

PONTOTOC COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2013

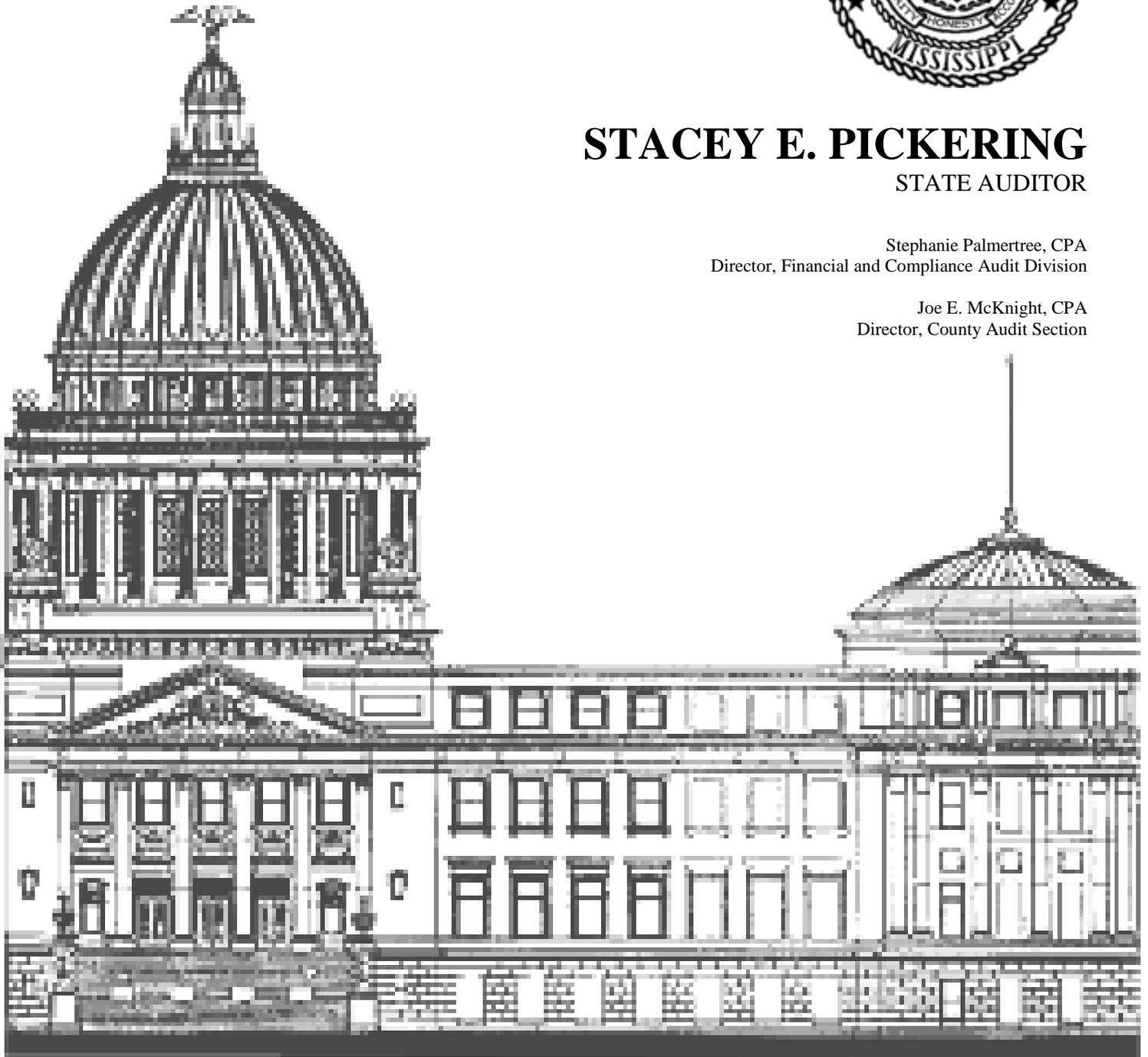


STACEY E. PICKERING

STATE AUDITOR

Stephanie Palmertree, CPA
Director, Financial and Compliance Audit Division

Joe E. McKnight, CPA
Director, County Audit Section



A Report from the County Audit Section

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

October 10, 2016

Members of the Board of Supervisors
Pontotoc County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2013 financial and compliance audit report for Pontotoc County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed 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.

I appreciate the cooperation and courtesy extended by the officials and employees of Pontotoc County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Pontotoc County. If I or this office can be of any further assistance, please contact me or Joe McKnight of my staff at (601) 576-2674.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Stacey E. Pickering". The signature is fluid and cursive, written over a white background.

Stacey E. Pickering
State Auditor

PONTOTOC COUNTY

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PONTOTOC COUNTY

FINANCIAL SECTION

PONTOTOC COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Pontotoc County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Pontotoc County, Mississippi, (the County) 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. Except as discussed in the ninth paragraph, 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 auditor's 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 Pontotoc 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 Governmental Activities, Business-type Activities, and the Solid Waste Fund

As discussed in Note 10 to the financial statements, the County has not recorded a liability for other postemployment benefits in the governmental activities, the business-type activities and the Solid Waste Fund and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of the governmental activities, the business-type activities, and the Solid Waste Fund. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities, the business-type activities, and the Solid Waste Fund is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinions on Governmental Activities, Business-type Activities, and the Solid Waste Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, and the Solid Waste Fund of Pontotoc County, Mississippi, as of September 30, 2013, and the respective changes in financial position and cash flows, 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 General Fund

Management did not maintain adequate subsidiary records documenting the completeness, existence and valuation of fines receivable of the Justice Court and Circuit Court and the aging of these fines receivable. Due to the nature of the County records, we were unable to satisfy ourselves as to the fair presentation of Justice Court and Circuit Court fines receivable, net, reported on the Statement of Net Position and in the General Fund at \$219,985 as of September 30, 2013. Also, because of the nature of the Justice Court and Circuit Court fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions in the General Fund.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the General Fund" paragraph, if any, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund of Pontotoc County, Mississippi, as of September 30, 2013, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the County-wide Road Maintenance Fund, the Industrial Development Fund, and the aggregate remaining fund information of Pontotoc County, Mississippi, as of September 30, 2013, and the respective changes in financial position 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 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

Pontotoc County, Mississippi, has omitted 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 Pontotoc 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 October 10, 2016, on our consideration of Pontotoc 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 Pontotoc County, Mississippi's internal control over financial reporting and compliance.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

October 10, 2016

PONTOTOC COUNTY

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PONTOTOC COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

PONTOTOC COUNTY

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PONTOTOC COUNTY, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTMEBER 30, 2013

UNAUDITED

INTRODUCTION

The discussion and analysis of Pontotoc County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2013. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

Pontotoc County is located in northeast Mississippi on Highways 6 and 15. The population, according to the 2010 census, is 29,957. The local economic base is driven mainly by furniture manufacturing and farming.

FINANCIAL HIGHLIGHTS

Pontotoc County is financially stable and has a relative low tax levy. The County has been committed to financial excellence for many years, using sound financial planning, careful budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Pontotoc County continues to grow annually both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has increased an average of less than 1% per year over the last 10 years, including school tax increases.

Total net position decreased from \$68,943,701, in FY 2012 to \$67,505,998, which represents a decrease of 2.09%. The county's cash balance decreased from \$5,638,170 in FY 2012 to \$5,569,805, which represents a decrease of 1.21%.

The county had \$14,818,309 in total revenues. Property tax revenues account for \$8,478,542 or 57.22% of total revenues. Program specific revenues in the form of charges for services and grants accounted for \$4,611,008 or 31.12% of total revenues.

The county had \$16,256,012 in total expenses which represents an increase of \$438,511 or 2.77% from the prior fiscal year. Expenses in the amount of \$4,611,008 were offset by program specific revenues in the form of charges for services and grants. With general revenues in the amount of \$10,207,301, a net decrease in net position occurred of \$1,437,703.

Among major funds, the General Fund had \$7,472,389 in revenues and \$8,549,315 in expenditures. The General Fund's fund balance decreased \$542,637 over the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS - continued

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS – Continued

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

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

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

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; education; conservation of natural resources, economic development; and interest on long-term debt. The business-type activity of the County is the Solid Waste Fund.

The Government-wide Financial Statements can be found on pages 21 and 22 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 24 and 26, respectively.

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

The basic governmental funds financial statements can be found on pages 23 and 25 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS – Continued

Proprietary fund Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The County uses an enterprise fund to account for the Solid Waste Fund.

Fund financial statements for the proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The Solid Waste Fund is considered to be a major fund of the County. The proprietary fund financial statements can be found on pages 27 through 28 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary assets and liabilities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 30 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 31 through 48 of this report.

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

The County adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 51 through 54 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position may serve over time as a useful indicator of government's financial position. In the case of Pontotoc County, assets exceeded liabilities by \$ 67,505,998 as of September 30, 2013.

By far, the largest portion of the County's net position, 90.14%, reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and improvements other than buildings) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

The following table presents a summary of the County's net position at September 30, 2013 and September 30, 2012.

