

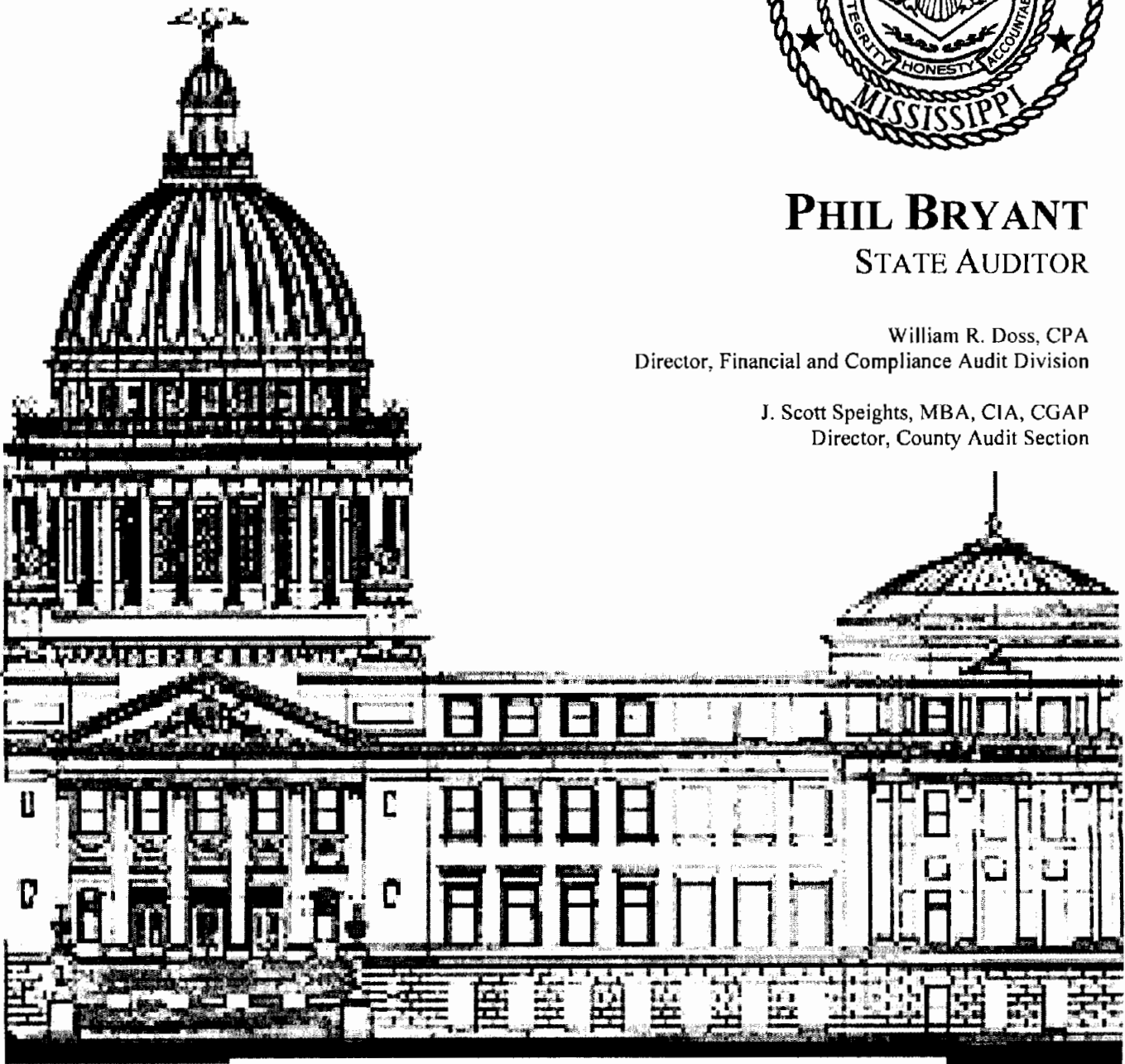
**COVINGTON COUNTY, MISSISSIPPI**  
Audited Primary Government Financial Statements and Special Reports  
For the Year Ended September 30, 2006



**PHIL BRYANT**  
STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

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Director, County Audit Section



A Report from the County Audit Section

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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, 2006, 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, 2006, 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, 2006, 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 December 15, 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 Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. 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

December 15, 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, 2006. 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 5.53 mills over the last six years. This does not include the school taxes.

Total net assets decreased \$1,869,840, which includes a prior period adjustment of \$497,598, which represents a 3% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was an increase of \$1,689,771, which represents a 17.11% increase from the prior fiscal year. The County's ending cash balance increased by \$3,105,637, which represents a 35.2% increase from the prior fiscal year.

# ***COVINGTON COUNTY, MISSISSIPPI***

The County had \$8,983,305 in total revenues. Property tax revenues account for \$4,766,559 or 53% of total revenues. Operating grants, capital grants, and contributions account for \$1,126,140 or 12.5% of total revenues.

The County had \$11,350,743 in total expenditures, which represents an increase of \$655,222 or a 6.1% increase from the prior fiscal year. Expenses in the amount of \$1,725,120 were offset by grants, outside contributions, or charges for services. The remainder of expenditures was offset by general revenues and accumulated cash of \$9,625,623.

