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PEARL RIVER COUNTY, MISSISSIPPI
Financial Statements and Special Reports
For the Year Ended September 30, 2013

PEARL RIVER COUNTY, MISSISSIPPI

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INDEPENDENT AUDITORS' REPORT

August 26, 2014

Members of the Board of Supervisors
Pearl River County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pearl River County, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

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

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of Pearl River County, Mississippi, as of September 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the Governmental Activities

Management has not maintained adequate subsidiary records documenting the County's infrastructure and construction in progress and has not maintained adequate records documenting depreciation on the County's infrastructure. Accounting principles generally accepted in the United States of America require that the governmental activities, infrastructure be depreciated, which would decrease the assets and increase the expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable. Accordingly, we were unable to satisfy ourselves as to the fair presentation of these capital assets and related transactions of the governmental activities.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Governmental Activities" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Pearl River County, Mississippi, as of September 30, 2013, and the change in financial position thereof for the year ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, except for the effects of the matter discussed in the preceding sections, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Pearl River County, Mississippi, as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedules and corresponding notes, and the Schedule of Funding Progress - Other Postemployment Benefits be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

Pearl River County, Mississippi, has omitted the Management's Discussion and Analysis and the Schedule of Funding Progress – Other Postemployment Benefits that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

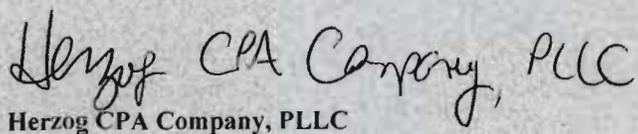
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pearl River County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2014, on our consideration of Pearl River 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pearl River County, Mississippi's internal control over financial reporting and compliance.


Herzog CPA Company, PLLC

**PEARL RIVER COUNTY, MISSISSIPPI
FINANCIAL STATEMENTS**

**PEARL RIVER COUNTY, MISSISSIPPI
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

		Exhibit 1
		<u>Primary Government</u>
		<u>Governmental</u>
		<u>Activities</u>
ASSETS		
Cash	\$	11,821,243
Property tax receivable		14,227,500
Fines receivable (net of allowance for uncollectibles of 1,526,350)		942,642
Deferred charges - Issuance cost		207,378
Intergovernmental receivables		315,249
Other receivables		24,686
Capital assets:		
Land		1,649,496
Other capital assets, net		81,930,019
Total Assets	\$	<u>111,118,213</u>
LIABILITIES		
Claims payable	\$	576,451
Intergovernmental payables		583,319
Accrued interest payable		1,032,767
Deferred revenue		14,227,500
Other payables		428,031
Long-term liabilities:		
Due within one year:		
Capital debt		1,418,276
Due in more than one year:		
Capital debt		15,603,941
Non-capital debt		704,749
Total Liabilities		<u>34,575,034</u>
NET POSITION		
Net investment in capital assets		66,557,298
Restricted:		
Expendable:		
Public Safety		651,482
Public Works		2,563,536
Health and Welfare		184,232
Economic Development		131,765
Unrestricted		6,454,866
Total Net Position	\$	<u>76,543,179</u>

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

**PEARL RIVER COUNTY, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

Functions/Programs	Program Revenues			Exhibit 2	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary government:					Primary Government
Governmental activities:					Governmental Activities
General government	\$ (8,059,317)	\$ -	-	-	\$ (8,059,317)
Public safety	(9,548,821)	4,434,679	182,651	6,609,189	1,677,698
Public works	(7,321,064)	545,048	-	3,324,276	(3,451,740)
Health and welfare	(339,453)	-	-	-	(339,453)
Culture and recreation	(328,969)	-	-	-	(328,969)
Education	(213,103)	-	-	-	(213,103)
Conservation of natural resources	(262,054)	-	-	-	(262,054)
Economic development and assistance	(240,794)	-	-	-	(240,794)
Interest on long-term debt	(374,221)	-	-	-	(374,221)
Total Governmental Activities	<u>(26,687,796)</u>	<u>4,979,727</u>	<u>182,651</u>	<u>9,933,465</u>	<u>(11,591,953)</u>
General revenues:					
Property taxes					\$ 15,212,830
Road & bridge privilege taxes					795,103
Grants and contributions not restricted to specific programs					2,643,664
Unrestricted investment income					86,699
Miscellaneous					1,167,107
Total General Revenues					<u>19,905,403</u>
Changes in Net Position					<u>8,313,450</u>
Net Position - Beginning, as previously reported					64,689,817
Prior period adjustment					3,539,912
Net Position - Beginning, as restated					<u>68,229,729</u>
Net Position - Ending					<u>\$ 76,543,179</u>