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------|----------------------------|----------------------|-----------------------------|-------------------|----------------------|----------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Current assets | \$ 12,276,302 | \$ 12,421,457 | \$ 661,980 | \$ 514,328 | \$ 12,938,282 | \$ 12,935,785 |
| Non-current assets | 10,051,015 | 10,663,808 | -0- | -0- | 10,051,015 | 10,663,808 |
| Capital assets, net | <u>66,793,575</u> | <u>68,923,144</u> | <u>282,677</u> | <u>226,273</u> | <u>67,076,252</u> | <u>69,149,417</u> |
| Total assets | <u>\$ 89,120,892</u> | <u>\$ 92,008,409</u> | <u>\$ 944,657</u> | <u>\$ 740,601</u> | <u>\$ 90,065,549</u> | <u>\$ 92,749,010</u> |
| Current liabilities | \$ 7,602,742 | \$ 8,090,026 | \$ 152,946 | \$ 171,546 | \$ 7,755,688 | \$ 8,261,572 |
| Long-term debt | <u>14,675,034</u> | <u>15,543,737</u> | <u>128,829</u> | <u>-0-</u> | <u>14,803,863</u> | <u>15,543,737</u> |
| Total liabilities | <u>\$ 22,277,776</u> | <u>\$ 23,633,763</u> | <u>\$ 281,775</u> | <u>\$ 171,546</u> | <u>\$ 22,559,551</u> | <u>\$ 23,805,309</u> |
| Net position: | | | | | | |
| Net investment in | | | | | | |
| capital assets | \$ 60,699,475 | \$ 62,450,702 | \$ 153,848 | \$ 226,273 | \$ 60,853,323 | \$ 62,676,975 |
| Restricted | 3,800,107 | 3,074,941 | 509,034 | 342,782 | 4,309,141 | 3,417,723 |
| Nonexpendable | -0- | -0- | -0- | -0- | -0- | -0- |
| Unrestricted | <u>2,343,534</u> | <u>2,849,003</u> | <u>-0-</u> | <u>-0-</u> | <u>2,343,534</u> | <u>2,849,003</u> |
| Total net position | <u>\$ 66,843,116</u> | <u>\$ 68,374,646</u> | <u>\$ 662,882</u> | <u>\$ 569,055</u> | <u>\$ 67,505,998</u> | <u>\$ 68,943,701</u> |

Note: The business-type activities consist of the collection and disposal of household garbage financed by a monthly fee of \$10.00 per household. This business-type activity also furnishes various size dumpsters, varying collection schedules, and disposal of garbage at varying rates. This business-type activity generated \$1,278,204 in charges for services for the proprietary fund for the year ended September 30, 2013.

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

- The County started construction of a new building and purchased a building totaling \$816,256 and acquired equipment for \$654,560 during fiscal year 2013.
- Current year depreciation was \$3,485,648.
- The County issued \$906,257 of debt for equipment and a building during the fiscal year.
- The County made \$1,647,476 in scheduled debt payments.
- The Ad Valorem Tax Fee-In-Lieu receivable decreased by \$407,505 due to receipt of payment and adjustment to estimated present value.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Changes in Net Position – Pontotoc County’s total revenues for the fiscal year ended September 30, 2013 were \$14,818,309. The total cost for all services provided was \$16,256,012. The decrease in net position was \$1,437,703. The following table presents a summary of the changes in net position for each of the fiscal years ended September 30, 2013 and September 30, 2012.

| Revenues: | <u>2013</u> | <u>2012</u> | <u>Percent Change</u> |
|---|-----------------------|----------------------|---------------------------|
| Program revenues | | | |
| Charges for services | \$ 2,763,511 | \$ 2,430,089 | 13.72% |
| Operating grants and contributions | 1,847,497 | 1,045,472 | 76.71% |
| Capital grants and contributions | 0 | 1,364,294 | -100.00% |
| General revenues | | | |
| Property taxes | 8,478,542 | 8,477,284 | 0.01% |
| Road and bridge privilege taxes | 363,614 | 357,502 | 1.71% |
| Ad Valorem tax fee-in-lieu revenue | 427,995 | 449,395 | -4.76% |
| Grants and contributions not restricted to specific programs | 546,228 | 620,286 | -11.94% |
| Interest | 69,128 | 25,737 | 168.59% |
| Other | 321,794 | 333,771 | -3.59% |
| Total revenues | <u>\$ 14,818,309</u> | <u>\$ 15,103,830</u> | <u>-1.89%</u> |
| Expenses: | | | |
| General government | \$ 3,873,695 | \$ 3,891,189 | -0.45% |
| Public safety | 3,825,993 | 3,472,470 | 10.18% |
| Public works | 5,670,749 | 5,439,024 | 4.26% |
| Health and welfare | 332,932 | 300,246 | 10.89% |
| Culture and recreation | 415,137 | 509,095 | -18.46% |
| Conservation of natural resources | 114,022 | 112,164 | 1.66% |
| Economic development | 149,213 | 191,525 | -22.09% |
| Interest on long-term debt | 693,169 | 724,743 | -4.36% |
| Solid waste | 1,181,102 | 1,177,045 | 0.34% |
| Total expenses | <u>\$ 16,256,012</u> | <u>\$ 15,817,501</u> | <u>2.77%</u> |
| Decrease in net position | <u>\$ (1,437,703)</u> | <u>\$ (713,671)</u> | <u>101.45%</u> |

Governmental Activities – The following table presents the cost of nine major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, Economic Development, Interest on Long-term Debt and Solid Waste.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

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

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

| | 2013 Total Expenses | 2013 Net (Expense) Revenue | 2012 Total Expenses | 2012 Net (Expense) Revenue |
|--------------------------------------|---------------------------|----------------------------------|---------------------------|----------------------------------|
| General government | \$ 3,873,695 | \$ (2,997,255) | \$ 3,891,189 | \$ (3,228,776) |
| Public safety | 3,825,993 | (2,994,087) | 3,472,470 | (2,756,403) |
| Public works | 5,670,749 | (4,107,689) | 5,439,024 | (4,183,916) |
| Health and welfare | 332,932 | (275,284) | 300,246 | (270,904) |
| Culture and recreation | 415,137 | (415,136) | 509,095 | (509,095) |
| Education | -0- | 3,750 | -0- | -0- |
| Conservation of natural resources | 114,022 | (114,022) | 112,164 | (112,164) |
| Economic development | 149,213 | (149,213) | 191,525 | 720,103 |
| Interest on long- term debt | 693,169 | (693,170) | 724,743 | (724,743) |
| Solid waste | 1,181,102 | 97,102 | 1,177,045 | 88,252 |
| Totals | <u>\$ 16,256,012</u> | <u>\$ (11,645,004)</u> | <u>\$ 15,817,501</u> | <u>\$ (10,977,646)</u> |

Governmental funds – At the close of the fiscal year, Pontotoc County's governmental funds reported a combined fund balance of \$4,850,951, a increase of \$239,176. The primary reason for this increase is that all departments did an outstanding job of managing their budgets in these economic times.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year was \$542,637. The decrease is due to County construction of a new building and financing not received until fiscal year 2014 and increase in PERS percentage match along with other general increases in expenses across departments.

Business-type funds – Revenue from the County's Solid Waste Fund increased by 1.02% to \$1,278,204 and expenses increased by 0.34% to \$1,181,102.

BUDGETARY HIGHLIGHTS

Over the course of the year, Pontotoc County revised its annual operating budget on one occasion. Significant budget amendments are explained as follows:

- Final budget to actual as required by state law.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2013, Pontotoc County’s total gross capital assets, excluding depreciation, were \$105,496,457. This includes land, infrastructure, buildings, mobile equipment, furniture and equipment, leased property under capital lease, and improvements other than buildings. This amount represents an increase from the previous year of \$887,471. The increase is due to starting construction of a new building, purchasing a building and the purchase of equipment.

Total accumulated depreciation as of September 30, 2013 was \$38,420,205, including \$3,485,648 depreciation expense for the year. The balance in total net capital assets was \$67,076,252 at year-end.

Additional information on Pontotoc County’s capital assets can be found in note 6 on pages 39 and 40 of this report.

Debt Administration – At September 30, 2013, Pontotoc County had \$14,803,863 in long-term debt outstanding. This is a decrease over prior year of \$739,874 that is due to new debt issues totaling \$906,256 for building and capital leases, and \$1,647,476 in normal debt payments. Of this debt, \$1,358,915 is due within one year.

Additional information on Pontotoc County’s long-term debt can be found in note 11 on pages 43 and 45 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

Pontotoc County is planning some major capital projects, such as more economic development throughout our county with great expectations of a major Toyota Tier I supplier locating in our new industrial park. Also, some major road and bridge projects are planned with State Aid Road funds.

Pontotoc County along with the City of Pontotoc is looking for additional jobs to be created with the expansion of Southern Motion and the opening of Washington Manufacturing.

There are currently plenty of jobs available in the manufacturing area with some employers expanding and planning future expansions. We have experienced resurgence, as many of our manufacturing buildings have either been purchased outright or leased and have created many new jobs. Pontotoc County historically grants ten-year tax exemptions to new industries and expansions to encourage industrial development and growth. The county also has a policy for granting Freeport Warehouse tax exemptions to encourage manufacturers to choose Pontotoc County as a major distribution point. All industrial growth provides new jobs and an increase in the assessed value of the county and despite any kind of tax exemptions granted to industries none are exempt from paying school tax.

There are currently several ten-year tax exemptions in place for different manufacturers and each year some of these mature and they begin paying tax, which brings in more revenue for the county.

Pontotoc County has a relatively low unemployment rate, which compares favorably with the state average rate. However, because of the failing economy unemployment has grown.

Pontotoc County has pledged \$ 100,000 per year for ten years to a Community College Tuition Assistance Program in an effort to see that any child graduating from high school in Pontotoc County can attend Itawamba Community College for further education.

CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County’s finances and to demonstrate the County’s accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact Ricky Ferguson, Pontotoc County Chancery Clerk office at P. O. Box 209, Pontotoc, Mississippi

PONTOTOC COUNTY

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PONTOTOC COUNTY

FINANCIAL STATEMENTS

PONTOTOC COUNTY

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PONTOTOC COUNTY
Statement of Net Position
September 30, 2013

Exhibit 1

| | Primary Government | | |
|--|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-type Activities | Total |
| ASSETS | | | |
| Cash | \$ 5,051,634 | 518,171 | 5,569,805 |
| Property tax receivable | 6,112,909 | | 6,112,909 |
| Accounts receivable (net of allowance for uncollectibles of \$906,793) | | 91,760 | 91,760 |
| Fines receivable (net of allowance for uncollectibles of \$1,533,877) | 219,985 | | 219,985 |
| Capital leases receivable | 1,788,228 | | 1,788,228 |
| Intergovernmental receivables | 526,958 | 2,521 | 529,479 |
| Other receivables | 296,108 | 118,236 | 414,344 |
| Internal balances | 68,708 | (68,708) | |
| Ad valorem tax fee in-lieu receivable, net | 7,871,995 | | 7,871,995 |
| Deferred charges - bond issuance costs | 390,792 | | 390,792 |
| Capital assets: | | | |
| Land and construction in progress | 2,320,165 | | 2,320,165 |
| Other capital assets, net | 64,473,410 | 282,677 | 64,756,087 |
| Total Assets | 89,120,892 | 944,657 | 90,065,549 |
| LIABILITIES | | | |
| Claims payable | 590,067 | 57,223 | 647,290 |
| Intergovernmental payables | 224,275 | | 224,275 |
| Accrued interest payable | 131,295 | | 131,295 |
| Deferred revenue | 6,474,500 | | 6,474,500 |
| Unearned revenue | | 95,723 | 95,723 |
| Amounts held in custody for others | 182,605 | | 182,605 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 799,180 | 42,226 | 841,406 |
| Non-capital debt | 517,509 | | 517,509 |
| Due in more than one year: | | | |
| Capital debt | 5,294,920 | 86,603 | 5,381,523 |
| Non-capital debt | 8,063,425 | | 8,063,425 |
| Total Liabilities | 22,277,776 | 281,775 | 22,559,551 |
| NET POSITION | | | |
| Net investment in capital assets | 60,699,475 | 153,848 | 60,853,323 |
| Restricted for: | | | |
| Expendable: | | | |
| Debt service | 71,429 | | 71,429 |
| Public safety | 651,381 | | 651,381 |
| Public works | 2,289,559 | 509,034 | 2,798,593 |
| Culture and recreation | 69,475 | | 69,475 |
| Economic development | 718,263 | | 718,263 |
| Unrestricted | 2,343,534 | | 2,343,534 |
| Total Net Position | \$ 66,843,116 | 662,882 | 67,505,998 |

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

PONTOTOC COUNTY
Statement of Activities
For the Year Ended September 30, 2013

Exhibit 2

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 3,873,695 | 861,832 | 14,608 | | (2,997,255) | | (2,997,255) |
| Public safety | 3,825,993 | 620,797 | 211,109 | | (2,994,087) | | (2,994,087) |
| Public works | 5,670,749 | 2,678 | 1,560,382 | | (4,107,689) | | (4,107,689) |
| Health and welfare | 332,932 | | 57,648 | | (275,284) | | (275,284) |
| Culture and recreation | 415,137 | | | | (415,137) | | (415,137) |
| Education | | | 3,750 | | 3,750 | | 3,750 |
| Conservation of natural resources | 114,022 | | | | (114,022) | | (114,022) |
| Economic development and assistance | 149,213 | | | | (149,213) | | (149,213) |
| Interest on long-term debt | 693,169 | | | | (693,169) | | (693,169) |
| Total Governmental Activities | <u>15,074,910</u> | <u>1,485,307</u> | <u>1,847,497</u> | <u>0</u> | <u>(11,742,106)</u> | | <u>(11,742,106)</u> |
| Business-type activities: | | | | | | | |
| Solid Waste | <u>1,181,102</u> | <u>1,278,204</u> | <u>0</u> | <u>0</u> | | <u>97,102</u> | <u>97,102</u> |
| Total Business-type Activities | <u>1,181,102</u> | <u>1,278,204</u> | <u>0</u> | <u>0</u> | | <u>97,102</u> | <u>97,102</u> |
| Total Primary Government | <u>\$ 16,256,012</u> | <u>2,763,511</u> | <u>1,847,497</u> | <u>0</u> | <u>(11,742,106)</u> | <u>97,102</u> | <u>(11,645,004)</u> |
| General revenues: | | | | | | | |
| Property taxes | | | | | \$ 8,478,542 | | 8,478,542 |
| Road & bridge privilege taxes | | | | | 363,614 | | 363,614 |
| Grants and contributions not restricted to specific programs | | | | | 546,228 | | 546,228 |
| Ad valorem tax fee-in-lieu revenue | | | | | 427,995 | | 427,995 |
| Unrestricted interest income | | | | | 68,754 | 374 | 69,128 |
| Miscellaneous | | | | | 152,118 | 300 | 152,418 |
| Gain on sale of capital assets | | | | | 173,325 | (3,949) | 169,376 |
| Total General Revenues | | | | | <u>10,210,576</u> | <u>(3,275)</u> | <u>10,207,301</u> |
| Changes in Net Position | | | | | <u>(1,531,530)</u> | <u>93,827</u> | <u>(1,437,703)</u> |
| Net Position - Beginning | | | | | <u>68,374,646</u> | <u>569,055</u> | <u>68,943,701</u> |
| Net Position - Ending | | | | | <u>\$ 66,843,116</u> | <u>662,882</u> | <u>67,505,998</u> |

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

PONTOTOC COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2013

Exhibit 3

| | Major Funds | | | | Total Governmental Funds |
|---|---------------------|---|-----------------------------------|--------------------------------|--------------------------------|
| | General Fund | County wide Road Maintenance Fund | Industrial Development Fund | Other Governmental Funds | |
| ASSETS | | | | | |
| Cash | \$ 1,380,687 | 652,581 | 37,708 | 2,980,658 | 5,051,634 |
| Property tax receivable | 3,637,659 | 1,167,000 | | 1,308,250 | 6,112,909 |
| Fines receivable (net of allowance for uncollectibles of \$1,533.877) | 219,985 | | | | 219,985 |
| Capital lease receivable | | | 1,333,479 | 454,749 | 1,788,228 |
| Intergovernmental receivables | 488,108 | 26,653 | | 12,197 | 526,958 |
| Other receivables | 13,036 | | | 43,898 | 56,934 |
| Due from other funds | 175,900 | 27,321 | | 115,052 | 318,273 |
| Advances to other funds | 107,372 | 27,200 | | 6,884 | 141,456 |
| Total Assets | <u>\$ 6,022,747</u> | <u>1,900,755</u> | <u>1,371,187</u> | <u>4,921,688</u> | <u>14,216,377</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Claims payable | \$ 324,880 | 26,316 | | 238,871 | 590,067 |
| Intergovernmental payables | 220,855 | 3,420 | | | 224,275 |
| Due to other funds | 103,416 | | | 10,800 | 114,216 |
| Advances from other funds | | | | 37,632 | 37,632 |
| Deferred revenue | 3,953,153 | 1,167,000 | 1,333,479 | 1,762,999 | 8,216,631 |
| Amounts held in custody for others | 182,605 | | | | 182,605 |
| Total Liabilities | <u>\$ 4,784,909</u> | <u>1,196,736</u> | <u>1,333,479</u> | <u>2,050,302</u> | <u>9,365,426</u> |
| Fund balances: | | | | | |
| Nonspendable: | | | | | |
| Advances | 107,372 | | | | 107,372 |
| Restricted for: | | | | | |
| Public safety | | | | 661,934 | 661,934 |
| Public works | | 704,019 | | 1,585,540 | 2,289,559 |
| Culture and recreation | | | | 69,475 | 69,475 |
| Economic development and assistance | | | 37,708 | 371,361 | 409,069 |
| Debt service | | | | 183,076 | 183,076 |
| Unassigned | 1,130,466 | | | | 1,130,466 |
| Total Fund Balances | <u>\$ 1,237,838</u> | <u>704,019</u> | <u>37,708</u> | <u>2,871,386</u> | <u>4,850,951</u> |
| Total Liabilities and Fund Balances | <u>\$ 6,022,747</u> | <u>1,900,755</u> | <u>1,371,187</u> | <u>4,921,688</u> | <u>14,216,377</u> |

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

PONTOTOC COUNTY

Exhibit 3-1

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
September 30, 2013

| | <u>Amount</u> |
|---|-----------------------------|
| Total Fund Balance - Governmental Funds | \$ 4,850,951 |
| Amounts reported for governmental activities in the statement of net position are different because: | |
| Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$ 37,666,786. | 66,793,575 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | |
| Fines receivable | 219,985 |
| Intergovernmental receivables - TVA in lieu of tax | 95,509 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | (14,675,034) |
| Ad valorem tax fee-in-lieu | 7,871,995 |
| Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds. | (131,295) |
| Capital leases are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 1,426,638 |
| Deferred charges - bond issuance costs | <u>390,792</u> |
| Total Net Position - Governmental Activities | \$ <u><u>66,843,116</u></u> |

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

PONTOTOC COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2013

| | Major Funds | | | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|-----------------------------------|--------------------------------|--------------------------------|
| | General Fund | County wide Road Maintenance Fund | Industrial Development Fund | | |
| REVENUES | | | | | |
| Property taxes | \$ 5,146,659 | 1,595,252 | | 1,736,631 | 8,478,542 |
| Road and bridge privilege taxes | | | | 363,614 | 363,614 |
| Licenses, commissions and other revenue | 410,613 | | | 7,877 | 418,490 |
| Fines and forfeitures | 422,722 | | | | 422,722 |
| In-lieu tax - Toyota | | | | 835,500 | 835,500 |
| Intergovernmental revenues | 1,169,148 | 560,247 | | 678,220 | 2,407,615 |
| Charges for services | 196,210 | | | 407,704 | 603,914 |
| Interest income | 1,988 | 410 | 43,505 | 22,851 | 68,754 |
| Miscellaneous revenues | 125,049 | 22,030 | | 5,039 | 152,118 |
| Total Revenues | <u>7,472,389</u> | <u>2,177,939</u> | <u>43,505</u> | <u>4,057,436</u> | <u>13,751,269</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 3,661,927 | | | | 3,661,927 |
| Public safety | 2,931,620 | | | 530,004 | 3,461,624 |
| Public works | 234,181 | 209,388 | | 3,223,604 | 3,667,173 |
| Health and welfare | 850,372 | | | | 850,372 |
| Culture and recreation | 187,484 | | | 174,480 | 361,964 |
| Conservation of natural resources | 114,022 | | | | 114,022 |
| Economic development and assistance | 5,205 | | | 144,008 | 149,213 |
| Debt service: | | | | | |
| Principal | 507,509 | | 43,629 | 1,096,338 | 1,647,476 |
| Interest | 56,995 | | 22,488 | 625,324 | 704,807 |
| Total Expenditures | <u>8,549,315</u> | <u>209,388</u> | <u>66,117</u> | <u>5,793,758</u> | <u>14,618,578</u> |
| Excess of Revenues over (under) Expenditures | <u>(1,076,926)</u> | <u>1,968,551</u> | <u>(22,612)</u> | <u>(1,736,322)</u> | <u>(867,309)</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Long-term capital debt issued | 528,000 | | | 249,427 | 777,427 |
| Proceeds from sale of capital assets | 1,233 | 981 | | 212,114 | 214,328 |
| Compensation for loss of capital assets | 5,056 | | | | 5,056 |
| Transfers in | | | | 2,322,011 | 2,322,011 |
| Transfers out | | (1,550,000) | | (772,011) | (2,322,011) |
| Lease principal payments | | | 60,320 | 49,354 | 109,674 |
| Total Other Financing Sources and Uses | <u>534,289</u> | <u>(1,549,019)</u> | <u>60,320</u> | <u>2,060,895</u> | <u>1,106,485</u> |
| Net Changes in Fund Balances | (542,637) | 419,532 | 37,708 | 324,573 | 239,176 |
| Fund Balances - Beginning | <u>1,780,475</u> | <u>284,487</u> | | <u>2,546,813</u> | <u>4,611,775</u> |
| Fund Balances - Ending | <u>\$ 1,237,838</u> | <u>704,019</u> | <u>37,708</u> | <u>2,871,386</u> | <u>4,850,951</u> |

