



**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, 2005**







COVINGTON COUNTY

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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, 2005, 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, 2005, 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, 2005, 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.

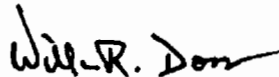
In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2006, on our consideration of Covington County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Reconciliation of Operating Costs of Sold Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT  
State Auditor



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

March 10, 2006

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, 2005. 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 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 five years. This does not include the school taxes.

Total net assets decreased \$2,696,013, which includes a prior period adjustment of \$65,081, which represents a 4.2% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was an increase of \$578,884, which represents a 6.2% increase from the prior fiscal year. The County's ending cash balance decreased by \$575,817, which represents a 6.1% decrease from the prior fiscal year.

# ***COVINGTON COUNTY, MISSISSIPPI***

The County had \$7,934,427 in total revenues. Tax revenues account for \$4,825,388 or 61% of total revenues. Revenue in the form of operating and capital grants and contributions accounted for \$1,495,154 or 19% of total revenue and charges for services accounted for \$ 482,195 or 6% of total revenue.

The County had \$10,695,521 in total expenditures, which represents a decrease of \$497,828 or a 4.4% decrease from the prior fiscal year. Expenses in the amount of \$1,977,349 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues and accumulated cash of \$8,718,172.

Among major funds, the General Fund had \$4,322,587 in revenues and other financing sources and \$4,267,841 in expenditures and other financing uses. The General Fund's fund balance increased \$54,746 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$3,297,295.

Long-term debt decreased by \$22,398, there was no long-term debt added as of September 30, 2005.

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

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

# COVINGTON COUNTY, MISSISSIPPI

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

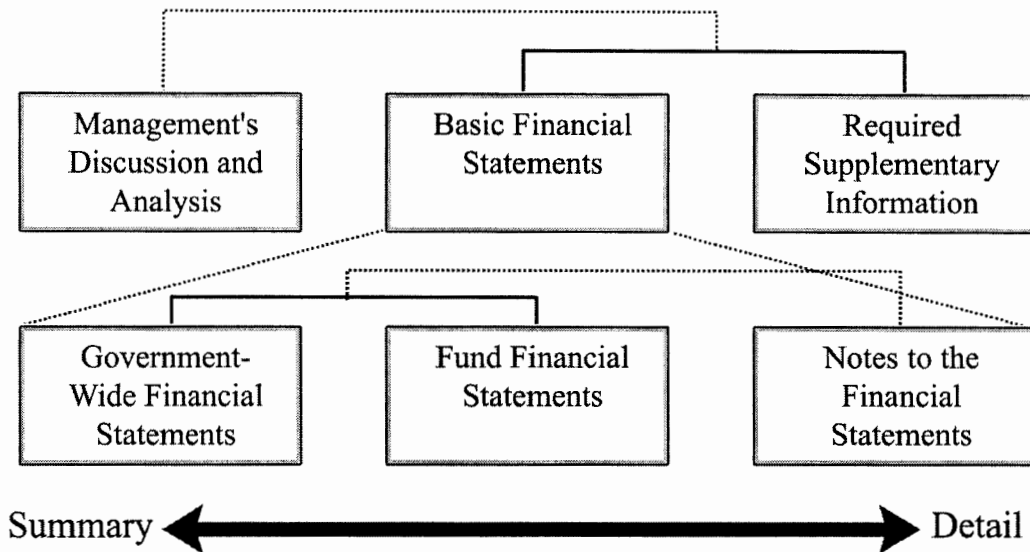


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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

# **COVINGTON COUNTY, MISSISSIPPI**

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

	<b>Government-Wide Financial Statements</b>	<b>Fund Financial Statements</b>		
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	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
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>● Statement of net assets</li> <li>● Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>● Balance sheet</li> <li>● Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>● Statement of net assets</li> <li>● Statement of revenues, expenses and changes in net assets</li> <li>● Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>● Statement of fiduciary assets and liabilities</li> <li>● Statement of changes in net assets</li> </ul>
<b>Accounting basis and measurement focus</b>	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
<b>Type of asset/liability information</b>	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
<b>Type of inflow/outflow information</b>	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 assistance; 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 23 and 24 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 26 and 28 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual* 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 30 - 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 43 - 45 of this report.

Covington County is subject to a Single Audit, due to the amount of federal grants it receives. Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Circular A-133 and can be found on pages 48 and 49 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 \$61,405,888 as of September 30, 2005.

By far, the largest portion of the County's net assets (84%) 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, 2005, as compared to fiscal year ended September 30, 2004.

