

COVINGTON COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2008

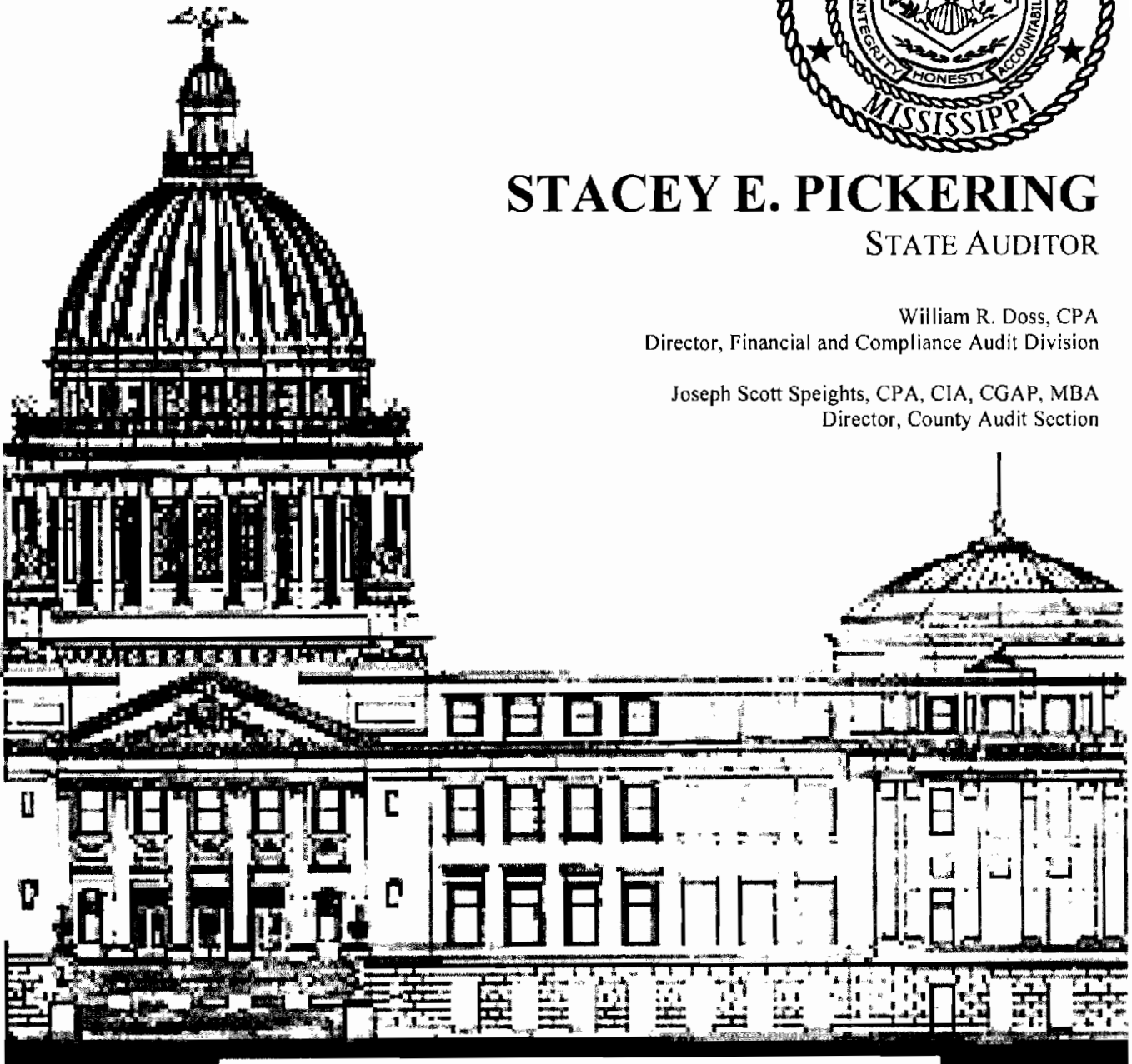


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
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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
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

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, 2008, which collectively comprise the basic financial statements of the county's primary government 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 do not include financial data for the county's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Covington County, Mississippi, as of September 30, 2008, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information of Covington County, Mississippi, as of September 30, 2008, 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.

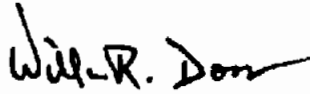
In accordance with *Government Auditing Standards*, we have also issued our report dated September 11, 2009, on our consideration of Covington County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and 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 financial statements that collectively comprise Covington County, Mississippi's basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



STACEY E. PICKERING
State Auditor



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

September 11, 2009

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, 2008. 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 increased by .07 mills over the last six years. This does not include the school taxes.

Total net assets increased \$2,862,932, which represents a 5% increase from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was an increase of \$2,356,903, which represents a 17% increase from the prior fiscal year. The County's ending cash balance increased by \$2,562,626, which represents a 19% increase from the prior fiscal year.