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

PONTOTOC COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2013

| | <u>Amount</u> |
|---|-----------------------|
| Net Changes in Fund Balances - Governmental Funds | \$ 239,176 |
| 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 that depreciation of \$3,420,247 exceeded capital outlays of \$1,336,737 in the current period. | (2,083,510) |
| 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 gain of \$173,325 and the proceeds from the sale of \$214,328 and insurance proceeds of \$5,056 in the current period. | (46,059) |
| 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. | 40,181 |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds: | |
| T.V.A. in lieu of tax | (13,890) |
| Ad valorem tax fee-in-lieu | (407,505) |
| 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 change in fund balances by the amount that debt payments of \$1,647,476 exceeded debt proceeds of \$777,427. | 870,049 |
| 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: | |
| Accrued interest | 12,984 |
| Amortization of bond issue costs | (31,936) |
| Amortization of premium on bond | 11,656 |
| Amortization of discount on bond | (13,002) |
| In the Statement of Activities, only interest income from payments received on capital leases are reported, whereas in the governmental funds, both principal and interest payments received increase financial resources. Thus, the change in net position differs from change in fund balances by the principal collections on the capital leases. | <u>(109,674)</u> |
| Change in Net Position of Governmental Activities | <u>\$ (1,531,530)</u> |

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

PONTOTOC COUNTY
Statement of Net Position - Proprietary Fund
September 30, 2013

Exhibit 5

| | Business-type Activities - Enterprise Fund <u>Solid Waste Fund</u> |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash | \$ 518,171 |
| Accounts receivable (net of allowance for uncollectibles of \$906,793) | 91,760 |
| Intergovernmental receivables | 2,521 |
| Other receivables | 98,500 |
| Due from other funds | 19,736 |
| Total Current Assets | <u>730,688</u> |
| Noncurrent assets: | |
| Capital Assets: | |
| Other capital assets, net | 282,677 |
| Total Noncurrent Assets | <u>282,677</u> |
| Total Assets | <u>1,013,365</u> |
| LIABILITIES | |
| Current liabilities: | |
| Claims payable | 57,223 |
| Due to other funds | 23,192 |
| Advances from other funds | 45,516 |
| Unearned revenue | 95,723 |
| Capital debt: | |
| Capital leases payable | 42,226 |
| Total Current Liabilities | <u>263,880</u> |
| Noncurrent liabilities: | |
| Capital debt: | |
| Capital leases payable | 86,603 |
| Total Noncurrent Liabilities | <u>86,603</u> |
| NET POSITION | |
| Net investment in capital assets | 153,848 |
| Restricted for: | |
| Public works | 509,034 |
| Total Net Position | <u>\$ 662,882</u> |

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

PONTOTOC COUNTY
Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
For the Year Ended September 30, 2013

Exhibit 6

| | Business-type Activities - Enterprise Fund <u>Solid Waste Fund</u> |
|---------------------------------------|---|
| Operating Revenues | |
| Charges for services | \$ 1,278,204 |
| Total Operating Revenues | <u>1,278,204</u> |
| Operating Expenses | |
| Personal services | 600,796 |
| Contractual services | 261,044 |
| Materials and supplies | 230,669 |
| Depreciation expense | 65,401 |
| Indirect administrative cost | 23,192 |
| Total Operating Expenses | <u>1,181,102</u> |
| Operating Income (Loss) | <u>97,102</u> |
| Nonoperating Revenues (Expenses) | |
| Interest income | 374 |
| Gain (loss) on sale of capital assets | (3,949) |
| Other income (expenses) | 300 |
| Net Nonoperating Revenue (Expenses) | <u>(3,275)</u> |
| Change in Net Position | 93,827 |
| Net Position - Beginning | <u>569,055</u> |
| Net Position - Ending | <u>\$ 662,882</u> |

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

PONTOTOC COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2013

Exhibit 7

| | Business-type Activities - Enterprise Fund |
|--|---|
| | <u>Solid Waste Fund</u> |
| Cash Flows From Operating Activities | |
| Receipts from customers | \$ 1,276,368 |
| Payments to suppliers | (513,625) |
| Payments to employees | (619,094) |
| Net Cash Provided (Used) by Operating Activities | <u>143,649</u> |
| Cash Flows From Noncapital Financing Activities | |
| Loans made to other funds | (1,438) |
| Other receipts | 300 |
| Net Cash Provided (Used) by Noncapital Financing Activities | <u>(1,138)</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Proceeds from sale of capital assets | 8,325 |
| Acquisition of capital assets | (5,250) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>3,075</u> |
| Cash Flows From Investing Activities | |
| Interest on deposits | 374 |
| Net Cash Provided (Used) by Investing Activities | <u>374</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 145,960 |
| Cash and Cash Equivalents at Beginning of Year | <u>372,211</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 518,171</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Operating income (loss) | \$ 97,102 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 65,401 |
| Provision for uncollectible accounts | 49,599 |
| Changes in assets and liabilities: | |
| (Increase) decrease in intergovernmental receivable | 326 |
| (Increase) decrease in accounts receivable | (48,833) |
| (Increase) decrease in other receivables | (6,240) |
| (Increase) decrease in interfund receivable | (18,298) |
| Increase (decrease) in claims payable | (21,912) |
| Increase (decrease) in unearned revenue | 3,312 |
| Increase (decrease) in interfund payables | 23,192 |
| Total Adjustments | <u>46,547</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 143,649</u> |

Noncash Capital Financing Activity:

Pontotoc County lease purchased mobile equipment for \$128,829 for 3 years at 1.64% interest. Payments start in fiscal year 2014.

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

PONTOTOC COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2013

Exhibit 8

| | <u>Agency Funds</u> |
|-------------------------------|--------------------------|
| ASSETS | |
| Cash | \$ 378,324 |
| Intergovernmental receivables | <u>128,867</u> |
| Total Assets | <u><u>\$ 507,191</u></u> |
| LIABILITIES | |
| Other liabilities | \$ 28,708 |
| Intergovernmental payables | 219,574 |
| Due to other funds | 200,601 |
| Advances from other funds | <u>58,308</u> |
| Total Liabilities | <u><u>\$ 507,191</u></u> |

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

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Pontotoc 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 Pontotoc County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

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

- Pontotoc Airport Commission
- Hurricane Volunteer Fire Department

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

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

B. Basis of Presentation.

The County's basic financial statements consist of government-wide statements, including a Statement of Net 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. 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 and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Position presents the financial condition of the governmental activities and business-type 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 and business-type 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 and 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 business-type activity or governmental function is self-financing or draws from the general revenues of the County.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

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/expenses. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column as Other Governmental Funds.

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds 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.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

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

The County reports the following major Governmental 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 Maintenance Fund - This fund is used to account for monies from specific revenue sources that are restricted for road maintenance.

Industrial Development Fund - This fund is a debt service fund used to account for rents and the payment of long-term debt principal and interest associated with a specific economic development project.

The County reports the following major Enterprise Fund:

Solid Waste Fund - This fund is used to account for the County's activities of disposal of solid waste within the County.

Additionally, the County reports the following fund types:

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Debt Service Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

PROPRIETARY FUND TYPES

Enterprise Fund - This fund is used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the County has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

E. Use of Estimates.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

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. However, the County did not invest in any governmental securities during the fiscal year.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

G. Receivables.

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

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 nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

I. 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 applicable governmental or business-type 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.

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the County's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

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 and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

| | Capitalization Thresholds | Estimated Useful Life |
|--------------------------------------|------------------------------|--------------------------|
| Land | \$ 0 | N/A |
| Infrastructure | 0 | 20-50 years |
| Buildings | 50,000 | 40 years |
| Improvements other than buildings | 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.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

J. 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 and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds 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.

K. 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, construction or improvement 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."

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.

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.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

When 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.

L. Property Tax Revenues.

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

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

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

M. 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.

N. Compensated Absences.

The County has adopted a policy of compensation for accumulated unpaid employee benefits. No liability is recorded in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. We believe the effects of the unrecorded liability on the financial statements are immaterial.

(2) Deposits.

The carrying amount of the County's total deposits with financial institutions at September 30, 2013, was \$5,948,129, and the bank balance was \$6,511,856. The collateral for public entities' deposits in financial institutions, is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

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.

(3) 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> |
|----------------------------------|--------------------------|-------------------|
| General | Solid Waste Fund | \$ 23,192 |
| General | Other Governmental Funds | 10,800 |
| General | Agency Funds | 141,908 |
| Countywide Road Maintenance Fund | General Fund | 27,321 |
| Other Governmental Funds | General Fund | 76,095 |
| Other Governmental Funds | Agency Funds | 38,957 |
| Solid Waste Fund | Agency Funds | <u>19,736</u> |
| Total | | <u>\$ 338,009</u> |

The receivables represent the tax revenue collected in September 2013, but not settled until October, 2013, indirect Solid Waste costs, temporary loans to funds, and amounts owed to Payroll Clearing Fund for payroll costs. 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> |
|----------------------------------|--------------------------|-------------------|
| General | Solid Waste Fund | \$ 45,516 |
| General | Other Governmental Funds | 3,548 |
| General | Agency Funds | 58,308 |
| Countywide Road Maintenance Fund | Other Governmental Funds | 27,200 |
| Other Governmental Funds | Other Governmental Funds | <u>6,884</u> |
| Total | | <u>\$ 141,456</u> |

These advances represent fiscal year 2011 and 2012 solid waste indirect costs, loan to cover insurance costs, posting errors that have not yet been corrected and an equipment sale to another road fund that has not yet been repaid.