	<b>09/30/05</b>	<b>09/30/04</b>
	<b>Governmental Activities</b>	<b>Governmental Activities</b>
<b>Assets:</b>		
Current Assets	\$ 14,204,246	\$ 13,775,944
Capital Assets, Net	51,721,264	55,018,559
Total Assets	<b>\$ 65,925,510</b>	<b>\$ 68,794,503</b>
<b>Liabilities:</b>		
Current Liabilities	\$ 4,333,630	\$ 4,484,212
Long-Term Debt Outstanding	185,992	208,390
Total Liabilities	<b>\$ 4,519,622</b>	<b>\$ 4,692,602</b>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 51,535,272	\$ 54,810,169
Restricted	4,282,239	2,835,780
Unrestricted	5,588,377	6,455,952
Total Net Assets	<b>\$ 61,405,888</b>	<b>\$ 64,101,901</b>

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.
- \$22,398 of long-term debt principal was retired.
- There was no long-term debt issued.
- Gross capital assets had a net increase of \$1,321,167 from increases in buildings, mobile equipment, furniture and equipment and construction in progress.

# **COVINGTON COUNTY, MISSISSIPPI**

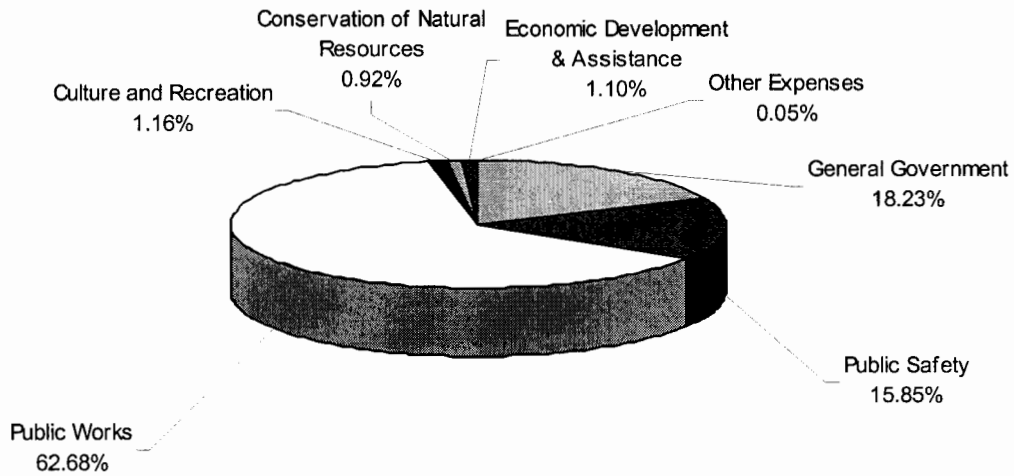
**Changes in Net Assets**—Covington County’s total revenues for the fiscal year ended September 30, 2005 was \$7,934,427. The total cost for all services provided was \$10,695,521 the decrease in net assets were \$2,696,013. The decrease in net assets includes a prior period adjustment of \$65,081. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2005, as compared to fiscal year ended September 30, 2004.

	<b>09/30/05</b>	<b>09/30/04</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 482,195	\$ 514,715
Grants and Contributions	1,495,154	1,595,266
General Revenues:		
Taxes	4,581,098	4,379,329
Road and Bridge privilege taxes	244,290	235,747
Grants and Contributions	772,879	714,704
Other	358,811	265,015
<b>Total Revenues</b>	<b>\$ 7,934,427</b>	<b>\$ 7,704,776</b>
<b>Expenses:</b>		
General Government	\$ 1,949,386	\$ 2,135,747
Public Safety	1,694,840	1,353,780
Public Works	6,703,434	6,620,417
Health and Welfare	2,773	794,699
Culture and Recreation	123,862	87,103
Conservation of Natural Resources	98,314	92,906
Economic Development & Assistance	117,507	105,155
Other Expenses	5,405	3,542
<b>Total Expenses</b>	<b>\$ 10,695,521</b>	<b>\$ 11,193,349</b>
Prior period adjustments	\$ 65,081	\$ (209,257)
<b>Decrease in Net Assets</b>	<b>\$ (2,696,013)</b>	<b>\$ (3,697,830)</b>