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

**PEARL RIVER COUNTY, MISSISSIPPI
BALANCE SHEET- GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

Exhibit 3

	Major Funds			Total Governmental Funds
	General Fund	Countywide Road Fund	Other Governmental Funds	
ASSETS				
Cash	\$ 7,933,065	\$ 1,094,820	\$ 2,793,358	\$ 11,821,243
Property tax receivable	10,754,500	1,385,000	2,088,000	14,227,500
Fines receivable, (net of allowance for uncollectibles of \$1,526,350)	942,642	-	-	942,642
Intergovernmental receivables	278,160	-	37,089	315,249
Due from other funds	-	24,714	35,203	59,917
Advances to other funds	-	97,330	-	97,330
Other receivables	24,686	-	-	24,686
Total Assets	<u>\$ 19,933,053</u>	<u>\$ 2,601,864</u>	<u>\$ 4,953,650</u>	<u>\$ 27,488,567</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 405,939	\$ 115,018	\$ 55,494	\$ 576,451
Intergovernmental payables	583,319	-	-	583,319
Due to other funds	59,917	-	-	59,917
Advances from other funds	97,330	-	-	97,330
Deferred revenue	11,697,142	1,385,000	2,088,000	15,170,142
Other payables	428,031	-	-	428,031
Total Liabilities	<u>13,271,678</u>	<u>1,500,018</u>	<u>2,143,494</u>	<u>16,915,190</u>
Fund balances:				
Restricted for:				
Debt service	-	-	300,206	300,206
Nonspendable:				
Advances	-	97,330	-	97,330
Assigned to:				
Public Safety	-	-	651,482	651,482
Public Works	-	1,004,516	1,461,690	2,466,206
Health and Welfare	-	-	184,232	184,232
Economic Development	-	-	131,765	131,765
Unassigned	6,661,375	-	80,781	6,742,156
Total Fund Balances	<u>6,661,375</u>	<u>1,101,846</u>	<u>2,810,156</u>	<u>10,573,377</u>
Total Liabilities and Fund Balances	<u>\$ 19,933,053</u>	<u>\$ 2,601,864</u>	<u>\$ 4,953,650</u>	<u>\$ 27,488,567</u>

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

**PEARL RIVER COUNTY, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

Exhibit 3-1

	Amount
Total Fund Balance - Governmental Funds	\$ 10,573,377
<p style="margin-left: 40px;">Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
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 \$97,702,782.	83,579,515
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	942,642
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(17,726,966)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(1,032,767)
Deferred charges - Issuance cost	207,378
Total Net Position - Governmental Activities	\$ 76,543,179

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

PEARL RIVER COUNTY, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Exhibit 4

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Countywide Road Fund		
REVENUES				
Property taxes	\$ 11,505,183	\$ 1,492,566	\$ 2,215,081	\$ 15,212,830
Road and bridge privilege taxes	-	795,103	-	795,103
Licenses, commissions and other revenue	886,501	-	135,287	1,021,788
Fines and forfeitures	1,115,735	-	22,759	1,138,494
Intergovernmental revenues	4,702,698	794,337	7,262,745	12,759,780
Charges for services	1,635,596	153,464	832,934	2,621,994
Interest income	31,322	38,225	17,152	86,699
Miscellaneous revenues	944,753	72,973	143,677	1,161,403
Total Revenues	<u>20,821,788</u>	<u>3,346,668</u>	<u>10,629,635</u>	<u>34,798,091</u>
EXPENDITURES				
Current:				
General government	7,195,976	-	505,851	7,701,827
Public safety	6,503,386	-	4,802,185	11,305,571
Public works	2,033,628	2,935,361	1,671,983	6,640,972
Health and welfare	338,003	-	1,450	339,453
Culture and recreation	304,188	-	18,803	322,991
Education	211,373	-	1,730	213,103
Conservation of natural resources	206,011	-	47,774	253,785
Economic development and assistance	240,794	-	-	240,794
Debt service:				
Principal	23,860	500,000	860,341	1,384,201
Interest and other fiscal charges	11,790	-	362,431	374,221
Total Expenditures	<u>17,069,009</u>	<u>3,435,361</u>	<u>8,272,548</u>	<u>28,776,918</u>
Excess of Revenues over (under) Expenditures	<u>3,752,779</u>	<u>(88,693)</u>	<u>2,357,087</u>	<u>6,021,173</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	10,590	-	1,599,176	1,609,766
Transfers out	(1,109,766)	-	(500,000)	(1,609,766)
Proceeds from issuance of debt	-	-	44,320	44,320
Total Other Financing Sources and Uses	<u>(1,099,176)</u>	<u>-</u>	<u>1,143,496</u>	<u>44,320</u>
Net Changes in Fund Balances	<u>2,653,603</u>	<u>(88,693)</u>	<u>3,500,583</u>	<u>6,065,493</u>
Fund Balances - Beginning	4,007,772	1,190,539	(690,427)	4,507,884
Fund Balances - Ending	<u>\$ 6,661,375</u>	<u>\$ 1,101,846</u>	<u>\$ 2,810,156</u>	<u>\$ 10,573,377</u>

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

PEARL RIVER COUNTY, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BLANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Exhibit 4-1

Net Changes in Fund Balances - Total Governmental Funds \$ 6,065,493

Amounts reported for governmental activities in the Statement of Activities
are different because:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount of depreciation expense of \$1,935,480 was exceeded by capital outlays of \$ 5,678,637 in the current period. 3,743,157

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss of \$2,959,488 and the proceeds from the sale of \$ 0 in the current period. (2,959,488)

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. 197,451

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the changes in fund balances by the amount that debt repayments of \$1,384,201 exceeded debt proceeds of \$44,320. 1,339,881

Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:

The amount of decrease in accrued interest payable	13,964
The amount of increase in compensated absences	(78,748)
The amortization of:	
Issuance cost on refunding bonds	(23,707)
Premiums on refunding bonds	18,953
Discount on refunding bonds	(3,506)

Change in Net Position of Governmental Activities \$ 8,313,450

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

**PEARL RIVER COUNTY, MISSISSIPPI
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2013**

	Exhibit 5
	<u>Agency Funds</u>
ASSETS	
Cash	\$ 835,300
Total Assets	<u>\$ 835,300</u>
LIABILITIES	
Amounts held in custody for others	\$ 835,300
Total Liabilities	<u>\$ 835,300</u>

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

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

I. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Pearl River 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 Pearl River 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 the County's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Pearl River County Hospital
- Carriere Fire District
- Crossroads Fire District
- Henleyfield Fire District
- McNeil Fire District
- Southeast Fire District
- Amackertown Fire District
- Northeast Fire District
- Pine Grove Fire District
- Nicholson Fire District
- Derby/Whitesand Fire District
- North Central Fire District
- Stepphollow Fire District

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

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

B. Individual Component Unit Disclosures.

Blended Component Units

Certain component units, although legally separate from the primary government, are nevertheless so intertwined with the primary government that they are, in substance, the same as the primary government. Therefore, these component units are reported as if they are part of the primary government. The following component unit's balances and transactions are blended with the balances and transactions of the primary government:

- Mississippi Corrections PRC, LLC

Mississippi Corrections PRC, LLC was formed for the purpose of the construction of a new jail facility.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

C. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

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

The Statement of Net Position presents the financial condition of the governmental activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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.