C. Transfers In/Out:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
|--------------------------|----------------------------------|---------------------|
| Other Governmental Funds | Countywide Road Maintenance Fund | \$ 1,550,000 |
| Other Governmental Funds | Other Governmental Funds | <u>772,011</u> |
| Total | | <u>\$ 2,322,011</u> |

The primary purpose of interfund transfers was to provide for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

(4) Intergovernmental Receivables.

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

| <u>Description</u> | <u>Amount</u> |
|-------------------------------------|--------------------------|
| Governmental Activities: | |
| Legislative tax credit | \$ 131,076 |
| FAA grant | 101,128 |
| TVA in lieu of tax | 95,510 |
| Reimbursement for housing prisoners | 66,220 |
| MS Department of Public Safety | 43,714 |
| Motor vehicle license tax | 30,911 |
| Motor vehicle fuel tax | 19,737 |
| City of Pontotoc | 11,099 |
| Other | <u>27,563</u> |
| Total Governmental Activities | \$ <u><u>526,958</u></u> |
| Business-type Activities: | |
| Garbage collection fees | \$ <u>2,521</u> |
| Total Business-type Activities | \$ <u><u>2,521</u></u> |

(5) Ad Valorem Tax Fee-In-Lieu Receivable.

Pontotoc County, Union County and Lee County (PUL Alliance) entered into an Ad Valorem Tax Fee-In-Lieu Agreement (agreement) with the Mississippi Development Authority, the Mississippi Major Economic Impact Authority and Toyota Motor Manufacturing Mississippi, Inc. (TMMMS). The agreement provides that beginning in January, 2011, and continuing until the retirement of the Public Bonds, TMMMS agreed to make an annual fee payment of \$2,500,000 to the PUL Alliance. The first fee payment was made on or before January 31, 2011 and subsequent fee payments shall be made on or before January 31 of each succeeding year. The fee payment shall expire after the 2026 payment or, if the Public Bonds are retired sooner than 2026, it shall expire in the year of retirement. Pontotoc County's portion of this annual payment is one third or \$833,333.

Ad Valorem Tax Fee-In-Lieu Receivable at September 30, 2013, is as follows:

| | |
|---------------------------------------|-----------------------------|
| Ad Valorem Tax Fee-In-Lieu Receivable | \$7,871,995 |
| <u>September 30,</u> | |
| 2014 | \$ 833,933 |
| 2015 | 833,333 |
| 2016 | 833,333 |
| 2017 | 833,333 |
| 2018 | 833,333 |
| 2019 – 2023 | 4,166,667 |
| 2024 – 2026 | <u>2,500,000</u> |
| Total | \$ <u><u>10,833,932</u></u> |
| Less: Discount to present value | <u>2,961,937</u> |
| Net receivable | \$ <u><u>7,871,995</u></u> |

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Receivables due in more than one year are discounted to net present value using the County's average interest rate of 5.45% on the bonds issued for the project, which management has determined is an appropriate discount rate commensurate with the risks involved.

(6) Capital Assets.

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

Governmental activities:

| | Balance <u>Oct. 1, 2012</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments*</u> | Balance <u>Sept. 30, 2013</u> |
|---|--------------------------------|--------------------|------------------|---------------------|----------------------------------|
| <u>Non-depreciable capital assets:</u> | | | | | |
| Land | \$ 2,089,171 | | | | 2,089,171 |
| Construction in progress | | 230,994 | | | 230,994 |
| Total non-depreciable capital assets | <u>2,089,171</u> | <u>230,994</u> | <u>0</u> | <u>0</u> | <u>2,320,165</u> |
| <u>Depreciable capital assets:</u> | | | | | |
| Infrastructure | 73,063,672 | | | | 73,063,672 |
| Buildings | 15,373,301 | 585,262 | | | 15,958,563 |
| Improvements other than buildings | 2,445,671 | | | | 2,445,671 |
| Mobile equipment | 8,951,416 | 173,695 | 444,268 | 55,000 | 8,735,843 |
| Furniture and equipment | 1,012,694 | | 16,335 | 285,699 | 1,282,058 |
| Leased property under capital leases | 648,302 | 346,786 | | (340,699) | 654,389 |
| Total depreciable capital assets | <u>101,495,056</u> | <u>1,105,743</u> | <u>460,603</u> | <u>0</u> | <u>102,140,196</u> |
| <u>Less accumulated depreciation for:</u> | | | | | |
| Infrastructure | 21,172,444 | 2,410,489 | | | 23,582,933 |
| Buildings | 4,513,357 | 283,125 | | | 4,796,482 |
| Improvements other than buildings | 811,423 | 98,530 | | | 909,953 |
| Mobile equipment | 6,992,195 | 521,518 | 399,842 | 39,600 | 7,153,471 |
| Furniture and equipment | 828,896 | 24,730 | 14,702 | 257,129 | 1,096,053 |
| Leased property under capital leases | 342,768 | 81,855 | | (296,729) | 127,894 |
| Total accumulated depreciation | <u>34,661,083</u> | <u>3,420,247</u> | <u>414,544</u> | <u>0</u> | <u>37,666,786</u> |
| Total depreciable capital assets, net | <u>66,833,973</u> | <u>(2,314,504)</u> | <u>46,059</u> | <u>0</u> | <u>64,473,410</u> |
| Governmental activities capital assets, net | <u>\$ 68,923,144</u> | <u>(2,083,510)</u> | <u>46,059</u> | <u>0</u> | <u>66,793,575</u> |

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Business-type activities:

| | Balance Oct. 1, 2012 | Additions | Deletions | Adjustments | Balance Sept. 30, 2013 |
|--|-------------------------|----------------|----------------|-------------|---------------------------|
| <u>Depreciable capital assets:</u> | | | | | |
| Mobile equipment | 1,024,759 | 5,250 | 122,742 | | 907,267 |
| Leased property under capital leases | | <u>128,829</u> | | | <u>128,829</u> |
| Total depreciable capital assets | <u>1,024,759</u> | <u>134,079</u> | <u>122,742</u> | <u>0</u> | <u>1,036,096</u> |
| <u>Less accumulated depreciation for:</u> | | | | | |
| Mobile equipment | 798,486 | 42,212 | 110,468 | | 730,230 |
| Leased property under capital leases | | <u>23,189</u> | | | <u>23,189</u> |
| Total accumulated depreciation | <u>798,486</u> | <u>65,401</u> | <u>110,468</u> | <u>0</u> | <u>753,419</u> |
| Total depreciable capital assets, net | <u>226,273</u> | <u>68,678</u> | <u>12,274</u> | <u>0</u> | <u>282,677</u> |
| Business-type activities capital assets, net | <u>\$ 226,273</u> | <u>68,678</u> | <u>12,274</u> | <u>0</u> | <u>282,677</u> |

*Adjustments are for reclassifications of paid off leased assets.

Depreciation expense was charged to the following functions:

| | <u>Amount</u> |
|---|---------------------|
| Governmental Activities: | |
| General government | \$ 314,742 |
| Public safety | 463,036 |
| Public works | 2,573,311 |
| Health and welfare | 10,560 |
| Culture and recreation | <u>58,598</u> |
| Total governmental activities depreciation expense | <u>\$ 3,420,247</u> |
| Business-type activities: | |
| Solid waste | <u>\$ 65,401</u> |
| Total business-type activities depreciation expense | <u>\$ 65,401</u> |

Commitments with respect to unfinished capital projects at September 30, 2013, consisted of the following:

| <u>Description of Commitment</u> | <u>Remaining Financial Commitment</u> | <u>Expected Date of Completion</u> |
|----------------------------------|---|--|
| Fair Association building | \$ 10,886 | November 2013 |
| Airport fuel farm | 197,403 | February 2014 |

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

(7) Commitment.

On December 30, 2010, the Pontotoc County Board of Supervisors approved an order to pay Three Rivers Planning and Development District \$33,400 per year for seven years to be used to create and retain jobs in the County at any industrial site in the County.

(8) Claims and Judgments.

Risk Financing.

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$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.

(9) Capital Leases.

As Lessor:

The County leases the following property with varying terms and options as of September 30, 2013:

Southern Motion, Inc.

On August 6, 2010, Pontotoc County entered into a capital lease with Southern Motion, Inc. for the lease of certain real property, building and all other improvements located at 201 Henry Southern Drive, Pontotoc, MS. The capital lease agreement stipulated that the lessee, Southern Motion, Inc., would pay approximately \$5,350 per month in lease payments commencing November 10, 2010 for a period of 10 years and ending on February 1, 2020. At any time after the first seven years of the lease term, Southern Motion, Inc. may exercise the purchase option. The purchase price shall be determined as the principal balance of indebtedness. Upon the expiration or termination of this lease, lessee will vacate the premises and give lessor possession of the property unless the lessee, by notifying the lessor in writing thereof, elects to purchase the premises for the sum of all then outstanding base rent payable for the remainder of the term or may re-negotiate lease.