Among major funds, the General Fund had \$5,210,995 in revenues and \$3,823,594 in expenditures and other financing uses. The General Fund's fund balance increased \$1,387,401 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$3,579,308.

Long-term debt decreased by \$300,617, there was long-term debt added of \$280,920 due to capital leases as of September 30, 2006.

## ***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

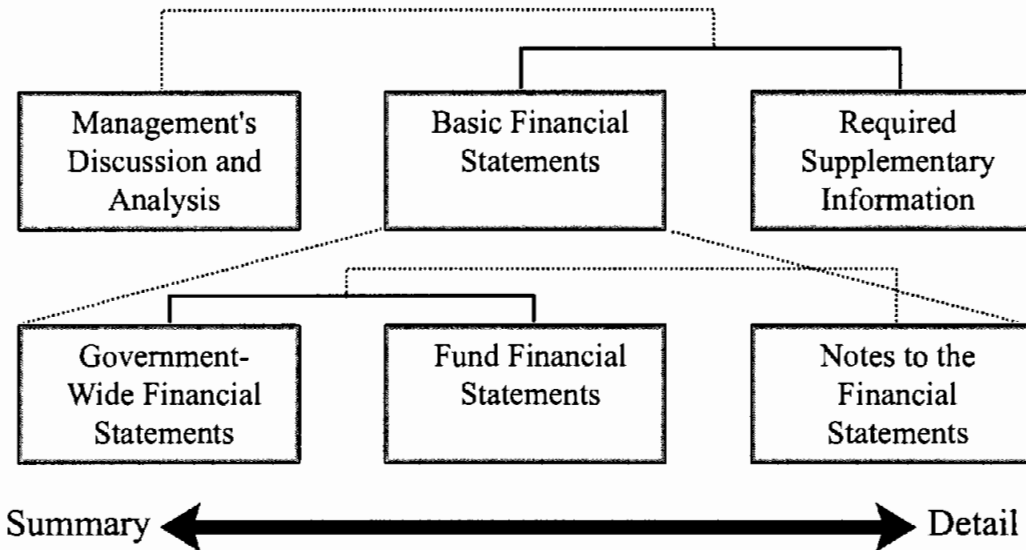


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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 net assets</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 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
- West Covington Fire District
- East Covington Fire District
- Hot Coffee Fire District
- Lone Star 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 Net Assets, 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 - 47 of this report.

Covington County, MS was not subject to a single audit for the year ended September 30, 2006.

## ***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 \$59,536,048 as of September 30, 2006.

By far, the largest portion of the County's net assets (80.5%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, and leased property under capital lease) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County's 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, 2006, as compared to fiscal year ended September 30, 2005.

	<b>09/30/06 Governmental Activities</b>	<b>09/30/05 Governmental Activities</b>
<b>Assets:</b>		
Current Assets	\$ 16,565,029	\$ 14,204,246
Capital Assets, Net	48,141,956	51,721,264
Total Assets	\$ 64,706,985	\$ 65,925,510
<b>Liabilities:</b>		
Current Liabilities	\$ 5,004,642	\$ 4,333,630
Long-Term Debt Outstanding	166,295	185,992
Total Liabilities	\$ 5,170,937	\$ 4,519,622
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	\$ 47,975,661	\$ 51,535,272
Restricted	3,805,432	4,282,239
Unrestricted	7,754,955	5,588,377
Total Net Assets	\$ 59,536,048	\$ 61,405,888

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.
- \$300,617 of long-term debt principal was retired.
- Long-term debt was issued due capital leases of \$280,920.
- Gross capital assets increased by \$1,156,602 from increases in buildings, mobile equipment, and furniture and equipment.