D. 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 sixty 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.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

D. Measurement Focus and Basis of Accounting. (Continued)

The County reports the following major Governmental Funds:

General Fund - This fund is used to account for and report all financial resources not accounted for and reported in another fund.

Countywide Road Fund - This fund is used to account for monies from specific revenue sources that are restricted for road maintenance.

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.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

FIDUCIARY FUND TYPES

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.

E. Account Classifications.

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

F. 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.

G. Receivables.

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

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

H. 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". Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position.

I. Restricted Assets.

Assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. Certain resources and revenues associated with the County's revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "administrative expense" fund is used to provide for, to the extent of moneys available, all expenses of the developer or the County (not otherwise paid or provided for out of the proceeds of the sale of certificates) incidental to the certificates and required to be paid by either of them in order to comply with the terms of the certificates or the trust indenture. The "base rental fund" fund is used to accumulate base rental payments until transfer of funds to the interest account and the principal account in amounts of interest and principal then due. The "debt service reserve" fund is used to report resources set aside to subsidize potential deficiencies from the County's operation that could adversely affect debt service payments. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

J. 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.

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:

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

J. Capital Assets. (Continued)

	Capitalization Thresholds	Estimated Useful Life
Land	\$ -	n/a
Infrastructure	-	20-50 years
Buildings	50,000	40 years
Improvements other than building	25,000	20 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.

K. Long-term Liabilities.

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

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

L. Equity Classifications.

Government-wide Financial Statements:

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

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

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

Unrestricted net position - All other net position not meeting the definition of "restricted" or "net investment in capital assets."

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

L. Equity Classifications. (Continued)

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Government fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the County:

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Assigned fund balance includes amounts that are constrained by the County's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the Board of Supervisors pursuant to authorization established by the policy adopted by the County.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

M. Property Tax Revenues.

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

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

M. Property Tax Revenues. (Continued)

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

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

N. Intergovernmental Revenues in Governmental Funds.

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

O. Compensated Absences.

The County has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements. In fund financial statements, Governmental Funds report the compensated absences liability payable only if the payable has matured, for example an employee resigns or retires.

II. Prior Period Adjustments.

A summary of significant fund equity adjustments are as follows:

Exhibit 2 - Statement of Activities.

Explanation	Amount
To adjust balances of capital assets to reflect construction in progress from prior years that was not recorded.	\$ 3,539,912
Total prior period adjustments	\$ 3,539,912

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

III. Deposits and Investments.

Deposits:

The carrying amount of the County's total deposits with financial institutions at September 30, 2013, was \$12,656,543 and the bank balance was \$12,921,084. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. 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.

IV. Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2013:

A. Due From/To Other Funds:

<u>Receivable Fund:</u>	<u>Payable Fund</u>	<u>Amount</u>
Countywide Road Fund	General Fund	\$ 24,714
Other Governmental Funds	General Fund	<u>35,203</u>
Total		<u>\$ 59,917</u>

The receivables represent the tax revenue collected but not settled until October 2013. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

<u>Receivable Fund:</u>	<u>Payable Fund</u>	<u>Amount</u>
Countywide Road Fund	General Fund	<u>\$ 97,330</u>

The purpose of the advance was to reclassify road and bridge privilege tax that was improperly recorded in General Fund.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

IV. Interfund Transactions and Balances. (Continued)

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Funds	Other Governmental Funds	\$ 500,000
General Fund	General Fund	10,590
Other Governmental Funds	General Fund	1,099,176
Total		<u>\$ 1,609,766</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.

V. Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2013 consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 278,160
Alcohol open container requirements grant	30,772
Violence against women formula grant	2,460
Crime Victim Assistance Grant	3,857
Total Governmental Activities	<u>\$ 315,249</u>

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

VI. Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2013:

Governmental Activities:

	Balance Oct 1, 2012	Additions	Deletions	Adjustments*	Balance Sept 30, 2013
<u>Non-depreciable capital assets:</u>					
Land	\$ 1,649,496	\$ -	\$ -	\$ -	\$ 1,649,496
Total non-depreciable capital assets	<u>1,649,496</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,649,496</u>
<u>Depreciable capital assets:</u>					
Infrastructure	140,472,153	248,391	(130,927)	-	140,589,617
Buildings	21,098,785	4,800,235	(579,654)	3,539,912	28,859,278
Improvements other than buildings	343,491	-	(4,367)	-	339,124
Mobile equipment	5,954,530	204,447	(282,427)	-	5,876,550
Furniture and equipment	5,276,040	425,564	(2,037,919)	-	3,663,685
Leased property under capital leases	304,547	-	-	-	304,547
Total depreciable capital assets	<u>173,449,546</u>	<u>5,678,637</u>	<u>(3,035,294)</u>	<u>3,539,912</u>	<u>179,632,801</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	85,053,242	786,105	-	-	85,839,347
Buildings	3,630,763	544,172	-	-	4,174,935
Improvements other than buildings	105,302	13,567	-	-	118,869
Mobile equipment	4,497,766	212,354	(61,696)	-	4,648,424
Furniture and equipment	2,281,943	379,282	(14,110)	-	2,647,115
Leased property under capital leases	274,092	-	-	-	274,092
Total accumulated depreciation	<u>95,843,108</u>	<u>1,935,480</u>	<u>(75,806)</u>	<u>-</u>	<u>97,702,782</u>
Total depreciable capital assets, net	<u>77,606,438</u>	<u>3,743,157</u>	<u>(2,959,488)</u>	<u>3,539,912</u>	<u>81,930,019</u>
Governmental activities capital assets, net	<u>\$ 79,255,934</u>	<u>\$ 3,743,157</u>	<u>\$ (2,959,488)</u>	<u>\$ 3,539,912</u>	<u>\$ 83,579,515</u>