KC Integrated Services, LLC

On September 14, 2012, Pontotoc County entered into a capital lease with KC Integrated Services, LLC to lease certain real property, building and all other improvements located at 206 West Main Street, Sherman, MS. The capital lease agreement stipulated that the lessee, KC Integrated Services, LLC, would pay approximately \$7,985 per month in lease payments commencing October 1, 2012 for a period of 15 years. The lessee shall have the option to terminate the lease agreement at the end of the first five years, with a termination fee of \$550,001. Other termination options are available. The lessee shall have the option to purchase the property at the end of the first ten years for \$436,240. At the end of the fifteen years, the lessee shall have the option to purchase the property for \$1.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

| <u>Classes of Property</u> | | <u>Amount</u> |
|----------------------------|----|-------------------------|
| Buildings | \$ | 1,165,168 |
| Land | | <u>569,600</u> |
| Total | \$ | <u><u>1,734,768</u></u> |

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2013, are as follows:

| <u>Year Ended September 30</u> | | <u>Principal</u> | <u>Interest</u> |
|--------------------------------|----|-------------------------|-----------------------|
| 2014 | \$ | 96,661 | 50,022 |
| 2015 | | 109,642 | 50,377 |
| 2016 | | 114,201 | 45,817 |
| 2017 | | 118,954 | 41,065 |
| 2018 | | 123,906 | 36,114 |
| 2019 – 2023 | | 507,874 | 110,319 |
| 2024 – 2027 | | <u>355,400</u> | <u>27,876</u> |
| Total | \$ | <u><u>1,426,638</u></u> | <u><u>361,590</u></u> |

As Lessee:

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

| <u>Classes of Property</u> | | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--------------------------------------|----|------------------------------------|-------------------------------------|
| Mobile equipment | \$ | 615,698 | 128,829 |
| Furniture and equipment | | <u>38,691</u> | |
| Total | | 654,389 | 128,829 |
| Less: Accumulated depreciation | | <u>127,894</u> | <u>23,189</u> |
| Leased Property Under Capital Leases | \$ | <u><u>526,495</u></u> | <u><u>105,640</u></u> |

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>Business-type Activities</u> | |
|---------------------------------|--------------------------------|----------------------|---------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2014 | \$ 138,711 | 6,165 | 42,226 | 1,819 |
| 2015 | 108,369 | 3,659 | 42,947 | 1,097 |
| 2016 | 89,400 | 1,654 | 43,656 | 389 |
| 2017 | <u>38,040</u> | <u>286</u> | | |
| Total | \$ <u><u>374,520</u></u> | <u><u>11,764</u></u> | <u><u>128,829</u></u> | <u><u>3,305</u></u> |

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

(10) Other Postemployment Benefits.

Plan Description

The Pontotoc County Board of Supervisors administers the County's health insurance plan which is authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The County's health insurance plan may be amended by the Pontotoc County Board of Supervisors. The County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the County's health insurance plan (the Plan). Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. However, the County has not recorded a liability for other postemployment benefits nor has the County reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

(11) Long-term Debt.

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

| Description and Purpose | Amount Outstanding | Interest Rate | Final Maturity Date |
|---|-----------------------|------------------|---------------------------|
| Governmental Activities: | | | |
| A. General Obligation Bonds: | | | |
| Pontotoc County G.O. Bonds, Series 2005 | \$ 3,155,000 | 3.50/5.00 | 09/2025 |
| Pontotoc County G.O. Bonds, Series 2007 | <u>7,630,000</u> | 5.00/6.00 | 07/2026 |
| Total General Obligation Bonds | <u>\$ 10,785,000</u> | | |
| B. Capital Leases: | | | |
| 3 Ford F-150 trucks | \$ 39,658 | 3.00 | 08/2016 |
| IBM computer equipment | 14,225 | 1.52 | 09/2014 |
| Tractor | 26,317 | 2.10 | 08/2016 |
| Excavator | 73,428 | 1.64 | 05/2017 |
| Dump truck | 59,324 | 1.81 | 07/2017 |
| Backhoe | 29,112 | 2.04 | 05/2015 |
| Tractor | 18,525 | 1.72 | 11/2014 |
| Backhoe | 59,146 | 2.20 | 05/2017 |
| GMC Sierra pickup | 25,841 | 1.72 | 06/2016 |
| Tractor | <u>28,944</u> | 1.72 | 07/2016 |
| Total Capital Leases | <u>\$ 374,520</u> | | |
| C. Other Loans: | | | |
| CAPS loan | \$ 725,838 | 3.00 | 01/2027 |
| Equipment loan – 6 fire trucks | 703,902 | 3.19 | 04/2020 |
| Equipment loan – 6 fire trucks | 170,799 | 2.50 | 06/2014 |

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

| Description and Purpose | Amount Outstanding | Interest Rate | Final Maturity Date |
|--|-----------------------|------------------|---------------------------|
| Economic Development Loan (Southern Motion) | 190,961 | 5.00 | 11/2020 |
| Economic Development Loan (Southern Motion) | 87,615 | 4.00 | 11/2020 |
| Economic Development Loan (Southern Motion) | 113,030 | 4.00 | 11/2020 |
| TVA Loan | 614,880 | 3.00 | 06/2030 |
| Building Loan – Child Services building | 528,000 | 0.00 | 09/2025 |
| Certificates of Participation – Extension building | 547,000 | 3.99 | 11/2018 |
| Total Other Loans | \$ 3,682,025 | | |

Business-type Activities:

| | | | |
|----------------------|------------|------|---------|
| Capital Leases: | | | |
| Garbage truck | \$ 128,829 | 1.64 | 09/2016 |
| Total Capital Leases | \$ 128,829 | | |

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

Governmental Activities:

| Year Ending September 30 | General Obligation Bonds | | Other Loans | |
|--------------------------|--------------------------|-----------|-------------|----------|
| | Principal | Interest | Principal | Interest |
| 2014 | \$ 630,000 | 524,767 | 547,978 | 103,123 |
| 2015 | 665,000 | 490,298 | 389,862 | 86,902 |
| 2016 | 690,000 | 460,005 | 403,766 | 74,545 |
| 2017 | 730,000 | 428,805 | 417,154 | 61,526 |
| 2018 | 765,000 | 395,595 | 431,790 | 48,081 |
| 2019 – 2023 | 4,420,000 | 1,398,481 | 908,661 | 118,592 |
| 2024 – 2028 | 2,885,000 | 287,087 | 503,202 | 38,946 |
| 2029 – 2033 | | | 79,612 | 2,204 |
| Total | \$ 10,785,000 | 3,985,038 | 3,682,025 | 533,919 |

Legal Debt Margin - The amount of debt that can be incurred by the County, excluding specific exempted debt, is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2013, the amount of outstanding debt was equal to 2.82% of the latest property assessments.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

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

| | Balance Oct. 1, 2012 | Additions | Reductions | Adjustments | Balance Sept. 30, 2013 | Amount due within one year |
|----------------------------------|-------------------------|-------------------|------------------|------------------|---------------------------|----------------------------------|
| Governmental Activities: | | | | | | |
| General obligation bonds | \$ 11,380,000 | | 595,000 | | 10,785,000 | 630,000 |
| Less: | | | | | | |
| Discounts | (186,102) | | (13,002) | | (173,100) | |
| Add: | | | | | | |
| Premiums | 18,245 | | 11,656 | | 6,589 | |
| Capital leases | 307,440 | 249,427 | 182,347 | | 374,520 | 138,711 |
| Other loans | 4,024,154 | 528,000 | 870,129 | | 3,682,025 | 547,978 |
| | <u>15,543,737</u> | <u>777,427</u> | <u>1,646,130</u> | <u>0</u> | <u>14,675,034</u> | <u>1,316,689</u> |
| Total | \$ | <u>15,543,737</u> | <u>777,427</u> | <u>1,646,130</u> | <u>0</u> | <u>14,675,034</u> |
| Business-type Activities: | | | | | | |
| Capital leases | \$ 0 | 128,829 | 0 | 0 | 128,829 | 42,226 |
| Total | \$ | <u>0</u> | <u>128,829</u> | <u>0</u> | <u>128,829</u> | <u>42,226</u> |

(12) Deficit Fund Balances of Individual Funds.

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

| Fund | Deficit Amount |
|------------------------|----------------|
| KC Integrated Fund | \$ 48,240 |
| Jail Construction Fund | 781 |

(13) Contingencies.

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

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

Solid Waste Revenue Refunding Bonds

In 1998, solid waste revenue refunding bonds were issued by Three Rivers Solid Waste Management Authority for \$8,210,000. In fiscal year 2012, the bonds were refinanced. The bonds were reissued for \$4,235,000. As part of a solid waste disposal service agreement between Pontotoc County and Three Rivers Solid Waste Management Authority, the County has agreed to pay its pro rata share of any obligations of the Authority that are not covered by

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

fees generated from solid waste disposal services. The County's pro rata share of the \$3,855,000 refunding bonds balance at September 30, 2013 was \$651,495.

(14) Joint Ventures.

The County participates in the following joint ventures:

Pontotoc County is a participant with Calhoun County and Chickasaw County in a joint venture, authorized by Section 39-3-11, Miss. Code Ann. (1972), to operate the Dixie Regional Library System. The regional library was created to provide free public library service for the respective counties. The regional library is governed by a five-member board appointed by the Boards of Supervisors: two from the library board of Pontotoc County, one from the library board of Chickasaw County, and two from the library board of Calhoun County. The County contributed \$174,480 to the library in fiscal year 2013. Complete financial statements for the regional library can be obtained from the Dixie Regional Library System, 111 North Main Street, Pontotoc, MS 38863.

Pontotoc County is a participant with the City of Pontotoc in a joint venture, authorized by Section 17-13-1, Miss. Code Ann. (1972), to operate the Lyle Hansberger Sportsplex. The Sportsplex was created for the use and benefit of all residents of Pontotoc County, Mississippi. The City and County jointly share annual costs of operation and maintenance of the Sportsplex.

Pontotoc County is a participant in a joint venture with the counties of Union and Chickasaw and the municipalities of New Albany, Pontotoc, Houston, New Houlika, Ecu and Algoma, as the GM&O Rails to Trails Recreational District of North Mississippi (GM&O), as authorized by Section 55-25-1, Miss. Code Ann. (1972) which governs the Tanglefoot Trail, which is a multi-use recreational trail for hikers, equestrians, walkers, runners, skaters, cyclists, and other such uses. Pontotoc County appoints one member of the nine-member Board of GM&O and agreed to pledge on an annual basis, for a period of 15 years, an amount equal to ¼ of a mill from their General fund, or from any other available source as determined by the County, to GM&O for the purpose of servicing debt. Any funds over the amount needed for debt will be retained by GM&O for operating and maintenance expenses. Three Rivers Planning and Development District is the administrator and fiscal agent of the program. The County contributed \$30,000 to this venture in fiscal year 2013.