COVINGTON COUNTY, MISSISSIPPI

The County had \$11,275,737 in total revenues. Property tax revenues account for \$5,192,343 or 46% of total revenues. Operating grants, capital grants, and contributions account for \$1,024,998 or 9% of total revenues.

The County had \$8,412,805 in total expenses, which represents a decrease of \$3,525,132 or a 30% decrease from the prior fiscal year. Expenses in the amount of \$1,843,659 were offset by grants, outside contributions, or charges for services. The remainder of expenses of \$6,569,146 was offset by general revenues of \$9,432,078.

Among major funds, the General Fund had \$7,333,514 in revenues and \$4,546,686 in expenditures and other financing uses. The General Fund's fund balance increased \$2,786,828 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$418,477.

Long-term debt decreased by \$87,552 and there was no long-term debt added during the year.

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

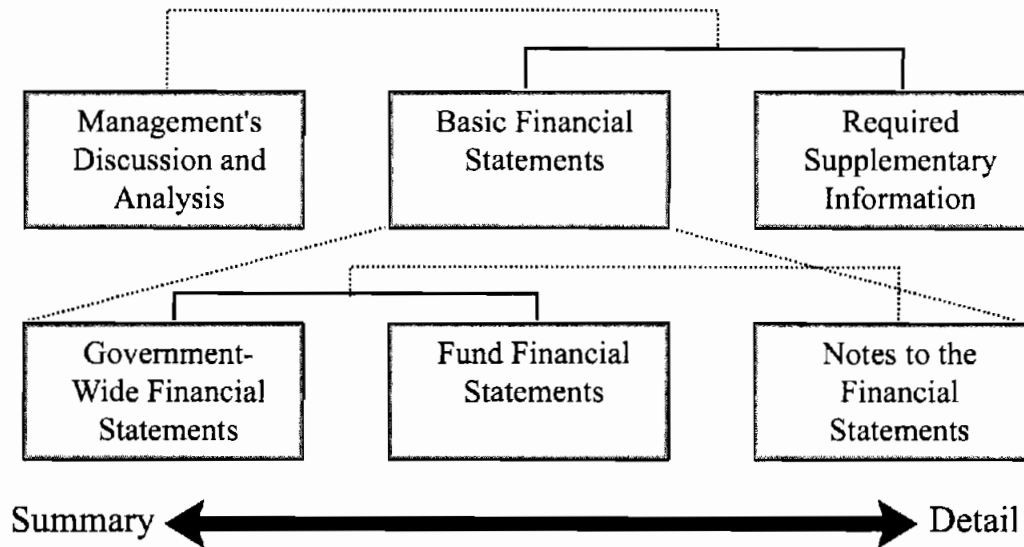


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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

COVINGTON COUNTY, MISSISSIPPI

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

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

COVINGTON COUNTY, MISSISSIPPI

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

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

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

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

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

- Southeast Covington Fire District
- Southwest Covington Fire District
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District

COVINGTON COUNTY, MISSISSIPPI

The Government-wide Financial Statements can be found on pages 23 and 24 of this report.

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

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

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

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. 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 through 40 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 page 42 of this report.

Covington County, MS was not subject to a single audit for the year ended September 30, 2008.

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 \$59,503,426 as of September 30, 2008.

By far, the largest portion of the County's net assets (73%) 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, 2008, as compared to fiscal year ended September 30, 2007.

	09/30/08 Governmental Activities	09/30/07 Governmental Activities
Assets:		
Current Assets	\$ 21,784,802	\$ 19,179,138
Capital Assets, Net	43,780,459	43,361,982
Total Assets	\$ 65,565,261	\$ 62,541,120
Liabilities:		
Current Liabilities	\$ 5,718,366	\$ 5,469,605
Long-Term Debt Outstanding	343,469	431,021
Total Liabilities	\$ 6,061,835	\$ 5,900,626
Net Assets:		
Invested in Capital Assets, Net of Related Debt	\$ 43,436,990	\$ 42,930,961
Restricted	3,218,773	3,667,372
Unrestricted	12,847,663	10,042,161
Total Net Assets	\$ 59,503,426	\$ 56,640,494

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.
- \$87,552 of long-term debt principal was retired.
- There was no long-term debt issued during the year ending September 30, 2008
- Capital assets had additions of \$1,280,841 from increases in land, mobile equipment, and furniture and equipment.