* The adjustments were to adjust for construction in progress that was not recorded in prior years.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

VI. Capital Assets. (Continued)

Depreciation expense was changed to the following functions:

Governmental Activities:	Amount
General government	\$ 278,742
Public safety	714,008
Public works	928,483
Culture and recreation	5,978
Conservation of natural resources	8,269
Total governmental activities depreciation expense	\$ 1,935,480

VII. 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, 2013, to January 1, 2014. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

VIII. Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2013:

Classes of Property	Governmental Activities
Mobile equipment	\$ 185,428
Furniture and equipment	119,119
Total	304,547
Less: Accumulated depreciation	(274,092)
Leased Property under Capital Leases	\$ 30,455

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

VIII. Capital Leases. (Continued)

The following is a schedule by years of the total payments due as of September 30, 2013:

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 93,761	\$ 2,125
2015	17,148	512
2016	11,226	259
2017	8,550	63
Total	<u>\$ 130,685</u>	<u>\$ 2,959</u>

IX. Long-Term Debt.

Debt outstanding as of September 30, 2013, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Governmental Activities:			
A. General Obligation Bonds:			
Road and Bridge, Series 2008	\$ 1,620,000	3.70%	09/2016
Katrina Loan Refunding Bonds, Series 2010	888,000	3.35%	03/2020
General Obligation Refunding Bonds, Series 2011	5,428,205	3.625 - 4.625%	02/2023
Total General Obligation Bonds	<u>\$ 7,936,205</u>		
B. Limited Obligation Bonds:			
Hospital Improvements, Series 2002	\$ 3,970,000	3.20-5.25%	07/2032
Total Limited Obligation Bonds	<u>\$ 3,970,000</u>		
C. Capital Leases			
One F-350 Crew Cab Truck	\$ 41,641	1.77%	06/2017
One 2010 Ford F-150	786	3.20%	11/2013
Seven Massey Ferguson Tractors	46,199	3.34%	07/2014
One Caterpillar Motor Grader	25,676	3.42%	08/2014
3 Kyocera Chancery Copiers	13,497	2.75%	04/2015
1 Kyocera Sheriff's Copier	2,886	2.75%	04/2015
Total Capital Leases	<u>\$ 130,685</u>		
D. Other Loans:			
FEMA Community Disaster Loan	\$ 4,660,703	2.65%	01/2016
Urban Renewal Note	220,066	4.37%	02/2025
Total Other Loans	<u>\$ 4,880,769</u>		

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

IX. Long-Term Debt. (Continued)

Governmental Activities

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 1,190,000	\$ 209,442	\$ 120,000	\$ 231,332
2015	1,223,000	174,829	125,000	207,613
2016	1,263,000	139,142	130,000	201,487
2017	716,000	113,011	140,000	194,984
2018	731,000	96,907	150,000	186,762
2019-2023	2,813,205	197,171	910,000	652,756
2024-2028	-	-	1,190,000	346,118
2029-2032	-	-	1,205,000	160,083
Total	<u>\$ 7,936,205</u>	<u>\$ 930,502</u>	<u>\$ 3,970,000</u>	<u>\$ 2,181,135</u>

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 14,515	\$ 133,348
2015	15,186	132,586
2016	4,676,591	131,150
2017	16,622	6,874
2018	17,390	6,070
2019-2023	99,775	15,475
2024-2025	40,690	412
Total	<u>\$ 4,880,769</u>	<u>\$ 425,915</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, which 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 the County issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2013, the amount of outstanding debt was 3.91% of the latest property assessments.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

IX. Long-Term Debt. (Continued)

The following is a summary of changes in long-term liabilities and obligations for year ended September 30, 2013:

	Balance 1. 2012	Oct. Additions	Reductions	Balance Sept. 30, 2013	Amount Due Within One Year
Governmental Activities:					
Compensated absences	\$ 626,001	\$ 78,748	\$ -	\$ 704,749	\$ -
General Obligation bonds	9,087,205	-	(1,151,000)	7,936,205	1,190,000
Less:					
Deferred amount on	(19,003)	-	2,715	(16,288)	-
Deferred amount on	(7,186)	-	791	(6,395)	-
Add:					
Premium	87,376	-	(12,483)	74,893	-
Premium	58,818	-	(6,470)	52,348	-
Limited Obligation bonds	4,075,000	-	(105,000)	3,970,000	120,000
Capital leases	200,691	44,320	(114,326)	130,685	93,761
Other Loans	4,894,644	-	(13,875)	4,880,769	14,515
Total	<u>\$ 19,003,546</u>	<u>\$ 123,068</u>	<u>\$ (1,399,648)</u>	<u>\$ 17,726,966</u>	<u>\$ 1,418,276</u>

On April 28, 2014, the U.S. Department of Homeland Security, Federal Management Agency, fully cancelled the \$4,660,703 FEMA Community Disaster Loan. The cancellation was authorized under the provisions of the U.S. Troop Readiness, Veterans Care, Katrina Recovery, an Iraq Accountability Appropriations Act, 2007.