(15) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

Three Rivers Planning and Development District operates in a district composed of the Counties of Pontotoc, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Calhoun, and Union. The Pontotoc County Board of Supervisors appoints five of the 40 members of the board of directors. The County contributed \$62,000 for support of the district in fiscal year 2013.

Northeast Mental Health-Mental Retardation Commission operates in a district composed of the Counties of Benton, Itawamba, Lee, Chickasaw, Pontotoc, Monroe and Union. The Pontotoc County Board of Supervisors appoints one of the seven members of the board of commissioners. The County contributed \$29,400 for support of the commission in fiscal year 2013.

Itawamba Community College operates in a district composed of the Counties of Itawamba, Lee, Chickasaw, Pontotoc, and Monroe. The Pontotoc County Board of Supervisors appoints six of the 30 members of the college board of trustees. The County provided approximately \$961,170 by tax levy as an appropriation for maintenance and support of the college in fiscal year 2013.

Three Rivers Solid Waste Management Authority operates in a district composed of the Counties of Pontotoc, Itawamba, Lafayette, Lee, Monroe, Calhoun and Union and the cities of Aberdeen, Amory, Fulton, New Albany, Oxford, Pontotoc and Tupelo. Each of these entities appoints one of the 14 board members. The entity is fiscally independent of all other entities as it can set its own budget, issue debt and set rates and charges. Members are billed based on the volume of solid waste received from each member. The County did not appropriate any funds for the support of the authority in fiscal year 2013.

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Northeast Mississippi Emergency Medical Services serves the Counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Marshall, Pontotoc, Tishomingo and Union. The Pontotoc County Board of Supervisors appoints four of the 36 members of the board of directors. The County contributed \$39,969 for support of the district in fiscal year 2013.

Lift, Inc. operates in a district composed of the Counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union. The Pontotoc County Board of Supervisors appoints one of the 24 members of the board of directors. The County did not appropriate any funds for support of Lift, Inc. in fiscal year 2013.

Pontotoc Union Lee Alliance (PUL) is an alliance to promote economic development in these three counties. The Pontotoc County Board of Supervisors appoints two of the nine members of the board of directors. The County did not appropriate any funds for support of the alliance during fiscal year 2013.

(16) Defined Benefit Pension Plan.

Plan Description. Pontotoc 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. At September 30, 2013, PERS members were 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 \$599,566, \$503,432 and \$444,669, respectively, equal to the required contributions for each year.

(17) 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 Pontotoc County evaluated the activity of the County through October 10, 2016, (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.

Subsequent to September 30, 2013, the County issued the following debt obligations:

| Issue Date | Interest Rate | Issue Amount | Type of Financing | Source of Financing |
|------------|---------------|--------------|-------------------|---------------------|
| 8/6/2014 | 3.50% | \$ 124,000 | Other loan | Rental income |
| 9/2/2014 | 1.74% | 138,344 | Capital lease | Ad valorem taxes |
| 9/3/2014 | 4.20% | 400,000 | Other loan | Rental income |
| 9/3/2014 | 4.20% | 500,000 | Other loan | Rental income |
| 9/3/2014 | 4.75% | 119,000 | Other loan | Rental income |
| 9/3/2014 | 4.04% | 467,000 | Other loan | Rental income |
| 2/27/2015 | 3.00% | 300,000 | Other loan | Rental income |
| 6/26/2015 | 1.74% | 181,736 | Capital lease | Ad valorem taxes |
| 8/14/2015 | 2.35% | 129,604 | Capital lease | Solid waste fees |
| 3/4/2016 | 2.40% | 33,500 | Capital lease | Ad valorem taxes |
| 8/2/2016 | 2.40% | 25,206 | Capital lease | Ad valorem taxes |

PONTOTOC COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2013

Other Subsequent Events.

In August 2014, the County (Lessor) entered into a 15-year lease-purchase agreement with Pride Mobility Products (Lessee), with the first rental payment beginning in October 2014 at \$13,211 per month. Lease buy-out options are available to Pride Mobility Products at any time after the first five years or in the event of any case of eminent domain.

PONTOTOC COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PONTOTOC COUNTY

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

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 5,007,359 | 5,132,867 | 5,130,189 | (2,678) |
| Road and bridge privilege taxes | | | 2,153 | 2,153 |
| Licenses, commissions and other revenue | 887,000 | 418,741 | 422,414 | 3,673 |
| Fines and forfeitures | 27,600 | 420,043 | 422,721 | 2,678 |
| Intergovernmental revenues | 1,050,995 | 1,234,758 | 1,260,571 | 25,813 |
| Charges for services | 215,000 | 167,959 | 167,959 | |
| Interest income | 5,550 | 790 | 1,986 | 1,196 |
| Miscellaneous revenues | 319,500 | 311,585 | 327,036 | 15,451 |
| Total Revenues | <u>7,513,004</u> | <u>7,686,743</u> | <u>7,735,029</u> | <u>48,286</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 4,098,161 | 4,241,204 | 4,272,078 | (30,874) |
| Public safety | 2,620,863 | 2,916,891 | 2,937,702 | (20,811) |
| Public works | 100,000 | 141,232 | 141,232 | |
| Health and welfare | 325,975 | 310,487 | 310,738 | (251) |
| Culture and recreation | 214,325 | 186,793 | 186,541 | 252 |
| Conservation of natural resources | 119,415 | 111,046 | 111,047 | (1) |
| Economic development and assistance | 40,630 | 31,758 | 31,758 | |
| Debt service: | | | | |
| Principal | 538,899 | 520,918 | 520,618 | 300 |
| Interest | 44,686 | 44,686 | 44,686 | |
| Total Expenditures | <u>8,102,954</u> | <u>8,505,015</u> | <u>8,556,400</u> | <u>(51,385)</u> |
| Excess of Revenues over (under) Expenditures | <u>(589,950)</u> | <u>(818,272)</u> | <u>(821,371)</u> | <u>(3,099)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | | 1,233 | 1,233 | |
| Compensation for loss of capital assets | | 6,429 | 6,429 | |
| Transfers in | 2,100,000 | 50,000 | 50,000 | |
| Transfers out | (140,050) | | | |
| Total Other Financing Sources and Uses | <u>1,959,950</u> | <u>57,662</u> | <u>57,662</u> | <u>0</u> |
| Net Change in Fund Balance | 1,370,000 | (760,610) | (763,709) | (3,099) |
| Fund Balances - Beginning | <u>(452,049)</u> | <u>1,701,750</u> | <u>1,743,956</u> | <u>42,206</u> |
| Fund Balances - Ending | <u>\$ 917,951</u> | <u>941,140</u> | <u>980,247</u> | <u>39,107</u> |

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

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

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|---------------------|--------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 1,752,500 | 1,591,533 | 1,591,533 | |
| Intergovernmental revenues | 625,000 | 558,046 | 558,046 | |
| Interest income | 500 | | 410 | 410 |
| Miscellaneous revenues | | 213,133 | 213,133 | |
| Total Revenues | <u>2,378,000</u> | <u>2,362,712</u> | <u>2,363,122</u> | <u>410</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | 493,000 | 442,061 | 442,061 | |
| Total Expenditures | <u>493,000</u> | <u>442,061</u> | <u>442,061</u> | <u>0</u> |
| Excess of Revenues over (under) Expenditures | <u>1,885,000</u> | <u>1,920,651</u> | <u>1,921,061</u> | <u>410</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | | 12,981 | 12,981 | |
| Transfers in | 65,000 | 5,250 | 5,250 | |
| Transfers out | (1,900,000) | (1,550,000) | (1,550,000) | |
| Total Other Financing Sources and Uses | <u>(1,835,000)</u> | <u>(1,531,769)</u> | <u>(1,531,769)</u> | <u>0</u> |
| Net Change in Fund Balance | 50,000 | 388,882 | 389,292 | 410 |
| Fund Balances - Beginning | (240,000) | 35,742 | 263,290 | 227,548 |
| Fund Balances - Ending | <u>\$ (190,000)</u> | <u>424,624</u> | <u>652,582</u> | <u>227,958</u> |

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

PONTOTOC COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2013

UNAUDITED

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 each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

| | <u>Governmental Fund Types</u> | |
|--|--------------------------------|-----------------------------------|
| | General | Countywide Road Maintenance |
| | <u>Fund</u> | <u>Fund</u> |
| Budget (Cash Basis) | \$ (763,709) | 389,292 |
| Increase (Decrease) | | |
| Net adjustments for revenue accruals | 237,793 | (202,433) |
| Net adjustments for expenditure accruals | 708 | 232,673 |
| Other reconciling items: | | |
| Reclassification of E-911 revenue | <u>(17,429)</u> | <u> </u> |
| GAAP Basis | <u>\$ (542,637)</u> | <u>419,532</u> |

PONTOTOC COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2013

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

The following fund had an excess of actual expenditures over budget for the year ended September 30, 2013:

| Fund | | Excess |
|--------------|----|--------|
| General Fund | \$ | 51,385 |

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

PONTOTOC COUNTY

SUPPLEMENTAL INFORMATION

PONTOTOC COUNTY

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PONTOTOC COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2013

| Federal Grantor/ Pass-through Grantor/ Program Title or Cluster | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|--|---------------------------|--|----------------------------|
| U.S. Department of Agriculture Passed-through Mississippi State Treasurer's Office Schools and Roads - Grants to States | 10.665 | N/A | \$ <u>2,426</u> |
| U.S. Department of Justice Passed-through the Mississippi Department of Public Safety Passed-through the City of Tupelo Edward Byrne Memorial Formula Grant Program | 16.579 | 12NM2321 | <u>27,273</u> |
| U.S. Department of Labor: Passed-through Mississippi Development Authority Workforce Investment Act Cluster: | | | |
| WIA Adult Program | 17.258 | 2001204 | * 2,231,225 |
| WIA Youth Activities | 17.259 | 2001204 | * 2,173,803 |
| WIA Dislocated Worker Formula Grants | 17.278 | 2001204 | * <u>2,904,578</u> |
| Total Expenditures Workforce Investment Act Cluster | | | <u>7,309,606</u> |
| U.S. Department of Transportation: | | | |
| Federal Aviation Administration | | | |
| Airport Improvement Program | 20.106 | 3-28-0061-009-2012 | 89,085 |
| Airport Improvement Program | 20.106 | 3-28-0061-010-2013 | <u>126,128</u> |
| Subtotal | | | <u>215,213</u> |
| Federal Highway Administration | | | |
| Passed-through Mississippi Department of Transportation Highway Planning and Construction | 20.205 | BR NBIS 78 01 58 | 17,280 |
| National Highway Traffic Safety Administration | | | |
| Passed-through Mississippi Department of Public Safety Alcohol Open Container Requirements | 20.607 | 12-TA-158-1 | <u>51,716</u> |
| Total U.S. Department of Transportation | | | <u>284,209</u> |
| U.S. Department of Homeland Security: | | | |
| Passed-through Mississippi Department of Public Safety: Emergency Management Performance Grants | 97.042 | N/A | <u>12,703</u> |
| Total Expenditures of Federal Awards | | | \$ <u><u>7,636,217</u></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.