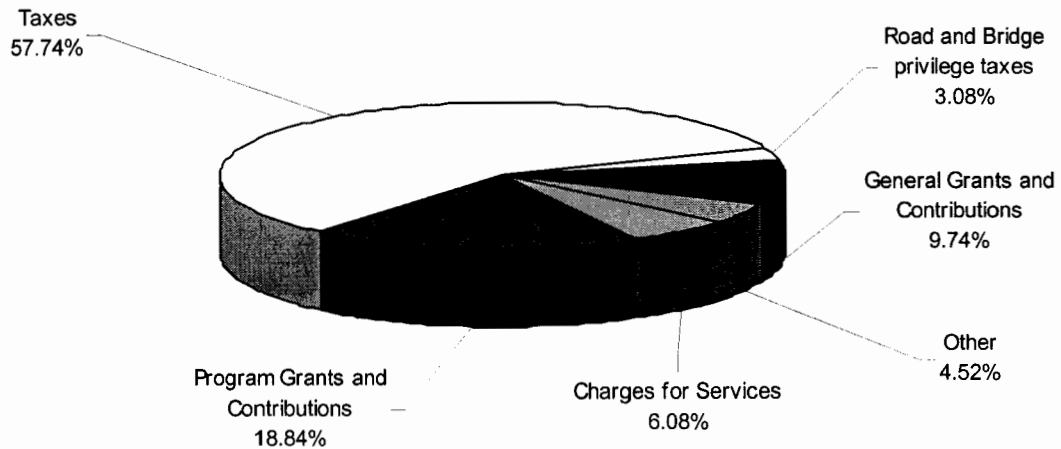
# COVINGTON COUNTY, MISSISSIPPI

The following charts present a summary of the sources and uses of the County's revenues for the fiscal year ended September 30, 2005.

## HOW COUNTY REVENUES ARE USED



## WHERE THE COUNTY GETS IT REVENUE



# ***COVINGTON COUNTY, MISSISSIPPI***

**Governmental Activities** – The following table presents the cost of major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, Economic Development and Assistance, and interest on long-term debt.

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.

	<b>Total Costs</b>	<b>Net Costs</b>
General Government	\$ 1,949,386	\$ 1,684,568
Public Safety	1,694,840	968,770
Public Works	6,703,434	5,982,426
Health and Welfare	2,773	(256,469)
Culture and Recreation	123,862	123,862
Conservation of Natural Resources	98,314	98,314
Economic Development and Assistance	117,507	111,296
Interest on Long-Term Debt	5,405	5,405

## ***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 \$9,824,895, an increase of \$701,205. The increase is 7% of the total fund balance.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year was \$54,746. This increase is due to an increase in revenues and a decrease in expenditures from the prior year.

## ***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 general government department. Budgeted expenditures were increased (decreased) as better estimates became available.

# **COVINGTON COUNTY, MISSISSIPPI**

Even with these adjustments, actual disbursements were below final budget amounts by \$49,314.

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, 2005, Covington County's total capital assets were \$130,010,866. 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 \$1,321,167.

Total accumulated depreciation as of September 30, 2005 was \$78,289,602, including \$4,651,086 of depreciation expense for the year. The balance in total net capital assets was \$51,721,264 at year-end.

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

### **Capital Asset Values**

<b>Asset Classification</b>	<b>Balance 10/1/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2005</b>
Land	\$ 177,973				\$ 177,973
Construction-in-Progress	-	1,070,403		(417,849)	\$ 652,554
Infrastructure	119,344,549				\$119,344,549
Buildings	2,905,450			482,930	\$ 3,388,380
Mobile Equipment	5,016,101	164,264	20,692		\$ 5,159,673
Furniture and Equipment	1,032,636	60,000	17,889		\$ 1,074,747
Leased Property under Capital Leases	212,990				\$ - \$ 212,990
<b>TOTALS</b>	<b>\$ 128,689,699</b>	<b>\$ 1,294,667</b>	<b>\$ 38,581</b>	<b>\$ 65,081</b>	<b>\$130,010,866</b>

### **Capital Asset Accumulated Depreciation**

<b>Asset Classification</b>	<b>Balance 10/1/2004</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2005</b>
Infrastructure	\$ 69,369,997	\$ 4,076,505			73,446,502
Buildings	723,403	56,679			780,082
Mobile Equipment	2,951,762	345,637	16,524		3,280,875
Furniture and Equipment	600,959	147,246	16,100		732,105
Leased Property under Capital Leases	25,019	25,019			50,038
<b>TOTALS</b>	<b>\$ 73,671,140</b>	<b>\$ 4,651,086</b>	<b>\$ 32,624</b>	<b>\$ -</b>	<b>\$ 78,289,602</b>