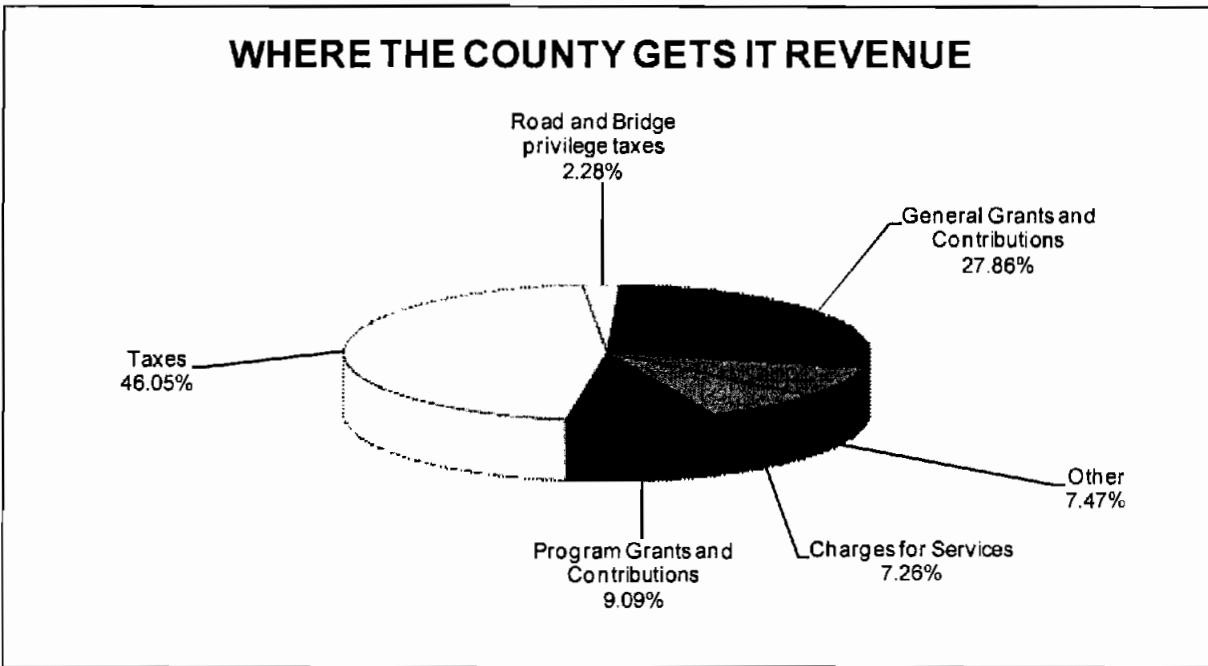
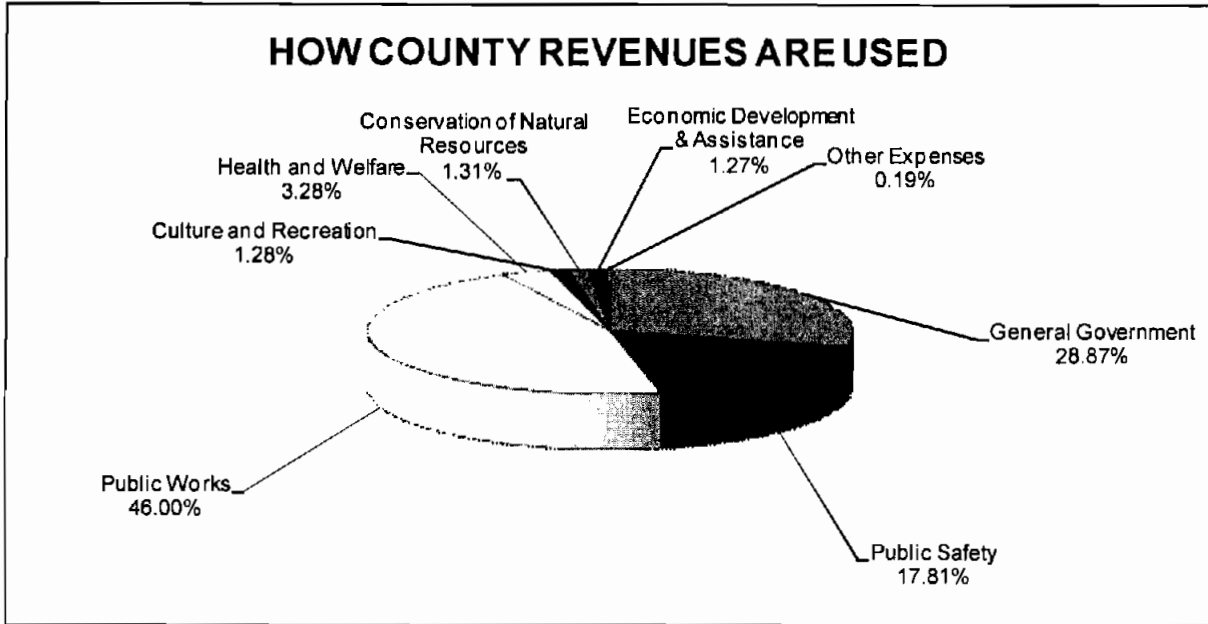
COVINGTON COUNTY, MISSISSIPPI

Changes in Net Assets—Covington County’s total revenues for the fiscal year ended September 30, 2008 were \$11,275,737. The total cost for all services provided was \$8,412,805 the increase in net assets were \$2,862,932. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2008, as compared to fiscal year ended September 30, 2007.