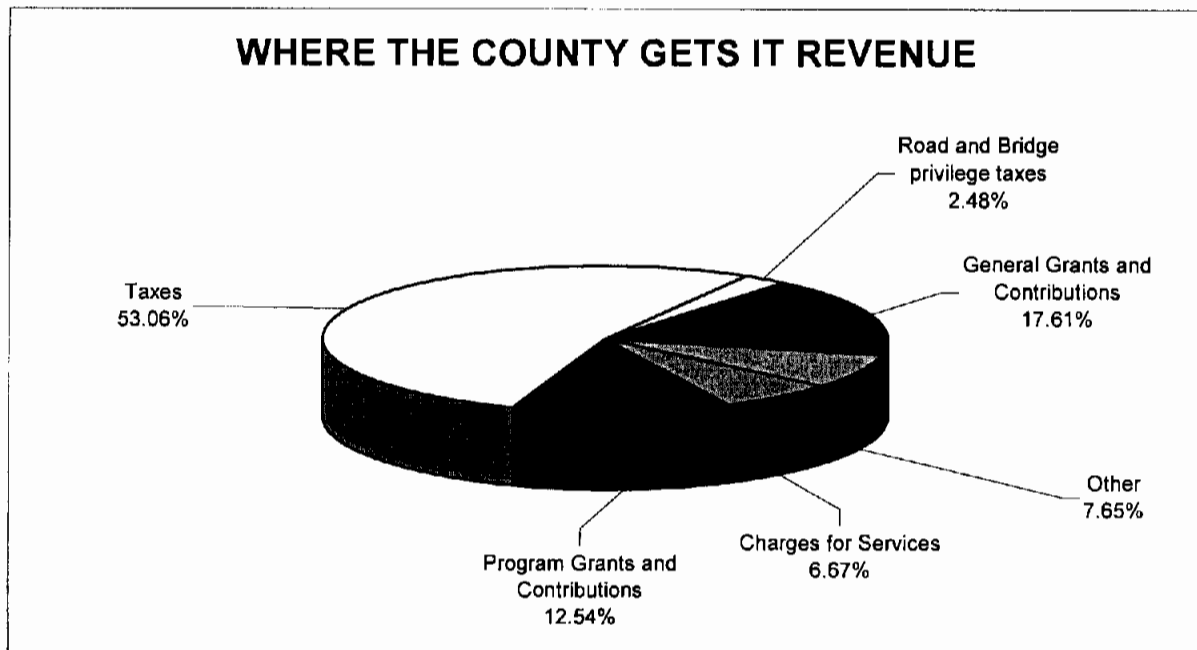
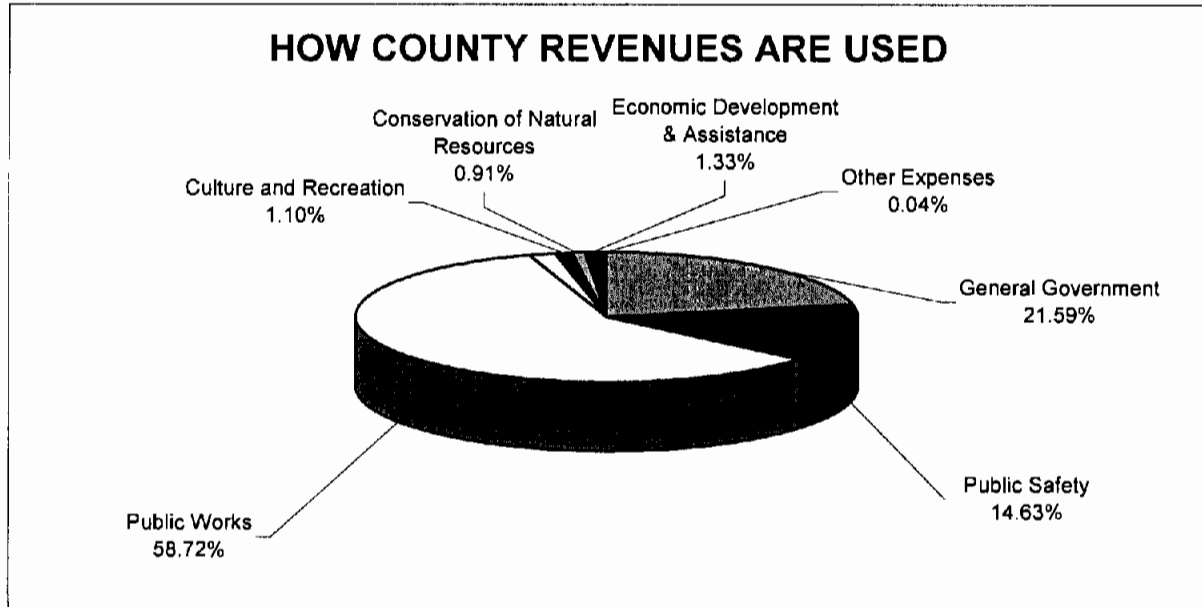
# **COVINGTON COUNTY, MISSISSIPPI**

**Changes in Net Assets**—Covington County’s total revenues for the fiscal year ended September 30, 2006 was \$8,983,305. The total cost for all services provided was \$11,350,743 the decrease in net assets were \$1,869,840. The decrease in net assets includes a prior period adjustment of \$497,598. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2006, as compared to fiscal year ended September 30, 2005.

	<b>09/30/06</b>	<b>09/30/05</b>
<b>Revenues:</b>		
Program Revenues:		
Charges for Services	\$ 598,980	\$ 482,195
Grants and Contributions	1,126,140	1,495,154
General Revenues:		
Taxes	4,766,559	4,581,098
Road and Bridge privilege taxes	222,773	244,290
Grants and Contributions	1,581,962	772,879
Other	686,891	358,811
Total Revenues	\$ 8,983,305	\$ 7,934,427
<b>Expenses:</b>		
General Government	\$ 2,450,102	\$ 1,949,386
Public Safety	1,660,593	1,694,840
Public Works	6,664,661	6,703,434
Health and Welfare	191,839	2,773
Culture and Recreation	124,743	123,862
Conservation of Natural Resources	102,912	98,314
Economic Development & Assistance	151,043	117,507
Other Expenses	4,850	5,405
Total Expenses	\$ 11,350,743	\$ 10,695,521
Prior period adjustments	\$ 497,598	\$ 65,081
Decrease in Net Assets	\$ (1,869,840)	\$ (2,696,013)

# 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, 2006.



# **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.

	<b>Total Costs</b>	<b>Net Costs</b>
General Government	\$ 2,450,102	\$ 2,122,602
Public Safety	1,660,593	1,201,944
Public Works	6,664,661	5,791,805
Health and Welfare	191,839	165,724
Culture and Recreation	124,743	124,743
Conservation of Natural Resources	102,912	102,912
Economic Development and Assistance	151,043	111,043
Interest on Long-Term Debt	4,850	4,850

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

## ***FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS***

**Governmental funds** – At the close of the fiscal year, Covington County's governmental funds reported a combined fund balance of \$11,535,489, an increase of \$1,710,594. The increase is 14.8% of the total fund balance.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year is \$1,387,401. 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.