Compensated absences will be paid from the fund from which the employees' salaries were paid which are generally the General Fund and Countywide Road Fund.

X. Deficit Fund Balances of Individual Funds:

The following funds reported deficits in fund balances at September 30, 2013:

Fund	Deficit Amount
Federal Grants - SO	\$ (176,841)
Federal Grants - EMA	(455,170)
Federal Grants-Isaac	(69,656)

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

XI. 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 from a grantor agency 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.

XII. Joint Ventures.

The County participates in the following joint ventures:

Pearl River County is a participant with the Cities of Picayune and Poplarville in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Pearl River County Library System. The library system was created to provide free library service to all the people in the County. The library system is governed by a board of trustees consisting of ten members. Pearl River County appoints five members, Picayune appoints four and Poplarville appoints one. The library system is funded by each governmental entity on a previously agreed to proportional basis. The County's appropriation to the joint venture was \$183,000 in fiscal year 2013. Complete financial statements for the Pearl River County Library System can be obtained from the Margaret Reed Crosby Memorial Library located at 900 Goodyear Blvd., Picayune, MS 39466.

Pearl River County is a participant with the Cities of Poplarville and Picayune, the Chamber of Commerce and Pearl River Community College in a joint venture, authorized by Section 19-5-99, Miss. Code Ann. (1972), to operate the Pearl River County Development Association. The association was created to foster, encourage and facilitate economic development in the County. The association is composed of seven members appointed as follows: Pearl River County, two; Poplarville, one; Picayune, one; Chamber of Commerce, two; and Pearl River Community College, one. The County's appropriation to the joint venture was \$0 in fiscal year 2013. Complete financial statements can be obtained from P.O. Box 278, Picayune, MS 39466.

Pearl River County is a participant with the City of Poplarville in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Poplarville/Pearl River County Airport. The joint venture was created to provide airport service to the area. The airport is governed by a five-member board of commissioners appointed as follows: Pearl River County, two; Poplarville, two; and jointly, one. The County's appropriation to the joint venture was \$5,879 in fiscal year 2013. Complete financial statements can be obtained from Highway 53 South, Poplarville, MS 39470.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

XIII. Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

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.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the counties of Hancock, Harrison, Pearl River, and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The County appropriated \$92,000 for support of the agency in fiscal year 2013.

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 Pearl River 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 \$2,500 for support of the agency in fiscal year 2013.

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Pearl River County Board of Supervisors appoints one of the nine members of the board of directors. The County appropriated \$150,000 for support of the district in fiscal year 2013.

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Pearl River County Board of Supervisors appoints two of the 16 members of the college board of trustees. The County appropriated \$1,483,689 for maintenance and support of the college in fiscal year 2013.

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 Pearl River County Board of Supervisors appoints one of the 27 members of the board of directors. The County appropriated \$40,000 for support of the district in fiscal year 2013.

XIV. Defined Benefit Pension Plan.

Plan Description – Pearl River 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 9% of their annual covered salary and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2013 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2013, 2012, and 2011 were \$1,155,871, \$1,024,335, and \$1,019,621, respectively, equal to the required contributions for each year.

PEARL RIVER COUNTY, MISSISSIPPI
Notes to the Financial Statements
For the Year Ended September 30, 2013

XV. Subsequent Events.

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Pearl River County, Mississippi evaluated the activity of the County through August 26, 2014, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

The County's approved an excavator lease in the amount of \$144,402, a backhoe lease in the amount of \$175,381, a lease of four excavators in the amount of \$406,479, and three backhoes in the amount of \$154,254. The County guaranteed a \$1,500,000 line of credit for the Pearl River County Hospital and Nursing Home and approved a \$300,000 temporary loan to the Pearl River County Hospital and Nursing Home. The County guaranteed a \$111,000 loan for the Derby/Whitesand Fire District.

On April 28, 2014, the U.S. Department of Homeland Security, Federal Emergency Management Agency, fully cancelled the \$4,660,703 FEMA Community Disaster Loan. The cancellation was authorized under the provisions of the U. S. Troop Readiness, Veterans Care, Katrina Recovery, an Iraq Accountability Appropriations Act, 2007.

There is currently an ongoing investigation of the Chancery Clerk Fee Account by the Office of the State Auditor.

REQUIRED SUPPLEMENTARY INFORMATION

PEARL RIVER COUNTY, MISSISSIPPI
Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 10,539,000	\$ 11,451,671	\$ 11,451,671	\$ -
Licenses, commissions and other revenue	743,000	885,298	885,298	-
Fines and forfeitures	939,000	1,115,735	1,115,735	-
Intergovernmental revenues	3,660,000	4,731,894	4,728,077	(3,817)
Charges for services	1,245,000	1,635,596	1,635,596	-
Interest income	72,000	31,327	31,327	-
Miscellaneous revenues	704,000	938,755	938,755	-
Total Revenues	<u>17,902,000</u>	<u>20,790,276</u>	<u>20,786,459</u>	<u>(3,817)</u>
EXPENDITURES				
Current:				
General government	7,230,000	7,206,065	7,206,065	-
Public safety	6,401,800	6,442,071	6,442,071	-
Public works	2,308,500	2,303,655	2,303,655	-
Health and welfare	316,000	335,678	335,678	-
Culture and recreation	308,000	301,492	301,492	-
Education	140,000	213,951	213,951	-
Conservation of natural resources	209,000	205,331	205,331	-
Economic development and assistance	239,000	240,910	240,910	-
Debt service:				
Principal	-	67,848	67,848	-
Interest	-	10,990	10,990	-
Total Expenditures	<u>17,152,300</u>	<u>17,327,991</u>	<u>17,327,991</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>749,700</u>	<u>3,462,285</u>	<u>3,458,468</u>	<u>(3,817)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	10,590	10,590	-
Transfers out	(1,450,000)	(1,109,765)	(1,109,765)	-
Total Other Financing Sources and Uses	<u>(1,450,000)</u>	<u>(1,099,175)</u>	<u>(1,099,175)</u>	<u>-</u>
Net Change in Fund Balance	(700,300)	2,363,110	2,359,293	(3,817)
Fund Balances - Beginning	4,826,359	5,229,793	3,630,103	(1,599,690)
Fund Balances - Ending	<u>\$ 4,126,059</u>	<u>\$ 7,592,903</u>	<u>\$ 5,989,396</u>	<u>\$ (1,603,507)</u>