# **COVINGTON COUNTY, MISSISSIPPI**

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

**Debt Administration** – At September 30, 2005, Covington County had \$185,992 in long-term debt outstanding. The only debt outstanding as of September 30, 2005 is capital leases. Of this debt, \$19,698 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, 2005, 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, 2005:

	<b>Balance</b>			<b>Balance</b>	<b>Due Within</b>
	<b>10/1/2004</b>	<b>Additions</b>	<b>Reductions</b>	<b>9/30/2005</b>	<b>One Year</b>
Capital Leases	205,157		19,165	185,992	19,698
Other Loans	3,233		3,233	-	-
<b>Total</b>	<b>\$ 208,390</b>	<b>\$ -</b>	<b>\$ 22,398</b>	<b>\$ 185,992</b>	<b>\$ 19,698</b>

Additional information on Covington County's long-term debt can be found in note 11 on page 39 of this report.

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

Covington County will be working on two major projects during the year 2005-2006. One of the projects being worked on is the new Health Department Building that will cost around \$400,000 and is expected to be completed by July 2006. The Courthouse Renovations that began in 2005 will be complete approximately November 2005 with a cost of \$652,000.

The budget for the next fiscal year reflected an increase of \$293,765 or 4% in revenues and a decrease of \$1,202,085 or 9.6% in expenses. Even with these adjustments to the budget; budgeted expenditures are still more than budgeted revenues which will cause a decrease in the County's net assets.

Covington County has an unemployment rate of 7.5% versus 6.1% a year ago. This compares unfavorably with the state average rate of 7.4%.

## ***CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Covington County Comptroller's/Chancery Clerk's office at 101 South Elm, Collins, Mississippi 39428.

COVINGTON COUNTY

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COVINGTON COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY  
Statement of Net Assets  
September 30, 2005

Exhibit I

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
<b>ASSETS</b>	
Cash	\$ 8,820,547
Property tax receivable	3,865,250
Fines receivable (net of allowance for uncollectibles of \$688,651)	45,721
Loans receivable	1,100,000
Intergovernmental receivables	371,522
Other receivables	1,206
Capital assets, net	51,721,264
Total Assets	<u>65,925,510</u>
<b>LIABILITIES</b>	
Claims payable	207,379
Intergovernmental payables	167,136
Unearned revenue	3,865,250
Other payables	93,865
Long-term liabilities	
Due within one year:	
Capital debt	19,698
Due in more than one year:	
Capital debt	166,294
Total Liabilities	<u>4,519,622</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	51,535,272
Restricted:	
Expendable:	
General government	141,095
Public safety	527,488
Public works	2,413,319
Health and welfare	1,100,000
Culture and recreation	86,798
Unemployment compensation	11,259
Capital projects	2,280
Unrestricted	5,588,377
Total Net Assets	<u>\$ 61,405,888</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, 2005

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,949,386	264,818			(1,684,568)
Public safety	1,694,840	190,400	535,670		(968,770)
Public works	6,703,434	26,977	561,024	133,007	(5,982,426)
Health and welfare	2,773		55,190	204,052	256,469
Culture and recreation	123,862				(123,862)
Conservation of natural resources	98,314				(98,314)
Economic development and assistance	117,507			6,211	(111,296)
Interest on long-term debt	5,405				(5,405)
Total Governmental Activities	<u>\$ 10,695,521</u>	<u>482,195</u>	<u>1,151,884</u>	<u>343,270</u>	<u>(8,718,172)</u>
General revenues:					
Property taxes					\$ 4,581,098
Road & bridge privilege taxes					244,290
Grants and contributions not restricted to specific programs					772,879
Unrestricted interest income					155,110
Miscellaneous					203,701
Total General Revenues					<u>5,957,078</u>
Changes in Net Assets					<u>(2,761,094)</u>
Net Assets - Beginning					64,101,901
Prior period adjustment					65,081
Net Assets - Beginning, as restated					<u>64,166,982</u>
Net Assets - Ending					<u>\$ 61,405,888</u>