# **COVINGTON COUNTY, MISSISSIPPI**

- The largest decrease in amendments was to the general government department and the largest increase was to public safety. Budgeted expenditures were increased (decreased) as better estimates became available.
- With these adjustments actual disbursements were below final budget amounts by \$212,313.

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, 2006, Covington County's total gross capital assets were \$131,167,468. 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 \$1,156,602.

Total accumulated depreciation as of September 30, 2006 was \$83,025,512, including \$4,849,858 of depreciation expense for the year. The balance in total net capital assets was \$48,141,956 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 10/1/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2006</b>
Land	\$ 177,973				\$ 177,973
Construction-in-Progress	652,554			(652,554)	\$ -
Infrastructure	119,344,549				\$119,344,549
Buildings	3,388,380			652,554	\$ 4,040,934
Mobile Equipment	5,159,673	984,405	601,295	280,920	\$ 5,823,703
Furniture and Equipment	1,074,747	8,556		484,016	\$ 1,567,319
Leased Property under Capital Leases	212,990	280,920		(280,920)	\$ 212,990
<b>TOTALS</b>	<b>\$ 130,010,866</b>	<b>\$ 1,273,881</b>	<b>\$ 601,295</b>	<b>\$ 484,016</b>	<b>\$131,167,468</b>

# **COVINGTON COUNTY, MISSISSIPPI**

## **Capital Asset Accumulated Depreciation**

<b>Asset Classification</b>	<b>Balance 10/1/2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Adjustments</b>	<b>Balance 9/30/2006</b>
Infrastructure	\$ 73,446,502	\$ 4,076,511			77,523,013
Buildings	780,082	56,689			836,771
Mobile Equipment	3,280,875	370,571	100,366		3,551,080
Furniture and Equipment	732,105	326,916		(13,582)	1,045,439
Leased Property under Capital Leases	50,038	19,171			69,209
	<b>\$ 78,289,602</b>	<b>\$ 4,849,858</b>	<b>\$ 100,366</b>	<b>\$ (13,582)</b>	<b>\$ 83,025,512</b>

**Debt Administration** – At September 30, 2006, Covington County had \$166,295 in long-term debt outstanding. The only debt outstanding as of September 30, 2006 is capital leases. Of this debt, \$20,244 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, 2006, 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, 2006:

	<b>Balance 10/1/2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 9/30/2006</b>	<b>Due Within One Year</b>
Capital Leases	185,992	280,920	300,617	166,295	20,244
Total	<b>\$ 185,992</b>	<b>\$ 280,920</b>	<b>\$ 300,617</b>	<b>\$ 166,295</b>	<b>\$ 20,244</b>

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

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

For the year 2006-2007, Covington County, MS will be involved in collecting and distributing the money for the Covington County Hospital nursing home addition and hospital improvements. At this time, this is the only major project that they are involved in.

The budget for the next fiscal year reflected an increase of \$1,235,126 or 16.3% in revenues and a decrease of \$159,671 or 1.4% in expenses. This is expected to increase the County's net assets.

Covington County has an unemployment rate of 7.2% versus 7.5% a year ago. This compares unfavorably with the state average rate of 6.2%.

# ***COVINGTON COUNTY, MISSISSIPPI***

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

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

COVINGTON COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY  
Statement of Net Assets  
September 30, 2006

Exhibit 1

	Primary Government
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 11,926,184
Property tax receivable	4,208,650
Fines receivable (net of allowance for uncollectibles of \$648,191)	24,898
Loans receivable	300,000
Intergovernmental receivables	104,821
Other receivables	476
Capital assets:	
Land	177,973
Other capital assets, net	47,963,983
Total Assets	<u>64,706,985</u>
<b>LIABILITIES</b>	
Claims payable	557,253
Intergovernmental payables	141,363
Deferred revenue	4,208,650
Other payables	97,376
Long-term liabilities	
Due within one year:	
Capital related debt	20,244
Due in more than one year:	
Capital related debt	146,051
Total Liabilities	<u>5,170,937</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	47,975,661
Restricted:	
Expendable:	
General government	13,260
Public safety	670,987
Public works	2,688,266
Health and welfare	300,000
Culture and recreation	108,813
Conscrvation of natural resources	
Economic development	10,001
Unemployment compensation	11,732
Capital projects	2,373
Unrestricted	7,754,955
Total Net Assets	<u>\$ 59,536,048</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, 2006