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

PEARL RIVER COUNTY, MISSISSIPPI
Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
Countywide Road Fund
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,326,000	\$ 1,490,873	\$ 1,490,873	\$ -
Road and bridge privilege taxes	650,000	795,103	795,103	-
Intergovernmental revenues	650,000	832,443	832,443	-
Charges for services	-	153,464	153,464	-
Interest income	13,000	38,225	38,225	-
Miscellaneous revenues	-	72,973	72,973	-
Total Revenues	<u>2,639,000</u>	<u>3,383,081</u>	<u>3,383,081</u>	<u>-</u>
EXPENDITURES				
Current:				
Public works	3,249,832	3,022,232	3,022,232	-
Debt Service:				
Principal	-	500,000	500,000	-
Interest	-	-	-	-
Total Expenditures	<u>3,249,832</u>	<u>3,522,232</u>	<u>3,522,232</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>(610,832)</u>	<u>(139,151)</u>	<u>(139,151)</u>	<u>-</u>
OTHER FINANCING SOURCES (Uses)				
Transfer In	-	-	-	-
Total Other financing Sources and Uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(610,832)	(139,151)	(139,151)	-
Fund Balances - Beginning	(728,500)	1,488,101	1,233,971	(254,130)
Fund Balances - Ending	<u>\$ (1,339,332)</u>	<u>\$ 1,348,950</u>	<u>\$ 1,094,820</u>	<u>\$ (254,130)</u>

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

PEARL RIVER COUNTY, MISSISSIPPI
Notes to Required Supplementary Information
For the Year Ended September 30, 2013

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

	General Fund	Countywide Road Fund
Budget (Cash Basis)	\$ 2,359,293	\$ (139,151)
Increase (Decrease)		
Net adjustments for revenue accruals	115,163	(36,413)
Net adjustments for expenditure accruals	179,147	86,871
GAAP Basis	\$ 2,653,603	\$ (88,693)

SUPPLEMENTAL INFORMATION

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

<u>Federal Grantor/Pass-through Grantor/ Program Title or Cluster</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development/ Passed-through Mississippi Development Authority Community development block grants/state's program*	14.228	R-103-055-01-KED	\$ 2,137,541
U.S. Department of Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety			
Crime victim assistance	16.575	11VA1551	47,564
Crime victim assistance	16.575	12VA1551	14,465
Subtotal			<u>62,029</u>
Violence against women formula grants	16.588	11SL1551	37,641
Violence against women formula grants	16.588	12SL1551	12,329
Subtotal			<u>49,970</u>
Public Safety Partnership and Community Policing Grants	16.710	11LB1551	2,965
Total U.S. Department of Office of Justice			<u>114,964</u>
U.S. Department of Transportation-Federal Highway Administration/Passed-through the Mississippi Department of Transportation			
Highway planning and construction	20.205	MS-139-055-1-B	12,358
Highway planning and construction	20.205	MS-218-055-1-B	19,939
Subtotal			<u>32,297</u>
Passed-through the Mississippi Department of Public Safety			
Alcohol Open Container Requirements Grant	20.607	13TA1551	123,580
Total U. S. Department of Transportation			<u>155,877</u>
U.S. Department of Energy Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-RW000147	23,638

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

<u>Federal Grantor/Pass-through Grantor/ Program Title or Cluster</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security			
Passed-through the Mississippi Emergency Management Agency			
Hazard mitigation grant*	97.039	DR-1604-MS-0178	\$ 1,411,580
Hazard mitigation grant*	97.039	DR-1604-MS-0179	1,633,861
Hazard mitigation grant*	97.039	DR-1604-MS-0180	1,754,794
Hazard mitigation grant*	97.039	DR-MS-4081-PW#122	168,212
Hazard mitigation grant*	97.039	DR-MS-4081-PW#721	11,679
Hazard mitigation grant*	97.039	DR-MS-4081-PW#725	34,126
Hazard mitigation grant*	97.039	DR-MS-4081-PW#726	7,850
Hazard mitigation grant*	97.039	DR-MS-4081-PW#729	21,982
Hazard mitigation grant*	97.039	DR-MS-4081-PW#730	22,920
Hazard mitigation grant*	97.039	DR-MS-4081-PW#739	6,828
Hazard mitigation grant*	97.039	DR-MS-4081-PW#740	57,557
Hazard mitigation grant*	97.039	DR-MS-4081-PW#743	21,169
Hazard mitigation grant*	97.039	DR-MS-4081-PW#744	18,918
Hazard mitigation grant*	97.039	DR-MS-4081-PW#755	223,890
Hazard mitigation grant*	97.039	DR-MS-4081-PW#756	8,040
Emergency management performance grant	97.042	HMPG-1794-0027	123,975
Emergency management performance grant	97.042	11EMPG	3,100
Subtotal			<u>5,530,481</u>
Passed-through the Mississippi Department of Public Safety Office of Homeland Security			
Homeland Security Grant	97.067	10HS055	29,509
Total U.S. Department of Homeland Security			<u>5,559,990</u>
Total Expenditures of Federal Awards			<u>\$ 7,992,010</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