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

COVINGTON COUNTY  
 Balance Sheet - Governmental Funds  
 September 30, 2005

Exhibit 3

	<u>Major Fund</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
<b>ASSETS</b>			
Cash	\$ 5,836,600	2,983,947	8,820,547
Property tax receivable	1,871,000	1,994,250	3,865,250
Fines receivable (net of allowance for uncollectibles of \$688,651)	45,721		45,721
Loans receivable	1,100,000		1,100,000
Intergovernmental receivables	127,936	243,586	371,522
Other receivables	1,206		1,206
Due from other funds		62,979	62,979
<b>Total Assets</b>	<b>\$ 8,982,463</b>	<b>5,284,762</b>	<b>14,267,225</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Claims payable	\$ 99,106	108,273	207,379
Intergovernmental payables	156,282		156,282
Due to other funds	73,833		73,833
Deferred revenue	45,721		45,721
Unearned revenue	1,871,000	1,994,250	3,865,250
Other payables	93,865		93,865
<b>Total Liabilities</b>	<b>2,339,807</b>	<b>2,102,523</b>	<b>4,442,330</b>
<b>Fund balances:</b>			
<b>Reserved for:</b>			
Loans receivable	1,100,000		1,100,000
Unemployment compensation		11,259	11,259
<b>Unreserved, reported in:</b>			
General Fund	5,542,656		5,542,656
Special Revenue Funds		3,168,700	3,168,700
Capital Project Funds		2,280	2,280
<b>Total Fund Balances</b>	<b>6,642,656</b>	<b>3,182,239</b>	<b>9,824,895</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,982,463</b>	<b>5,284,762</b>	<b>14,267,225</b>

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

COVINGTON COUNTY

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2005

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 9,824,895
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 \$78,289,602.	51,721,264
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	45,721
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(185,992)</u>
Total Net Assets - Governmental Activities	<u>\$ 61,405,888</u>

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

COVINGTON COUNTY  
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2005

Exhibit 4

	<u>Major Fund</u>		<u>Total</u>
	General Fund	Other Governmental Funds	Governmental Funds
<b>REVENUES</b>			
Property taxes	\$ 2,517,046	2,064,052	4,581,098
Road and bridge privilege taxes		244,290	244,290
Licenses, commissions and other revenue	139,051	14,689	153,740
Fines and forfeitures	263,387		263,387
Intergovernmental revenues	1,173,555	1,094,478	2,268,033
Charges for services	16,327	171,062	187,389
Interest income	110,783	44,327	155,110
Miscellaneous revenues	102,434	101,267	203,701
Total Revenues	<u>4,322,583</u>	<u>3,734,165</u>	<u>8,056,748</u>
<b>EXPENDITURES</b>			
Current:			
General government	2,363,312	169,379	2,532,691
Public safety	1,029,895	654,328	1,684,223
Public works	47,121	2,425,695	2,472,816
Health and welfare	390,130		390,130
Culture and recreation		120,894	120,894
Conservation of natural resources	92,724		92,724
Economic development and assistance	35,652	2,214	37,866
Debt service:			
Principal	3,233	19,165	22,398
Interest	23	5,382	5,405
Total Expenditures	<u>3,962,090</u>	<u>3,397,057</u>	<u>7,359,147</u>
Excess of Revenues over (under) Expenditures	<u>360,493</u>	<u>337,108</u>	<u>697,601</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from sale of capital assets	4	3,600	3,604
Transfers in		305,751	305,751
Transfers out	(305,751)		(305,751)
Total Other Financing Sources and Uses	<u>(305,747)</u>	<u>309,351</u>	<u>3,604</u>
Net Changes in Fund Balances	54,746	646,459	701,205
Fund Balances - Beginning	<u>6,587,910</u>	<u>2,535,780</u>	<u>9,123,690</u>
Fund Balances - Ending	<u>\$ 6,642,656</u>	<u>3,182,239</u>	<u>9,824,895</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, 2005

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 701,205
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 \$1,294,667 were exceeded by depreciation of \$4,651,086 in the current period.	(3,356,419)
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 \$2,353 and the proceeds from the sale of \$3,604 in the current period.	(5,957)
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.	(122,321)
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 of the debt repayments.	<u>22,398</u>
Change in Net Assets of Governmental Activities	<u>\$ (2,761,094)</u>

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

COVINGTON COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2005

Exhibit 5

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 48,235
Due from other funds	<u>10,854</u>
Total Assets	<u>\$ 59,089</u>
<b>LIABILITIES</b>	
Amounts held in custody for others	\$ 48,235
Intergovernmental payables	<u>10,854</u>
Total Liabilities	<u>\$ 59,089</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, 2005

(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, 2005

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.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2005

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.

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

#### FIDUCIARY FUND TYPE

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

#### D. Account Classifications.

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

#### E. Deposits and Investments.

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

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

#### F. Receivables.

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

#### G. Interfund Transactions and Balances.

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

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

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 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 also include all roads and bridges and other infrastructure assets.

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital 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, 2005

#### 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, 2005

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) Changes in Accounting Standards.

