covington County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Covington County, Mississippi, as of and for the year ended September 30, 2004. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Covington County, Mississippi, is responsible for 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). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). 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 evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

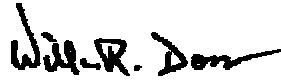
In our opinion, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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 study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

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



PHIL BRYANT
State Auditor



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

July 19, 2005

COVINGTON COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2004

Schedule 1

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

COVINGTON COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2004

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
07-06-04	Cleaning service	\$ 1,951	Service Master	Offices were flooded.
09-02-04	Carpet	4,511	Quality Flooring	Carpet had mildewed.

COVINGTON COUNTY
Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2004

Schedule 3

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

COVINGTON COUNTY

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COVINGTON COUNTY

SCHEDULE OF FINDINGS

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings
For the Year Ended September 30, 2004

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the primary government financial statements: | Unqualified |
| 2. | Internal control over financial reporting: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that is not considered to be a material weakness? | No |
| 3. | Noncompliance material to the primary government financial statements? | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.