Exhibit 2

Functions/Programs	Program Revenues			Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions		
Primary government:					
Governmental activities:					
General government	\$ 2,450,102	327,175	325		(2,122,602)
Public safety	1,660,593	225,872	120,957	111,820	(1,201,944)
Public works	6,664,661	45,933	716,190	110,733	(5,791,805)
Health and welfare	191,839		26,115		(165,724)
Culture and recreation	124,743				(124,743)
Conservation of natural resources	102,912				(102,912)
Economic development and assistance	151,043		40,000		(111,043)
Interest on long-term debt	4,850				(4,850)
Total Governmental Activities	\$ 11,350,743	598,980	903,587	222,553	(9,625,623)
General revenues:					
Property taxes					\$ 4,766,559
Road & bridge privilege taxes					222,773
Grants and contributions not restricted to specific programs					1,581,962
Unrestricted interest income					429,287
Miscellaneous					257,604
Total General Revenues					7,258,185
Changes in Net Assets					(2,367,438)
Net Assets - Beginning					61,405,888
Prior period adjustment					497,598
Net Assets - Beginning, as restated					61,903,486
Net Assets - Ending					\$ 59,536,048

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

COVINGTON COUNTY  
 Balance Sheet - Governmental Funds  
 September 30, 2006

Exhibit 3

	<u>Major Fund</u>	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
<b>ASSETS</b>			
Cash	\$ 8,004,105	3,922,079	11,926,184
Property tax receivable	2,022,000	2,186,650	4,208,650
Fines receivable (net of allowance for uncollectibles of \$648,191)	24,898		24,898
Loans receivable	300,000		300,000
Intergovernmental receivables	94,821	10,000	104,821
Other receivables	476		476
Due from other funds		49,504	49,504
Total Assets	<u>\$ 10,446,300</u>	<u>6,168,233</u>	<u>16,614,533</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Claims payable	\$ 81,102	476,151	557,253
Intergovernmental payables	135,294		135,294
Due to other funds	55,573		55,573
Deferred revenue	2,046,898	2,186,650	4,233,548
Other payables	97,376		97,376
Total Liabilities	<u>2,416,243</u>	<u>2,662,801</u>	<u>5,079,044</u>
Fund balances:			
Reserved for:			
Loans receivable	300,000		300,000
Unemployment compensation		11,732	11,732
Unreserved, reported in:			
General Fund	7,730,057		7,730,057
Special Revenue Funds		3,491,327	3,491,327
Capital Project Funds		2,373	2,373
Total Fund Balances	<u>8,030,057</u>	<u>3,505,432</u>	<u>11,535,489</u>
Total Liabilities and Fund Balances	<u>\$ 10,446,300</u>	<u>6,168,233</u>	<u>16,614,533</u>

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, 2006

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 11,535,489
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) 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 \$83,025,512.	48,141,956
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	24,898
Long-term liabilities are not due and payable in the current-period and , therefore, are not reported in the funds.	<u>(166,295)</u>
Total Net Assets - Governmental Activities	<u>\$ 59,536,048</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2006

	<u>Major Fund</u>	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
<b>REVENUES</b>			
Property taxes	\$ 2,593,679	2,172,880	4,766,559
Road and bridge privilege taxes		222,773	222,773
Licenses, commissions and other revenue	180,798	15,331	196,129
Fines and forfeitures	195,312	352	195,664
Intergovernmental revenues	1,801,938	906,164	2,708,102
Charges for services	17,624	210,386	228,010
Interest income	282,251	147,036	429,287
Miscellaneous revenues	139,393	110,172	249,565
Total Revenues	<u>5,210,995</u>	<u>3,785,094</u>	<u>8,996,089</u>
<b>EXPENDITURES</b>			
Current:			
General government	1,979,394	312,464	2,291,858
Public safety	1,193,746	304,006	1,497,752
Public works	45,884	3,461,615	3,507,499
Health and welfare	181,346		181,346
Culture and recreation		121,775	121,775
Conservation of natural resources	98,284		98,284
Economic development and assistance	41,402	30,000	71,402
Debt service:			
Principal		300,617	300,617
Interest		4,850	4,850
Total Expenditures	<u>3,540,056</u>	<u>4,535,327</u>	<u>8,075,383</u>
Excess of Revenues over (under) Expenditures	<u>1,670,939</u>	<u>(750,233)</u>	<u>920,706</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term capital debt issued		280,920	280,920
Proceeds from sale of capital assets		508,968	508,968
Transfers in	8,862	292,400	301,262
Transfers out	(292,400)	(8,862)	(301,262)
Total Other Financing Sources and Uses	<u>(283,538)</u>	<u>1,073,426</u>	<u>789,888</u>
Net Changes in Fund Balances	1,387,401	323,193	1,710,594
Fund Balances - Beginning	<u>6,642,656</u>	<u>3,182,239</u>	<u>9,824,895</u>
Fund Balances - Ending	<u>\$ 8,030,057</u>	<u>3,505,432</u>	<u>11,535,489</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, 2006

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 1,710,594
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 \$1,273,881 were exceeded by depreciation of \$4,849,858 in the current period.	(3,575,977)
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 gain of \$8,039 less the proceeds from the sale of \$508,968.	(500,929)
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.	(20,823)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$300,617 exceeded debt proceeds of \$280,920.	<u>19,697</u>
Change in Net Assets of Governmental Activities	<u>\$ (2,367,438)</u>

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

COVINGTON COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2006

Exhibit 5

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 2,260,644
Duc from other funds	6,069
Total Assets	<u>\$ 2,266,713</u>
<b>LIABILITIES</b>	
Amounts held in custody for others	\$ 80,888
Intergovernmental payables	2,185,825
Total Liabilities	<u>\$ 2,266,713</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, 2006

#### (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
- West Covington Fire District
- East Covington Fire District
- Hot Coffee Fire District
- Lone Star 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.