For the fiscal year ended September 30, 2005, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of these new statements have been incorporated into the financial statements and the accompanying notes.

(3) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
Capital assets	\$ <u><u>65,081</u></u>

(4) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$8,868,782, and the bank balance was \$9,763,849. 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.

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

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2005:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General	\$ 62,979
Agency Funds	General	<u>10,854</u>
Total		<u>\$ 73,833</u>

The receivables represent the tax revenue collected but not settled until October, 2005. 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>
Other Governmental Funds	General Fund	<u>\$ 305,751</u>

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

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2005, consisted of the following:

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 108,940
Reimbursement, Federal Emergency Management Agency grant	171,642
Reimbursement, Homeland Security grant	<u>90,940</u>
Total Governmental Activities	<u>\$ 371,522</u>

(7) Loans Receivable.

Loans receivable balances at September 30, 2005, 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	\$ 300,000
Covington County Hospital	06-10-05	3.00%	06-10-10	<u>800,000</u>
Total				<u>\$ 1,100,000</u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(8) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2005:

	Balance Oct. 1, 2004	Additions	Deletions	Adjustments *	Balance Sept. 30, 2005
<u>Non-depreciable capital assets:</u>					
Land	\$ 177,973				177,973
Construction in progress		1,070,403		(417,849)	652,554
Total non-depreciable capital assets	<u>177,973</u>	<u>1,070,403</u>	<u>0</u>	<u>(417,849)</u>	<u>830,527</u>
<u>Depreciable capital assets:</u>					
Infrastructure	119,344,549				119,344,549
Buildings	2,905,450			482,930	3,388,380
Mobile equipment	5,016,101	164,264	20,692		5,159,673
Furniture and equipment	1,032,636	60,000	17,889		1,074,747
Leased property under capital leases	212,990				212,990
Total depreciable capital assets	<u>128,511,726</u>	<u>224,264</u>	<u>38,581</u>	<u>482,930</u>	<u>129,180,339</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	69,369,997	4,076,505			73,446,502
Buildings	723,403	56,679			780,082
Mobile equipment	2,951,762	345,637	16,524		3,280,875
Furniture and equipment	600,959	147,246	16,100		732,105
Leased property under capital leases	25,019	25,019			50,038
Total accumulated depreciation	<u>73,671,140</u>	<u>4,651,086</u>	<u>32,624</u>	<u>0</u>	<u>78,289,602</u>
Total depreciable capital assets, net	<u>54,840,586</u>	<u>(4,426,822)</u>	<u>5,957</u>	<u>482,930</u>	<u>50,890,737</u>
Governmental activities capital assets, net	<u>\$ 55,018,559</u>	<u>(3,356,419)</u>	<u>5,957</u>	<u>65,081</u>	<u>51,721,264</u>

\* Adjustments are to correct errors in prior year ending balances and for the reclassification of completed construction in progress to buildings.

Depreciation expense was charged to the following functions:

	Amount
General government	\$ 87,464
Public safety	140,917
Public works	4,324,014
Health and welfare	10,492
Culture and recreation	2,968
Conservation of natural resources	5,590
Economic development	<u>79,641</u>
Total governmental activities depreciation expense	<u>\$ 4,651,086</u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

Commitments with respect to unfinished capital projects at September 30, 2005, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Covington County courthouse renovation	\$ 62,970	March, 2006

(9) 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 \$750,000 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, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(10) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2005:

<u>Classes of Property</u>	<u>Governmental Activities</u>	
Mobile equipment	\$	212,990
Less: Accumulated depreciation		<u>50,038</u>
Leased Property Under Capital Leases	\$	<u><u>162,952</u></u>

The following is a schedule by years of the total payments due as of September 30, 2005:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 19,698	4,850
2007	20,244	4,303
2008	20,805	3,742
2009	<u>125,245</u>	<u>2,175</u>
Total	<u><u>\$ 185,992</u></u>	<u><u>15,070</u></u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(11) Long-term Debt.

Debt outstanding as of September 30, 2005, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Capital Leases:			
District 5 Caterpillar motorgrader	\$ 142,550	2.74%	05-25-09
District 5 Caterpillar backhoe loader	<u>43,442</u>	2.74%	05-25-09
Total Capital Leases	<u>\$ 185,992</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, 2005, the county had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2005:

	Balance Oct. 1, 2004	Additions	Reductions	Adjustments	Balance Sept. 30, 2005	Amount due within one year
Capital leases	\$ 205,157		19,165		185,992	19,698
Other loans	<u>3,233</u>		<u>3,233</u>		<u>0</u>	<u>0</u>
Total	<u>\$ 208,390</u>	<u>0</u>	<u>22,398</u>	<u>0</u>	<u>185,992</u>	<u>19,698</u>

(12) Contingencies.