	09/30/08	09/30/07
Revenues:		
Program Revenues:		
Charges for Services	\$ 818,661	\$ 795,147
Grants and Contributions	1,024,998	1,445,979
General Revenues:		
Taxes	5,192,343	4,758,887
Road and Bridge privilege taxes	256,910	255,910
Grants and Contributions	3,140,988	1,958,934
Other	841,837	947,668
Total Revenues	\$ 11,275,737	\$ 10,162,525
Expenses:		
General Government	\$ 2,428,629	\$ 2,624,239
Public Safety	1,498,146	1,966,219
Public Works	3,870,005	6,763,488
Health and Welfare	275,563	213,717
Culture and Recreation	107,570	112,592
Conservation of Natural Resources	110,177	97,087
Economic Development & Assistance	106,520	156,292
Other Expenses	16,195	4,303
Total Expenses	\$ 8,412,805	\$ 11,937,937
Prior period adjustments	\$ -	\$ (1,120,142)
Increase (Decrease) in Net Assets	\$ 2,862,932	\$ (2,895,554)

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, 2008.



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.

	<u>Total Costs</u>	<u>Net Costs</u>
General Government	\$ 2,428,629	\$ 1,901,562
Public Safety	1,498,146	1,084,103
Public Works	3,870,005	3,049,103
Health and Welfare	275,563	238,916
Culture and Recreation	107,570	107,570
Conservation of Natural Resources	110,177	110,177
Economic Development and Assistance	106,520	61,520
Interest on Long-Term Debt	16,195	16,195

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 \$15,965,389, an increase of \$2,338,229. The increase is 15% 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 \$2,786,828. This increase is due mainly to an increase in revenues.

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 \$159,865 for the General Fund.

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, 2008, Covington County’s total gross capital assets were \$132,948,525. 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 \$1,004,845.

Total accumulated depreciation as of September 30, 2008 was \$89,168,366, including \$795,480 of depreciation expense for the year. The balance in total net capital assets was \$43,780,459 at year-end.

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

Gross Capital Assets:

Asset Classification	Balance 10/1/2007	Additions	Deletions	Adjustments	Balance 9/30/2008
Land	\$ 177,973	\$ 9,000			\$ 186,973
Infrastructure	119,344,549				\$119,344,549
Buildings	4,040,934				\$ 4,040,934
Mobile Equipment	6,147,369	1,195,714	212,267		\$ 7,130,816
Furniture and Equipment	1,735,195	76,127	63,729		\$ 1,747,593
Leased Property under Capital Leases	497,960				\$ 497,960
TOTALS	\$ 131,943,980	\$ 1,280,841	\$ 275,996	\$ -	\$132,948,825

COVINGTON COUNTY, MISSISSIPPI

Accumulated Depreciation:

Asset Classification	Balance 10/1/2007	Additions	Deletions	Adjustments	Balance 9/30/2008
Infrastructure	\$ 81,599,597	\$ 143,328			81,742,925
Buildings	1,429,582	56,689			1,486,271
Mobile Equipment	3,958,757	466,615	168,442		4,256,930
Furniture and Equipment	1,517,378	58,395	40,670		1,535,103
Leased Property under Capital Leases	76,684	70,453			147,137
	\$ 88,581,998	\$ 795,480	\$ 209,112	\$ -	\$ 89,168,366

Debt Administration – At September 30, 2008, Covington County had \$343,469 in long-term debt outstanding. The only debt outstanding as of September 30, 2008 is capital leases. Of this debt, \$194,881 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, 2008, 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, 2008:

	Balance 10/1/2007	Additions	Reductions	Balance 9/30/2008	Due Within One Year
Capital Leases	431,021		87,552	343,469	194,881
Total	\$ 431,021	\$ -	\$ 87,552	\$ 343,469	\$ 194,881

Additional information on Covington County’s long-term debt can be found in Note 8 on pages 37 and 38 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

For the year 2008-2009, Covington County, MS is in the process of renovating the Department of Human Services building. The estimated amount of this project will be \$1,000,000 and will be funded half by the county and half by a grant from Mississippi Development Authority. At this time this is the only project that Covington County, MS is involved in. They will continue with the usual capital purchases such as police cars, road equipment, and other capital items.

The budget for the next fiscal year reflected an increase of \$1,813,715 or 18% in revenues and an increase of \$262,882 or 2% in expenses. This is expected to increase the County’s net assets.