* - Denotes major federal award program

OTHER INFORMATION

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2013

<u>Name</u>	<u>Position</u>	<u>Bond</u>
Anthony Hales	Supervisor District 1	\$ 100,000
Joyce Culpepper	Supervisor District 2	100,000
Dennis Dedeaux	Supervisor District 3	100,000
J. Patrick Lee	Supervisor District 4	100,000
Sandy Kane Smith	Supervisor District 5	100,000
Adrian Lumpkin, Jr.	County Administrator	100,000
David Earl Johnson	Chancery Clerk	100,000
Vickie Hariel	Circuit Clerk	100,000
Shelia Herrin	Deputy Circuit Clerk	50,000
Beth Keeling	Deputy Circuit Clerk	50,000
Jennifer Mason	Deputy Circuit Clerk	50,000
Melinda Bowman	Deputy Circuit Clerk	50,000
Recinda Theriot	Deputy Circuit Clerk	50,000
Janson Owens	Deputy Circuit Clerk	50,000
Jane Tatum	Deputy Circuit Clerk	50,000
Anna Allen	Deputy Circuit Clerk	50,000
Anita Sumrall	Purchase Clerk	75,000
Pam Bowers	Receiving Clerk	75,000
John Sherman	Inventory Control Clerk	75,000
Ray Bennett	Constable	50,000
Justin Faia	Constable	50,000
Charles Stockstill	Constable	50,000
Danny Slade	Constable	50,000
David Allison	Sheriff	100,000
Deputy Sheriffs	Deputy Sheriffs	50,000
Kathy Mason	Justice Court Clerk	50,000
Sheila James	Deputy Justice Court Clerk	50,000
Floy Strain	Deputy Justice Court Clerk	50,000
James Hal Breland	Justice Court Judge	50,000
John Mark Mitchell	Justice Court Judge	50,000
Nell Y. Cowart	Justice Court Judge	50,000
Donald Fail	Justice Court Judge	50,000
Gary Beech	Tax Collector	100,000
Leonard M. Mitchell	Road Manager	50,000
Dale Miller	Road Manager	50,000

**PEARL RIVER COUNTY, MISSISSIPPI
SPECIAL REPORTS**

HERZOG CPA COMPANY, PLLC

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**INDEPENDENT AUDITORS' 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
Pearl River County, Mississippi

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Pearl River County, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated August 26, 2014. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented 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. The report is qualified on the governmental activities because the County has not maintained adequate subsidiary records documenting the County's infrastructure and construction in progress and has not maintained adequate records documenting depreciation on the County's infrastructure as required by accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 13-1, 13-2, 13-3, and 13-4 to be material weaknesses.

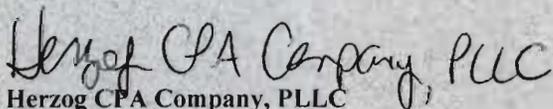
Compliance and Other Matters

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

Pearl River County's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Pearl River County's responses and, accordingly, we express no opinion on them.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.


Herzog CPA Company, PLLC
August 26, 2014

HERZOG CPA COMPANY, PLLC

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Members of the Board of Supervisors
Pearl River County, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Pearl River County, Mississippi's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on its major federal programs for the year ended September 30, 2013. Pearl River County, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditors' Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Pearl River County, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2013.

Report on Internal Control over Compliance

The management of Pearl River County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Pearl River County, Mississippi's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC

August 26, 2014

HERZOG CPA COMPANY, PLLC

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**INDEPENDENT AUDITORS' 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
Pearl River County, Mississippi

We have examined Pearl River County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2013. The Board of Supervisors of Pearl River County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Pearl River 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.

The County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets.

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

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance.

Member of the American Institute of Certified Public Accountants and the Mississippi Society of Certified Public Accountants

Our findings and recommendations and your response are disclosed below:

Inventory Control Clerk

1. Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. As reported in the prior years audit reports, control procedures were inadequate for maintaining adequate subsidiary records documenting the County's infrastructure and construction in progress and for documenting depreciation on the County's infrastructure. Therefore, the Independent Auditor's Report includes a qualified opinion on the financial position of the governmental activities. The failure to maintain a proper inventory control system could result in the reporting of inaccurate amounts and increases the possibility of loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to document the existence, completeness, and valuation of capital assets. Also, records should be maintained documenting depreciation on capital assets.

Inventory Control Clerk's Response

The Board of Supervisors is working to implement a solution to this finding in the future.

In our opinion, except as explained in the third paragraph and except for the noncompliance referred to in the preceding paragraph, Pearl River County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2013.

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

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

This report is intended for use in evaluating the central purchasing system and inventory control system of Pearl River 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.

Herzog CPA Company, PLLC

Herzog CPA Company, PLLC
August 26, 2014

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2013

Schedule 1

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

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Emergency Purchases
For the Year Ended September 30, 2013

Schedule 2

Our test results did not identify any emergency purchases.

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2013

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
4/11/2013	Information System Software	\$ 18,350.00	ERSI

HERZOG CPA COMPANY, PLLC

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Pearl River County, Mississippi

In planning and performing our audit of the financial statements of Pearl River County, Mississippi for the year ended September 30, 2013, we considered Pearl River 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 Pearl River 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 August 26, 2014, on the financial statements of Pearl River 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.