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

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

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

General Obligation Debt Contingencies - The county issues 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 these entities 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, 2005</u>
General obligation hospital note 1979	\$ 431,378
General obligation hospital note 2000	<u>1,403,241</u>
Total	<u>\$ 1,834,619</u>

(13) 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 \$76,723 in fiscal year 2005. Complete financial statements for the Pine Forest Regional Library can be obtained from P.O. Box 1208, Richton, MS 39476.

Covington County is a participant with the Counties of Jones and Perry, and the Cities of Hattiesburg, Laurel and Petal in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Pine Belt Regional Solid Waste Authority. The joint venture was created to dispose of solid waste in members of the authority. The Covington County Board of Supervisors appoints one of 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.

(14) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$30,000 for support of the district in fiscal year 2005.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Covington County Board of Supervisors appoints one of the nine members of the board of commissioners. The county appropriated \$35,500 for support of the entity in fiscal year 2005.

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 \$312,589 for maintenance and support of the college in fiscal year 2005.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

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. The county appropriated \$68,648 for support of the district in fiscal year 2005.

(15) 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 10.75% 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, 2005, 2004 and 2003 were \$206,053, \$191,357 and \$181,281, respectively, equal to the required contributions for each year.

(16) Subsequent Events.

Subsequent to September 30, 2005, Covington 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>
10-25-05	3.19%	\$ 187,280	Lease purchase	District 5 road fund revenue
10-25-05	3.19%	93,640	Lease purchase	District 1 road fund revenue

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, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,402,000	2,462,000	2,469,282	7,282
Licenses, commissions and other revenue	155,000	135,000	136,043	1,043
Fines and forfeitures	225,000	213,000	213,216	216
Intergovernmental revenues	969,000	1,104,800	1,101,915	(2,885)
Charges for services	5,000	1,000	4,934	3,934
Interest income	75,050	122,200	124,775	2,575
Miscellaneous revenues	175,000	1,080,700	145,072	(935,628)
Total Revenues	<u>4,006,050</u>	<u>5,118,700</u>	<u>4,195,237</u>	<u>(923,463)</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,378,580	2,461,700	2,429,187	32,513
Public safety	1,016,600	1,076,800	1,071,916	4,884
Public works	50,000	47,000	47,688	(688)
Health and welfare	1,328,300	1,270,700	1,263,392	7,308
Conservation of natural resources	96,600	95,000	92,795	2,205
Economic development and assistance	106,000	41,000	38,652	2,348
Debt service:				
Principal	5,000	4,000	3,233	767
Interest			23	(23)
Total Expenditures	<u>4,981,080</u>	<u>4,996,200</u>	<u>4,946,886</u>	<u>49,314</u>
Excess of Revenues over (under) Expenditures	<u>(975,030)</u>	<u>122,500</u>	<u>(751,649)</u>	<u>(874,149)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Compensation for loss of capital assets			9,687	9,687
Transfers in		20,000	10,000	(10,000)
Transfers out	(535,000)	(1,266,951)	(315,751)	951,200
Other financing uses	(1,940,000)		2,385	2,385
Total Other Financing Sources and Uses	<u>(2,475,000)</u>	<u>(1,246,951)</u>	<u>(293,679)</u>	<u>953,272</u>
Net Change in Fund Balance	(3,450,030)	(1,124,451)	(1,045,328)	79,123
Fund Balances - Beginning	<u>(4,743,905)</u>	<u>(603,956)</u>	<u>6,504,095</u>	<u>7,108,051</u>
Fund Balances - Ending	<u>\$ (8,193,935)</u>	<u>(1,728,407)</u>	<u>5,458,767</u>	<u>7,187,174</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, 2005

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:

	Governmental Fund Type
	General Fund
Budget (Cash Basis)	\$ (1,045,328)
Increase (Decrease)	
Net adjustments for revenue accruals	131,935
Net adjustments for expenditure accruals	968,139
GAAP Basis	\$ 54,746