COVINGTON COUNTY, MISSISSIPPI

Covington County has an unemployment rate of 6.2% versus 5.6% a year ago. This compares favorably with the state average rate of 6.9%.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

COVINGTON COUNTY

FINANCIAL STATEMENTS

COVINGTON COUNTY

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COVINGTON COUNTY
Statement of Net Assets
September 30, 2008

Exhibit 1

	<u>Primary Government</u>
	Governmental
	Activities
ASSETS	
Cash	\$ 16,342,915
Property tax receivable	5,227,750
Fines receivable (net of allowance for uncollectibles of \$546,408)	101,047
Intergovernmental receivables	112,933
Other receivables	157
Capital assets:	
Land and construction in progress	186,973
Other capital assets, net	43,593,486
Total Assets	<u>65,565,261</u>
LIABILITIES	
Claims payable	288,556
Intergovernmental payables	151,553
Deferred revenue	5,227,750
Other payables	50,507
Long-term liabilities	
Due within one year:	194,881
Capital debt	
Due in more than one year:	148,588
Capital debt	
Total Liabilities	<u>6,061,835</u>
NET ASSETS	
Invested in capital assets, net of related debt	43,436,990
Restricted:	
Expendable:	
General government	40,179
Public safety	712,473
Public works	2,324,406
Culture and recreation	124,487
Economic development	4,001
Unemployment compensation	12,937
Capital projects	290
Unrestricted	12,847,663
Total Net Assets	<u>\$ 59,503,426</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, 2008

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
General government	\$ 2,428,629	527,067		(1,901,562)
Public safety	1,498,146	260,046	153,997	(1,084,103)
Public works	3,870,005	31,548	659,502	(3,049,103)
Health and welfare	275,563		36,647	(238,916)
Culture and recreation	107,570			(107,570)
Conservation of natural resources	110,177			(110,177)
Economic development and assistance	106,520		45,000	(61,520)
Interest on long-term debt	16,195			(16,195)
Total Governmental Activities	\$ 8,412,805	818,661	895,146	(6,569,146)
General revenues:				
Property taxes				\$ 5,192,343
Road & bridge privilege taxes				256,910
Grants and contributions not restricted to specific programs				3,140,988
Unrestricted interest income				514,027
Miscellaneous				327,810
Total General Revenues				9,432,078
Changes in Net Assets				2,862,932
Net Assets - Beginning				56,640,494
Net Assets - Ending				\$ 59,503,426

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

COVINGTON COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2008

Exhibit 3

	Major Fund		Total Governmental Funds
	General Fund	Other Governmental Funds	
ASSETS			
Cash	\$ 12,997,814	3,345,101	16,342,915
Property tax receivable	2,857,000	2,370,750	5,227,750
Fines receivable (net of allowance for uncollectibles of \$546,408)	101,047		101,047
Intergovernmental receivables	105,134	7,799	112,933
Other receivables	157		157
Due from other funds		50,336	50,336
Total Assets	\$ 16,061,152	5,773,986	21,835,138
LIABILITIES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ 104,093	184,463	288,556
Intergovernmental payables	145,541		145,541
Due to other funds	56,348		56,348
Deferred revenue	2,958,047	2,370,750	5,328,797
Other payables	50,507		50,507
Total Liabilities	3,314,536	2,555,213	5,869,749
Fund balances:			
Reserved for:			
Unemployment compensation		12,937	12,937
Unreserved - undesignated, reported in:			
General Fund	12,746,616		12,746,616
Special Revenue Funds		3,205,546	3,205,546
Capital Project Funds		290	290
Total Fund Balances	12,746,616	3,218,773	15,965,389
Total Liabilities and Fund Balances	\$ 16,061,152	5,773,986	21,835,138

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

COVINGTON COUNTY

Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2008

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 15,965,389
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$89,168,366.	43,780,459
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	101,047
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(343,469)</u>
Total Net Assets - Governmental Activities	<u>\$ 59,503,426</u>

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

COVINGTON COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2008

	<u>Major Fund</u>	<u>Other</u>	<u>Total</u>
	General Fund	Governmental Funds	Governmental Funds
REVENUES			
Property taxes	\$ 2,849,693	2,342,650	5,192,343
Road and bridge privilege taxes		256,910	256,910
Licenses, commissions and other revenue	200,827	16,563	217,390
Fines and forfeitures	362,672	9,383	372,055
Intergovernmental revenues	3,404,035	767,732	4,171,767
Charges for services	2,700	202,061	204,761
Interest income	357,178	156,849	514,027
Miscellaneous revenues	156,409	126,156	282,565
Total Revenues	<u>7,333,514</u>	<u>3,878,304</u>	<u>11,211,818</u>
EXPENDITURES			
Current:			
General government	2,228,819	176,823	2,405,642
Public safety	1,163,559	478,863	1,642,422
Public works	52,863	4,174,039	4,226,902
Health and welfare	273,070		273,070
Culture and recreation		104,602	104,602
Conservation of natural resources	105,549		105,549
Economic development and assistance	41,797	45,000	86,797
Debt service:			
Principal		87,552	87,552
Interest		16,195	16,195
Total Expenditures	<u>3,865,657</u>	<u>5,083,074</u>	<u>8,948,731</u>
Excess of Revenues over (under) Expenditures	<u>3,467,857</u>	<u>(1,204,770)</u>	<u>2,263,087</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	27	29,870	29,897
Compensation/Damages to assets	11,249	33,996	45,245
Transfers in		722,305	722,305
Transfers out	(692,305)	(30,000)	(722,305)
Total Other Financing Sources and Uses	<u>(681,029)</u>	<u>756,171</u>	<u>75,142</u>
Net Changes in Fund Balances	2,786,828	(448,599)	2,338,229
Fund Balances - Beginning	<u>9,959,788</u>	<u>3,667,372</u>	<u>13,627,160</u>
Fund Balances - Ending	<u>\$ 12,746,616</u>	<u>3,218,773</u>	<u>15,965,389</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, 2008