Herzog CPA Company, PLLC
Herzog CPA Company, PLLC
August 26, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Modified |
| | Aggregate discretely presented component units | Adverse |
| | General Fund | Unmodified |
| | Countywide Road Fund | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiencies identified? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unmodified |
| 6. | Any audit finding disclosed that are required to be reported in accordance with Section ____ .510(a) of OMB Circular A-133 | No |
| 7. | Federal programs identified as major programs: | |
| | a. Community development block grants/state's program, CFDA # 14.228 | |
| | b. Hazard mitigation grant, CFDA # 97.039 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No |

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section 2: Financial Statement Findings

Board of Supervisors

Material Weakness

13-1. Finding

As reported in prior year, a critical aspect of effective financial management is the preparation of accurate financial statements. As reported in the prior years' audit reports, management did not have personnel who possessed the necessary training to prepare financial statements in accordance with generally accepted accounting principles. Pearl River County's accounting records are maintained on the cash basis and the auditors assisted in the preparation of accrual entries and in the drafting of the primary government financial statements. However, the County has made all management decisions including approving accrual entries, designating an individual with a basic understanding of the financial statements and related note disclosures performed and accepting responsibility for the results of the services.

Recommendation

The Board of Supervisors should establish adequate controls and procedures to ensure that financial statements and note disclosures are prepared in accordance with generally accepted accounting principles.

Board of Supervisors' Response

The Board of Supervisors' are studying the cost benefit of having a CPA firm prepare our financial statements in the future.

Material Weakness

13-2. Financial data of the County's component units should be included in the financial statements.

Finding

As reported in prior year, 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 four years' audit reports, the financial statements do not include the financial data for its 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 have financial reports on all component units. In the future, financial reports can be compiled together.

PEARL RIVER COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section 2: Financial Statement Findings (continued)

Inventory Control Clerk.

Material Weakness

13-3. The County should maintain adequate capital asset subsidiary records

Finding

As reported in prior year, an effective system of internal control should include adequate subsidiary records documenting the existence, completeness and valuation of governmental activities capital assets as well as the depreciation of these assets. As reported in the prior years' audit reports, control procedures were inadequate for maintaining adequate subsidiary records documenting the County's capital assets including infrastructure and for documenting depreciation on the County's capital assets. The County's control procedures were also inadequate for documenting construction in progress, which resulted in a prior period adjustment to buildings. Therefore, the Independent Auditor's Report includes a qualified opinion on the financial position of the governmental activities. The failure to maintain a proper inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to document the existence, completeness, and valuation of capital assets. Also, records should be maintained documenting depreciation on capital assets.

Board of Supervisors' Response

The Board of Supervisors is working to implement a solution to this finding in the future.

Board of Supervisors.

Material Weakness

13-4. The County should not have a deficit for any fund balance.

Finding

The County had a deficit fund balance for the Federal Grants - EMA fund, Federal Grants - Isaac fund and the Federal Grants - SO fund at September 30, 2013.

Recommendation

Transfers should be approved and made before year end to avoid deficit fund balances.

Board of Supervisors' Response

The Board of Supervisors will make all necessary transfers to the grant funds at the end of the year to ensure that no fund has a deficit balance.

Section 3: Federal Award Findings and Questioned Costs

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

J. PATRICK LEE
President, District Four
SANDY KANE SMITH
Vice-President, District Five
ANTHONY HALES
District One



JOYCE CULPEPPER
District Two
DENNIS DEDEAUX
District Three
DAVID EARL JOHNSON
Clerk of Board

BOARD OF SUPERVISORS
PEARL RIVER COUNTY
P.O. BOX 569
POPLARVILLE, MS 39470
(601) 403-2300
(601) 403-2309 Fax
ADRIN LUMPKIN, JR.
County Administrator

CORRECTIVE ACTION PLAN
September 30, 2013

Gentlemen:

Pearl River County respectfully submits the following corrective action plan for the year ending September 30, 2013.

The findings from the schedule of Findings and Questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1: Summary of Auditor's Results, does not include findings and is not addressed.

Section 2: Financial Statement Findings

13-1 Corrective Action Planned: The County Administrator and the Chancery Clerk are working with the Board of Supervisors to create a position within the County's Administrator's office to prepare the necessary schedules and complete the necessary check list to provide all required information to the audit firm.

Anticipated Completion Date: September 30, 2014

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

13-2 Corrective Action Planned: The Board of Supervisors, the County Administrator and the Chancery Clerk are working with all component units to secure and provide the appropriate financial data to include in Pearl River County's financial statements.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

13-3 Corrective Action Planned: Pearl River County Board of Supervisors will meet with the County Engineer, Road Manager, Inventory Control Clerk and County Administrator to put into place the proper policies and procedures to capture and record the necessary information to compile the Road and Bridge Improvement Report and fixed asset reports.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

13-4 Corrective Action Planned: Pearl River County Board of Supervisors will meet with County Administrator and ensure that all necessary transfers to the grant funds are made at the end of the year to ensure no fund has a deficit balance.

Anticipated Completion Date: effective immediately.

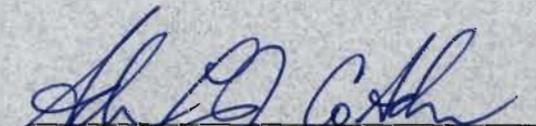
Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

Section 3: Federal Awards Findings and Questioned Costs

None Reported.

Sincerely yours,

Pearl River County,
Mississippi


Adrain Lumpkin, Jr. County Administrator
(601) 403-2300 ext. 302