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2006

#### 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.

The Statement of Net Assets presents the financial condition of the governmental activities and 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 (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

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

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

The county reports the following major Governmental Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

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.

H. Capital Assets.

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

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

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

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

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.

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, construction 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 with unreserved classified as designated and undesignated.

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.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

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.

L. Intergovernmental Revenues in Governmental Funds.

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

(2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
Capital assets	\$ <u>497,598</u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$14,186,828, and the bank balance was \$14,545,770. 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, 2006

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 49,504
Agency Funds	General Fund	<u>6,069</u>
Total		<u>\$ 55,573</u>

The receivables represent the tax revenue collected but not settled until October, 2006. 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	\$ 292,400
General Fund	Other Governmental Funds	<u>8,862</u>
Total		<u>\$ 301,262</u>

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2006, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 94,821
Home investment partnerships program	<u>10,000</u>
Total Governmental Activities	<u>\$ 104,821</u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

(6) Loans Receivable.

The Loans receivable balance at September 30, 2006, is as follows:

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

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2006:

Governmental activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sept. 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 177,973				177,973
Construction in progress	652,554			(652,554)	0
Total non-depreciable capital assets	<u>830,527</u>	<u>0</u>	<u>0</u>	<u>(652,554)</u>	<u>177,973</u>
<u>Depreciable capital assets:</u>					
Infrastructure	119,344,549				119,344,549
Buildings	3,388,380			652,554	4,040,934
Mobile equipment	5,159,673	984,405	601,295	280,920	5,823,703
Furniture and equipment	1,074,747	8,556		484,016	1,567,319
Leased property under capital leases	212,990	280,920		(280,920)	212,990
Total depreciable capital assets	<u>129,180,339</u>	<u>1,273,881</u>	<u>601,295</u>	<u>1,136,570</u>	<u>130,989,495</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	73,446,502	4,076,511			77,523,013
Buildings	780,082	56,689			836,771
Mobile equipment	3,280,875	370,571	100,366		3,551,080
Furniture and equipment	732,105	326,916		(13,582)	1,045,439
Leased property under capital leases	50,038	19,171			69,209
Total accumulated depreciation	<u>78,289,602</u>	<u>4,849,858</u>	<u>100,366</u>	<u>(13,582)</u>	<u>83,025,512</u>
Total depreciable capital assets, net	<u>50,890,737</u>	<u>(3,575,977)</u>	<u>500,929</u>	<u>1,150,152</u>	<u>47,963,983</u>
Governmental activities capital assets, net	\$ <u>51,721,264</u>	<u>(3,575,977)</u>	<u>500,929</u>	<u>497,598</u>	<u>48,141,956</u>

\* Adjustments are to reclassify completed construction in progress to buildings and to reclassify paid-off capital leases to mobile equipment, and for correction of errors in furniture and equipment.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 158,244
Public safety	233,292
Public works	4,360,592
Health and welfare	10,493
Culture and recreation	2,968
Conservation of natural resources	4,628
Economic development	<u>79,641</u>
 Total governmental activities depreciation expense	 \$ <u><u>4,849,858</u></u>

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$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, 2006, to January 1, 2007. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(9) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2006:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 212,990
Less: Accumulated depreciation	<u>69,209</u>
 Leased Property Under Capital Leases	 \$ <u><u>143,781</u></u>

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

The following is a schedule by years of the total payments due as of September 30, 2006:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 20,244	4,303
2008	20,806	3,742
2009	125,245	2,175
Total	\$ <u>166,295</u>	<u>10,220</u>

(10) Long-term Debt.

Debt outstanding as of September 30, 2006, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Capital Leases:			
District 5 Caterpillar motor grader	\$ 129,285	2.74%	05-25-09
District 5 Caterpillar backhoe loader	37,010	2.74%	05-25-09
Total Capital Leases	\$ <u>166,295</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, 2006, 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, 2006:

	Balance	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	Balance	Amount due within one year
	Oct. 1, 2005				Sept. 30, 2006	
Governmental Activities:						
Capital leases	\$ <u>185,992</u>	<u>280,920</u>	<u>300,617</u>	<u>0</u>	<u>166,295</u>	<u>20,244</u>

(11) Contingencies.

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

## COVINGTON COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2006

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.

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the Covington County Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2006, is \$7,100,000.

#### (12) Joint Ventures.

The county participates in the following joint ventures:

Covington County is a participant with the Counties of Greene, Perry and Stone in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. The joint venture was created to provide free library service to the citizens of the respective counties, and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$80,685 in fiscal year 2006. 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.

#### (13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Covington County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$20,000 for support of the district in fiscal year 2006.

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 2006.

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 \$331,085 for maintenance and support of the college in fiscal year 2006.

COVINGTON COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

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, Stone and Walthall. The Covington County Board of Supervisors appoints one of the ten members of the board of directors. The county appropriated \$65,200 for support of the district in fiscal year 2006.

(14) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% 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, 2006, 2005 and 2004 were \$226,296, \$206,053 and \$191,357, respectively, equal to the required contributions for each year.