COVINGTON COUNTY

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COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>MAJOR FEDERAL AWARDS</b>			
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program	14.228	1120-03-016-PF-01	\$ 154,003
Community development block grants/state's program	14.228	1120-03-016-ED-01	6,211
Total U.S. Department of Housing and Urban Development			160,214
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Homeland Security Cluster			
State domestic preparedness equipment support program	97.004	3SSG-1041	71,170
State domestic preparedness equipment support program	97.004	3SUP-72	41,327
Passed-through the Mississippi Department of Public Safety/ Office of Homeland Security			
State domestic preparedness equipment support program	97.004	04HSO16	60,000
State domestic preparedness equipment support program	97.004	04CS016	6,582
State domestic preparedness equipment support program	97.004	04LE016	24,358
Total U.S. Department of Homeland Security			203,437
Total Expenditures of Major Federal Awards			363,651
<b>OTHER FEDERAL AWARDS</b>			
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Home investment partnerships program	14.239	1262-M00-SG-28-01-1003	21,000
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	N/A	2,640

COVINGTON COUNTY  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended September 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency			
Disaster grants - public assistance	97.036	FEMA-1604-DR	171,642
Disaster grants - public assistance	97.036	FEMA-1550-DR	<u>2,687</u>
Total U.S. Department of Homeland Security			<u>174,329</u>
Total Expenditures of Other Federal Awards			<u>197,969</u>
Total Expenditures of Federal Awards			<u>\$ 561,620</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

COVINGTON COUNTY  
Reconciliation of Operating Costs of Solid Waste  
For the Year Ended September 30, 2005

Operating Expenditures, Cash Basis:

Salaries	\$ 173,815
Expendable Commodities:	
Gasoline and petroleum products	19,440
Repair parts	28,311
Maintenance	2,369
Insurance on equipment	8,282
Supplies	50,158
Contractual fees	<u>119,121</u>
Solid Waste Cash Basis Operating Expenditures	401,496
Full Cost Expenses:	
Indirect administrative costs	19,095
Depreciation on equipment	14,752
Net effect of other accrued expenses	<u>6,257</u>
Solid Waste Full Cost Operating Expenses	<u>\$ 441,600</u>

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, 2005, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated March 10, 2006. 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.

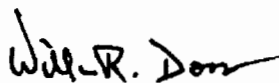
#### Compliance and Other Matters

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 federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT  
State Auditor



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

March 10, 2006



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Members of the Board of Supervisors  
Covington County, Mississippi

### Compliance

We have audited the compliance of Covington County, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Covington County, Mississippi's, major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Covington County, Mississippi's, management. Our responsibility is to express an opinion on Covington County, Mississippi's compliance based on our audit.

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

In our opinion, Covington County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

### Internal Control Over Compliance

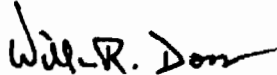
The management of Covington County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Covington County,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

Our consideration of the internal control over compliance 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 noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

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



PHIL BRYANT  
State Auditor



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

March 10, 2006



# 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, 2005. 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

March 10, 2006

COVINGTON COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2005

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, 2005

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
08-11-05	Clean up service	\$ 6,000	Environmental Services	Chemicals spilled into pond.
09-06-05	Services	1,700	Rutland Lumber	Road clearing after Hurricane Katrina.
09-06-05	Services	2,125	Paul L. Little	Road clearing after Hurricane Katrina.
09-06-05	Services	500	Robert Batte, Jr.	Road clearing after Hurricane Katrina.
09-06-05	Services	4,680	Buddy Miller	Road clearing after Hurricane Katrina.
09-06-05	Services	4,118	B.P. Graves	Road clearing after Hurricane Katrina.
			Logging	Road clearing after Hurricane Katrina.
09-27-05	Meals	4,670	Huddle House	Meals for prisoners.
09-27-05	Roofing repairs	7,800	Billy Parker	
			Roofing	Roof repairs to county building.
09-27-05	Roofing repairs	1,600	Billy Parker	
			Roofing	Roof repairs to county building.

COVINGTON COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2005

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 AND QUESTIONED COSTS

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2005

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          |

*Federal Awards:*

- |     |  |             |
|-----|--|-------------|
| 4.  | Internal control over major programs:  |             |
| a.  | Material weakness identified?  | No          |
| b.  | Reportable condition identified that is not considered to be a material weakness?  | No          |
| 5.  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified |
| 6.  | Any audit finding reported as required by Section ____.510(a) of Circular A-133?   | No          |
| 7.  | Federal programs identified as major programs:   |             |
|     | Community development block grants/state's program, CFDA #14.228   |             |
|     | State domestic preparedness equipment support program, CFDA #97.004  |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?   | No          |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No          |

COVINGTON COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2005

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*.

Section 3: Federal Award Findings and Questioned Costs

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