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 2,338,229
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 \$1,280,841 exceeded depreciation of \$795,480 in the current period.	485,361
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$36,987 plus the proceeds from the sale of \$29,897 in the current period.	(66,884)
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.	18,674
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount of debt repayment.	<u>87,552</u>
Change in Net Assets of Governmental Activities	\$ <u><u>2,862,932</u></u>

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

COVINGTON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2008

Exhibit 5

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 2,088,274
Due from other funds	6,012
Total Assets	\$ <u><u>2,094,286</u></u>
LIABILITIES	
Amounts held in custody for others	\$ 127,042
Intergovernmental payables	1,967,244
Total Liabilities	\$ <u><u>2,094,286</u></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, 2008

(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
- West Covington Fire District
- Mt. Pleasant Fire District
- Hot Coffee and East Covington Fire District
- Covington County Hospital
- Covington County Economic Development Authority
- Covington County Economic Development District

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The county reports the following major Governmental Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

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.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

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:

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

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

I. 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 improvement 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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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

K. Property Tax Revenues.

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

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

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

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) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2008, was \$18,431,189, and the bank balance was \$18,770,235. 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, 2008

(3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2008:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 50,336
Agency Funds	General Fund	<u>6,012</u>
Total		<u>\$ 56,348</u>

The receivables represent the tax revenue collected but not settled until October, 2008. 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	\$ 692,305
Other Governmental Funds	Other Governmental Funds	<u>30,000</u>
Total		<u>\$ 722,305</u>

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

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2008, consisted of the following:

<u>Description</u>	<u>Amount</u>
Legislative tax credit	\$ 102,377
State aid road reimbursement	7,799
Welfare reimbursement	<u>2,757</u>
Total	<u>\$ 112,933</u>

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(5) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2008:

Governmental activities:

	Balance Oct. 1, 2007	Additions	Deletions	Adjustments	Balance Sept. 30, 2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 177,973	9,000	0	0	186,973
Total non-depreciable capital assets	177,973	9,000	0	0	186,973
<u>Depreciable capital assets:</u>					
Infrastructure	119,344,549				119,344,549
Buildings	4,040,934				4,040,934
Mobile equipment	6,147,369	1,195,714	212,267		7,130,816
Furniture and equipment	1,735,195	76,127	63,729		1,747,593
Leased property under capital leases	497,960				497,960
Total depreciable capital assets	131,766,007	1,271,841	275,996	0	132,761,852
<u>Less accumulated depreciation for:</u>					
Infrastructure	81,599,597	143,328			81,742,925
Buildings	1,429,582	56,689			1,486,271
Mobile equipment	3,958,757	466,615	168,442		4,256,930
Furniture and equipment	1,517,378	58,395	40,670		1,535,103
Leased property under capital leases	76,684	70,453			147,137
Total accumulated depreciation	88,581,998	795,480	209,112	0	89,168,366
Total depreciable capital assets, net	43,184,009	476,361	66,884	0	43,593,486
Governmental activities capital assets, net	\$ 43,361,982	485,361	66,884	0	43,780,459

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 23,987
Public safety	192,623
Public works	541,058
Health and welfare	10,493
Culture and recreation	2,968
Conservation of natural resources	4,628
Economic development and assistance	19,723
Total governmental activities depreciation expense	\$ 795,480

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(6) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2008, to January 1, 2009. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(7) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2008:

Classes of Property		Governmental Activities
Mobile equipment	\$	497,960
Less: Accumulated depreciation		147,137
Leased Property Under Capital Leases	\$	<u>350,823</u>

The following is a schedule by years of the total payments due as of September 30, 2008:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2009	\$ 194,881	11,737
2010	72,705	6,493
2011	75,883	3,316
Total	\$ <u>343,469</u>	<u>21,546</u>

(8) Long-term Debt.