(15) Subsequent Events.

Subsequent to September 30, 2006, 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>
10-03-06	4.31%	\$ 94,990	Capital lease	Ad valorem
10-03-06	4.31%	189,980	Capital lease	Ad valorem

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COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,471,000	2,633,000	2,635,005	2,005
Licenses, commissions and other revenue	125,000	180,000	174,590	(5,410)
Fines and forfeitures	200,000	223,000	223,844	844
Intergovernmental revenues	932,500	1,703,422	1,698,276	(5,146)
Charges for services	5,000	3,000	7,068	4,068
Interest income	16,300	192,300	272,520	80,220
Miscellaneous revenues	222,750	1,599,300	992,301	(606,999)
Total Revenues	<u>3,972,550</u>	<u>6,534,022</u>	<u>6,003,604</u>	<u>(530,418)</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,599,490	2,139,100	2,001,706	137,394
Public safety	1,094,900	1,196,967	1,170,404	26,563
Public works	50,000	48,500	44,066	4,434
Health and welfare	270,300	214,000	186,255	27,745
Conservation of natural resources	96,600	106,000	98,421	7,579
Economic development and assistance	106,000	47,000	38,402	8,598
Debt service:				
Principal	2,110,000			
Total Expenditures	<u>6,327,290</u>	<u>3,751,567</u>	<u>3,539,254</u>	<u>212,313</u>
Excess of Revenues over (under) Expenditures	<u>(2,354,740)</u>	<u>2,782,455</u>	<u>2,464,350</u>	<u>(318,105)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Compensation for loss of capital assets		51,304	69,750	18,446
Transfers in		10,000	10,000	
Transfers out		(920,000)	(304,340)	615,660
Total Other Financing Sources and Uses	<u>0</u>	<u>(858,696)</u>	<u>(224,590)</u>	<u>634,106</u>
Net Change in Fund Balance	(2,354,740)	1,923,759	2,239,760	316,001
Fund Balances - Beginning	<u>(8,193,935)</u>	<u>(1,728,407)</u>	<u>5,358,767</u>	<u>7,087,174</u>
Fund Balances - Ending	<u>\$ (10,548,675)</u>	<u>195,352</u>	<u>7,598,527</u>	<u>7,403,175</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, 2006

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 <hr style="border-top: 1px solid black;"/> General Fund
Budget (Cash Basis)	\$ 2,239,760
Increase (Decrease)	
Net adjustments for revenue accruals	(63,497)
Net adjustments for expenditure accruals	(788,862)
	\$ 1,387,401
GAAP Basis	

COVINGTON COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2006

D. Excess of Actual Expenditures Over Budget in Individual Funds.

The following fund had an excess of actual expenditures over budget for the year ended September 30, 2006:

<u>Fund</u>	<u>Excess</u>
Special Revenue Funds:	
Covington County Library	\$ <u>458</u>

The Covington County Library fund is in violation of Section 19-11-17, Miss. Code Ann. (1972). However, the county has no liability associated with this violation.

COVINGTON COUNTY

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COVINGTON COUNTY

SUPPLEMENTAL INFORMATION

COVINGTON COUNTY

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COVINGTON COUNTY  
 Reconciliation of Operating Costs of Solid Waste  
 For the Year Ended September 30, 2006

Operating Expenditures, Cash Basis:

Salaries	\$ 235,642
Expendable Commodities:	
Gasoline and petroleum products	28,404
Repair parts	12,775
Clothing	1,409
Solid waste disposal fee	124,490
Maintenance	7,732
Insurance on equipment	8,847
Supplies	<u>425</u>

Solid Waste Cash Basis Operating Expenditures 419,724

Full Cost Expenses:

Indirect administrative costs	3,053
Depreciation on equipment	14,749
Net effect of other accrued expenses	<u>11,800</u>

Solid Waste Full Cost Operating Expenses \$ 449,326

COVINGTON COUNTY

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COVINGTON COUNTY

SPECIAL REPORTS

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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, 2006, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated December 15, 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.

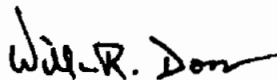
## Compliance and Other Matters

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*. However, we noted certain instances of noncompliance which we have reported to the management of Covington County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated December 15, 2006, included within this document.

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



PHIL BRYANT  
State Auditor



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

December 15, 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, 2006. 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.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Purchase Clerk.

1. Finding

Section 31-7-103, Miss. Code Ann. (1972), requires a completed purchase requisition, purchase order and receiving report for all purchases, except for those items enumerated by the Office of the State Auditor under the authority of Section 31-7-113, Miss. Code Ann. (1972), and except for purchases of not more than \$100. We noted that several receiving reports were not signed by the Purchase Clerk. The failure to properly complete and sign receiving reports could cause the county to pay more for items than were ordered or to pay for items that were not ordered.

Recommendation

The Purchase Clerk should ensure required purchase transaction documents are present, completed with sufficient detail, specific amounts and in the proper time sequence, as required by law.

Purchase Clerk's Response

The Purchase Clerk will comply with Section 31-7-103 and sign all receiving reports.

Inventory Control Clerk.

2. Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the county to establish and maintain an inventory control system. We noted the following deficiencies with the capital assets records: the Inventory Control Clerk did not add all purchases to the capital asset records or delete all items sold from the capital asset records. Also, inventory control numbers were not affixed to all items, and serial numbers were sometimes not maintained on file. The presence of these data elements in capital asset records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. This information is also very important to the financial reporting process.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to maintain accurate inventory records documenting the completeness and valuation of capital assets. In particular, the Inventory Control Clerk should (1) account for all additions and deletions of items and (2) adequately document and tag all items.

Inventory Control Clerk's Response

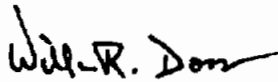
The Inventory Clerk will make all efforts to comply with the findings on items listed by providing inventory numbers and serial numbers as required. All future items will be looked at more closely in order to comply better with maintaining capital asset records.

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

December 15, 2006

COVINGTON COUNTY  
Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2006

Schedule 1

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

COVINGTON COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2006

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
10-07-05	Services	\$ 4,095	B&B Construction	Hurricane Katrina cleanup.
06-05-06	Tower for radio	56,500	ComSouth	Hurricane Katrina repair.

COVINGTON COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source

For the Year Ended September 30, 2006

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



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors  
Covington County, Mississippi

In planning and performing our audit of the financial statements of Covington County, Mississippi for the year ended September 30, 2006, we considered Covington County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Covington County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 15, 2006, on the financial statements of Covington County, Mississippi.

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

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

Board of Supervisors.

1. Finding

Section 25-4-105(3), Miss. Code Ann. (1972), states that no public servant shall be a vendor with the governmental entity of which he is a member, other than in his contract of employment, or have a material financial interest in any business that is a vendor with the governmental entity of which he is a member. The Board of Supervisors approved the payment of claims to a vendor who was also an employee of the county. Officials who authorize payments of claims to a vendor who is an employee of the county could be personally liable for up to the full amount of the expenditures.

Recommendation

The Board of Supervisors should cease doing business with any vendors who are also employees of the county, as required by law.

Board of Supervisors' Response

The Board of Supervisors has ceased in doing business with employees and will comply with Section 25-4-105(3), Miss. Code Ann. (1972)..

2. Finding

Section 31-7-124, Miss. Code Ann. (1972), requires that all Assistant Receiving Clerks be properly bonded. Our test work determined that two Assistant Receiving Clerks were not bonded.

Recommendation

The Board of Supervisors should properly bond all Assistant Receiving Clerks, as required by law.

Board of Supervisors' Response

This has been corrected in that proper bonds have been secured for all county officials. The Board of Supervisors will comply with the recommendation.

3. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires that the President of the Board of Supervisors, or Vice-president, in absence of the President, is to read and sign the minutes on or before the first Monday of the month following the day of adjournment of any term of the Board or be adopted and approved by the Board of Supervisors as the first order of business on the first day of the next monthly meeting of the Board. During the audit year, on two occasions, the minutes were not signed. The lack of signed board minutes makes it undeterminable what actions the Board of Supervisors has legally taken.

Recommendation

The President, or Vice-president, in absence of the President, should sign the minutes on or before the first Monday of the month following the day of adjournment of any term of the Board.

Board of Supervisors' Response

The President and Vice-President will comply with this recommendation.

4. Finding

Section 19-11-17, Miss. Code Ann. (1972), prohibits the incurring of expenditures in excess of the final budget as approved by the Board of Supervisors. Actual expenditures exceeded budgeted amounts in the Covington County Library fund.

Recommendation

The Board of Supervisors should not make expenditures in excess of budgeted amounts, as prohibited by law.

Board of Supervisors' Response

The Board of Supervisors will comply with Section 19-11-17, Miss. Code Ann. (1972), and the above recommendation.

Chancery Clerk.

5. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires the Clerk of the Board to keep and preserve a complete and correct record of all board proceedings. As of December 15, 2006, the Board minutes were complete only through July 7, 2006. The lack of signed Board minutes makes it undeterminable what actions the Board of Supervisors has legally taken.

Recommendation

The Chancery Clerk should keep a complete and correct record of all Board proceedings, as required by law.

Chancery Clerk's Response

This will be corrected and minutes will be kept and recorded in a timely manner.

Sheriff.

6. Finding

Controls over cash in the Sheriff's Office were inadequate. The following deficiencies were noted:

- a. Checks were not posted to the cash journal.
- b. Deposits were sometimes not made daily.
- c. As reported in the prior year audit report, the bank account was not reconciled to the cash journal.
- d. As reported in the prior year audit report, some settlements to the county were made late.

The failure to implement controls over the collection, recording and settlement of cash could result in the loss or misappropriation of public funds.

Recommendation

The Sheriff should post all checks to the cash journal, make deposits daily, reconcile the bank statements to the cash journal and make timely settlements to the county.

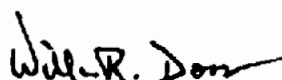
Sheriff's Response

I will see that each item is taken care of and corrected.

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



PHIL BRYANT  
State Auditor



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

December 15, 2006

**COVINGTON COUNTY**

**SCHEDULE OF FINDINGS**

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings  
For the Year Ended September 30, 2006

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? | None Reported |
| 3. | Noncompliance material to the primary government financial statements?            | No            |

Section 2: Financial Statement Findings

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