Debt outstanding as of September 30, 2008, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Capital Leases:			
District 5 Caterpillar motor grader	\$ 101,639	2.74%	05-2009
District 5 Caterpillar backhoe loader	23,605	2.74%	05-2009
District 1 2007 Mack CV713 truck	72,742	4.31%	10-2010
District 5 (2) 2007 Mack CV713 trucks	145,483	4.31%	10-2010
Total Capital Leases	\$ <u>343,469</u>		

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

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, 2008, 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, 2008:

	Balance Oct. 1, 2007	Additions	Reductions	Adjustments	Balance Sept. 30, 2008	Amount due within one year
Governmental Activities:						
Capital leases	\$ 431,021	0	87,552	0	343,469	194,881

(9) Contingencies.

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

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

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, 2008, is \$7,100,000.

(10) 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 \$86,500 in fiscal year 2008. 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.

COVINGTON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

(11) 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 2008.

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 2008.

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 \$357,970 for maintenance and support of the college in fiscal year 2008.

Pearl River Valley Opportunity, Inc., operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Covington County Board of Supervisors appoints one of the 24 members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. The county appropriated \$10,000 for support of the district in fiscal year 2008.

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 operates in a district composed of 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 \$66,250 for support of the district in fiscal year 2008.

(12) 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.

COVINGTON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

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, 2008 was 11.85% 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, 2008, 2007 and 2006 were \$275,305, \$252,467 and \$226,296, respectively, equal to the required contributions for each year.

(13) Subsequent Event.

Subsequent to September 30, 2008, Covington County issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>		<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
06/09/2009	3.37%	\$	72,498	Capital lease	Ad valorem taxes

COVINGTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

COVINGTON COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,607,500	2,849,861	2,849,861	
Licenses, commissions and other revenue	241,000	181,431	190,755	9,324
Fines and forfeitures	250,000	322,154	355,355	33,201
Intergovernmental revenues	2,340,000	3,437,349	3,275,091	(162,258)
Charges for services	10,000	4,864	2,700	(2,164)
Interest income	360,000	396,221	357,162	(39,059)
Miscellaneous revenues	213,500	370,010	279,147	(90,863)
Total Revenues	<u>6,022,000</u>	<u>7,561,890</u>	<u>7,310,071</u>	<u>(251,819)</u>
EXPENDITURES				
Current:				
General government	2,651,250	2,376,641	2,239,514	137,127
Public safety	1,236,569	1,252,429	1,224,737	27,692
Public works	50,000	59,200	52,716	6,484
Health and welfare	274,000	217,250	268,731	(51,481)
Conservation of natural resources	103,900	107,583	103,743	3,840
Economic development and assistance	110,000	78,000	41,797	36,203
Total Expenditures	<u>4,425,719</u>	<u>4,091,103</u>	<u>3,931,238</u>	<u>159,865</u>
Excess of Revenues over (under) Expenditures	<u>1,596,281</u>	<u>3,470,787</u>	<u>3,378,833</u>	<u>(91,954)</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets			11,249	11,249
Transfers in			449,829	449,829
Transfers out			(721,706)	(721,706)
Other financing sources	10,000	164,226		(164,226)
Other financing uses	(2,910,000)	(472,000)		472,000
Total Other Financing Sources and Uses	<u>(2,900,000)</u>	<u>(307,774)</u>	<u>(260,628)</u>	<u>47,146</u>
Net Change in Fund Balance	(1,303,719)	3,163,013	3,118,205	(44,808)
Fund Balances - Beginning	<u>7,042,368</u>	<u>9,685,935</u>	<u>9,642,237</u>	<u>(43,698)</u>
Fund Balances - Ending	<u>\$ 5,738,649</u>	<u>12,848,948</u>	<u>12,760,442</u>	<u>(88,506)</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, 2008

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	Governmental Fund Type
	General Fund
Budget (Cash Basis)	\$ 3,118,205
Increase (Decrease)	
Net adjustments for revenue accruals	19,500
Net adjustments for expenditure accruals	69,080
Other reconciling items:	
Repayment of loans receivable	(419,957)
GAAP Basis	\$ 2,786,828

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, 2008

Operating Expenditures, Cash Basis:

Salaries	\$	273,878
Expendable Commodities:		
Gasoline and petroleum products		58,010
Repair parts		4,680
Maintenance		8,276
Contractual services		138,224
Supplies		460
Equipment		48,300
Buildings below capitalization threshold		<u>845</u>
Solid Waste Cash Basis Operating Expenditures		532,673
Full Cost Expenses:		
Indirect administrative costs		4,437
Depreciation on equipment		<u>23,979</u>
Solid Waste Full Cost Operating Expenses	\$	<u>561,089</u>

COVINGTON COUNTY

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COVINGTON COUNTY

SPECIAL REPORTS

COVINGTON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Covington County, Mississippi

We have audited the 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, 2008, which collectively comprise the county's basic financial statements and have issued our report thereon dated September 11, 2009. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as 08-1, 08-2 and 08-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of the internal control over financial reporting was for limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1, 08-2 and 08-3 to be material weaknesses.

Compliance and Other Matters

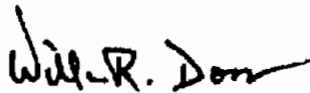
As part of obtaining reasonable assurance about whether Covington County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct 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*.

Covington County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit Covington County's responses and, accordingly, we express no opinion on them.

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



STACEY E. PICKERING
State Auditor



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

September 11, 2009



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
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, 2008. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Covington County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Covington County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

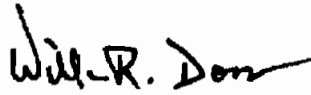
In our opinion, Covington County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

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



STACEY E. PICKERING
State Auditor



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

September 11, 2009

COVINGTON COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2008

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, 2008

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
08/31/08	Generator	\$ 800	Covington County Supply	Hurricane approaching in the Gulf of Mexico.

COVINGTON COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2008

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

COVINGTON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Covington County, Mississippi

In planning and performing our audit of the financial statements of Covington County, Mississippi for the year ended September 30, 2008, 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 September 11, 2009, on the financial statements of Covington County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the 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.

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

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STACEY E. PICKERING
State Auditor

Handwritten signature of William R. Dooss in black ink.

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

September 11, 2009

COVINGTON COUNTY

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COVINGTON COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

COVINGTON COUNTY

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COVINGTON COUNTY

Schedule of Findings and Responses
For the Year Ended September 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

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

Governmental activities	Unqualified
General Fund	Unqualified
Aggregate remaining fund information	Unqualified
Aggregate discretely presented component units	Adverse

2. Internal control over financial reporting:

Material weaknesses identified?	Yes
Significant deficiency identified that is not considered to be a material weakness?	None Reported

3. Noncompliance material to the financial statements noted? No

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency - Material Weakness

08-1. Finding

Generally accepted accounting principles require the financial data for the county's component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. As reported in the prior year's audit report, the financial statements do not include the financial data for the county's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for the inclusion in the county's financial statements.

Board of Supervisors' Response

The Board of Supervisors recognizes the failure to include financial data of the county's component units has resulted in an adverse opinion. The cost of providing this data is not feasible, and for some of the units, financial data may not be available to the Board.

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2008

Justice Court Clerk.

Significant Deficiency - Material Weakness

08-2. Finding

An effective system of internal control for collecting, recording and disbursing cash in the Justice Court Clerk's office should include maintaining cash journals and the supporting documentation. As reported in the prior year's audit report, the following deficiencies were noted:

- a. Bank statements were not reconciled on a timely basis.
- b. Monies were held for several days prior to receipting and depositing.
- c. The subsidiary ledger did not tie to the outstanding bond balance.
- d. A March, 2009 cash count revealed a net cash shortage of \$3,557 in the civil, criminal and clearing accounts.

Without adequate accounting records, inaccurate information may be reported resulting in an increased possibility of loss or misappropriation of public funds.

Recommendation

The Justice Court Clerk should properly maintain cash journals and the supporting documentation to ensure public funds are not misappropriated. Collections should be deposited on a daily basis and no monies should be held in the office. The bank statements should be reconciled to the cash journal on a monthly basis. The cash shortage should be researched and identified.

Justice Court Clerk's Response

- a. All bank statements will be reconciled timely.
- b. Every effort is made to keep defendants from mailing payments before a citation is turned in by the officer. Deposits since the last finding report are made daily for all monies receipted for that day.
- c. Due to the discrepancy with the clearing balances carried forward from the previous clerk, I along with the assistance of Delta and the county's accountant, am working towards balancing all ledgers.
- d. I am researching and have identified and corrected numerous errors with postings and settlement errors.

COVINGTON COUNTY

Schedule of Findings and Responses For the Year Ended September 30, 2008

Sheriff.

Significant Deficiency - Material Weakness

08-3. Finding

An effective system of internal control for collecting, recording and disbursing cash in the Sheriff's Office should include maintaining cash journals and the supporting documentation. As reported in the prior years' audit reports, controls over cash in the Sheriff's Office were inadequate. The following deficiencies were noted:

- a. Disbursements were not posted to the cash journal.
- b. Deposits were not made on a daily basis.
- c. Bank statements were not reconciled to the cash journal.
- d. Settlements to the county were not made on a timely basis. As of March, 2009, the most recent month's collections which had been properly settled to the county were collected during March of 2008.

Failure to implement controls over the collecting, recording and settling of cash in the Sheriff's Office could result in the loss or misappropriation of public funds. This matter has been forwarded to the Investigative Division of the State Auditor's Office for further examination.

Recommendation

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

Sheriff's Response

The employee responsible for this function has resigned due to an ongoing investigation by the State Auditor's Office.

The above listed deficiencies have been corrected, and new procedures are now in place for checks and balances.