Note B - Workforce Investment Act Cluster

Total expenditures of federal awards include \$7,309,606 passed-through an agency fund to the Three Rivers Planning and Development District during the year ended September 30, 2013.

* Denotes major federal award program

PONTOTOC COUNTY

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PONTOTOC COUNTY

OTHER INFORMATION

PONTOTOC COUNTY

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Pontotoc County
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2013
UNAUDITED

| Name | Position | Company | Bond |
|-------------------|--|------------------------------|-----------|
| Wayne Stokes | Supervisor District 1 | Brierfield Insurance Company | \$100,000 |
| Wayne Tutor | Supervisor District 2 | Brierfield Insurance Company | \$100,000 |
| Duane Tutor | Supervisor District 3 | Brierfield Insurance Company | \$100,000 |
| Ernie Wright | Supervisor District 4 | Brierfield Insurance Company | \$100,000 |
| Dennis Corder | Supervisor District 5 | Brierfield Insurance Company | \$100,000 |
| Gary Moorman | County Administrator | Brierfield Insurance Company | \$100,000 |
| Gary Moorman | Chancery Clerk | Brierfield Insurance Company | \$100,000 |
| Kaye Boyd | Purchase Clerk | Brierfield Insurance Company | \$75,000 |
| Gary Moorman | Assistant Purchase Clerk (Court Clerk) | Brierfield Insurance Company | \$50,000 |
| Tim Holcomb | Receiving Clerk | Brierfield Insurance Company | \$75,000 |
| Doug Anderson | Assistant Receiving Clerk | Brierfield Insurance Company | \$50,000 |
| Stephanie Cooper | Assistant Receiving Clerk | Brierfield Insurance Company | \$50,000 |
| John Golden | Assistant Receiving Clerk | Brierfield Insurance Company | \$50,000 |
| Donnie McClarty | Assistant Receiving Clerk | RLI Insurance Company | \$50,000 |
| Alan Morris | Assistant Receiving Clerk | Brierfield Insurance Company | \$50,000 |
| Gary Robertson | Assistant Receiving Clerk | Brierfield Insurance Company | \$50,000 |
| Rickey Williams | Assistant Receiving Clerk | Brierfield Insurance Company | \$50,000 |
| Gary Moorman | Inventory Control Clerk | Brierfield Insurance Company | \$75,000 |
| LD Gillespie II | Constable | Brierfield Insurance Company | \$50,000 |
| Early McKinney | Constable | Brierfield Insurance Company | \$50,000 |
| Melinda Nowicki | Circuit Clerk | Brierfield Insurance Company | \$100,000 |
| Cindy DiDonna | Deputy Circuit Clerk | Brierfield Insurance Company | \$50,000 |
| Gail Jagers | Deputy Circuit Clerk | RLI Insurance Company | \$50,000 |
| Lisa Fowler | Deputy Circuit Clerk | RLI Insurance Company | \$50,000 |
| Leo Mask | Sheriff | Brierfield Insurance Company | \$100,000 |
| David Hall | Justice Court Judge | Brierfield Insurance Company | \$50,000 |
| Scottie Harrison | Justice Court Judge | Brierfield Insurance Company | \$50,000 |
| Sheila Wilson | Justice Court Clerk | Brierfield Insurance Company | \$50,000 |
| Deborah Spratt | Deputy Justice Court Clerk | RLI Insurance Company | \$50,000 |
| Donna Owen Butler | Deputy Justice Court Clerk | Brierfield Insurance Company | \$50,000 |
| Jeanette Winters | Deputy Justice Court Clerk | Brierfield Insurance Company | \$50,000 |
| Kathy Robinson | Deputy Justice Court Clerk | Brierfield Insurance Company | \$50,000 |
| Van McWhirter | Tax Assessor/Collector | Brierfield Insurance Company | \$100,000 |
| Jennifer Brown | Deputy Tax Collector | Brierfield Insurance Company | \$50,000 |
| Ruth Moore | Deputy Tax Collector | Brierfield Insurance Company | \$50,000 |
| Myrtle Sledge | Deputy Tax Collector | RLI Insurance Company | \$50,000 |
| Troy Ward | Deputy Tax Collector | Brierfield Insurance Company | \$50,000 |
| Martha Zinn | Deputy Tax Collector | Brierfield Insurance Company | \$50,000 |
| Kristy Bolin | Deputy Tax Assessor | RLI Insurance Company | \$50,000 |
| Jeanne Hill | Deputy Tax Assessor | RLI Insurance Company | \$50,000 |
| Teresa Bone | Deputy Tax Assessor | RLI Insurance Company | \$50,000 |
| Paul Heath | Deputy Tax Assessor | RLI Insurance Company | \$50,000 |

PONTOTOC COUNTY

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PONTOTOC COUNTY

SPECIAL REPORTS

PONTOTOC COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

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

Members of the Board of Supervisors
Pontotoc County, Mississippi

We have audited, in accordance with the 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, the business-type activities, each major fund and the aggregate remaining fund information of Pontotoc 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 October 10, 2016. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. This report is qualified on the governmental activities, the business-type activities and the Solid Waste Fund because the County did not record a liability or current year expense for other postemployment benefits as required by accounting principles generally accepted in the United States of America. Additionally, our report includes a qualified opinion on the General Fund because the County did not maintain and preserve adequate subsidiary records documenting the valuation of the fines receivable, net and the aging of these fines receivable. Except for the limitation related to the qualified opinion on the General Fund, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Pontotoc 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 was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control 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 accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 a 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 2013-001, 2013-002, 2013-003, 2013-004, 2013-005, 2013-006, 2013-007, 2013-008, 2013-012, 2013-013, 2013-014, 2013-015, 2013-016, 2013-017 and 2013-018 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2013-009, 2013-010 and 2013-011 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontotoc 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-005, 2013-006, 2013-007 and 2013-008.

We also noted certain matters which we have reported to the management of Pontotoc County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated October 10, 2016, included within this document.

Pontotoc County's Responses to Findings

Pontotoc County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Pontotoc County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The 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.



JOE E. MCKNIGHT, CPA
Director, County Audit Section

October 10, 2016



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

**INDEPENDENT AUDITOR'S 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
Pontotoc County, Mississippi

Report on Compliance for Major Federal Program

We have audited Pontotoc 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 program for the year ended September 30, 2013. Pontotoc County, Mississippi's major federal program is identified in the summary of auditor's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for Pontotoc County, Mississippi's major federal program 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 Pontotoc 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 Pontotoc County, Mississippi's compliance.

Opinion on Major Federal Program

In our opinion, Pontotoc 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 program for the year ended September 30, 2013.

Report on Internal Control Over Compliance

Management of Pontotoc 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 Pontotoc 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 the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 the 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 a 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.



JOE E. MCKNIGHT, CPE
Director, County Audit Section

October 10, 2016



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

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

Members of the Board of Supervisors
Pontotoc County, Mississippi

We have examined Pontotoc 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 Pontotoc 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 Pontotoc County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any 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. Our findings and recommendations and your responses are disclosed below:

Board of Supervisors.

1. Purchases over \$5,000 but not over \$50,000 require two quote bids and documentation of the lowest and best bid.

Finding

Section 31-7-13(b), Miss. Code Ann. (1972) specifies that purchases which involve an expenditure of more than \$5,000 but not more than \$50,000, exclusive of freight and shipping charges, may be made from the lowest and best bidder without publishing or posting advertisement for bids provided at least two competitive written bids are obtained. As reported in the prior year audit report, deficiencies were noted in our audit of expenditures.

The following deficiencies were noted:

- a) The County constructed a building at the County jail location. There is no documentation or approval of the jail project in the Board of Supervisors' minute books and no quotes on a purchase of a metal building for the project as well as on concrete work done for the building.
- b) The Board of Supervisors approved a quote of \$11,325 as the lowest and best quote for fencing at the Agri-Center. However, the two quotes provided do not meet the criteria for a competitive written bid. Furthermore, the Board approved to pay the vendor an additional \$7,865 over the originally approved quote via a change order, on the date of payment. Change orders should be done prior to project work being completed.
- c) The County purchased an in-car camera and computer equipment for the Sheriff's department in the amount of \$5,950 with no documentation of quotes and no noted Board approval.
- d) The County constructed a shed for District 5. There is no documentation or approval of the shed project in the Board of Supervisor's minute books and no quotes were received for one claim that exceeded \$17,200 for material used in this project.
- e) The Board of Supervisors approved a quote of \$7,400 as the lowest and best quote for work on the Homemakers/4-H building at the Agri-Center, constructed by the County. The second quote on the project was for \$7,495. However, the Board then approved another payment of \$600, paid in addition to the originally approved amount of \$7,400, to the same vendor, for work that was listed on the original quote. The total paid to this vendor exceeded the amount of the second quote provided to the County.

Failure to obtain at least two competitive written bid quotes for purchases over \$5,000 but not over \$50,000 could result in the loss of public funds.

Recommendation

The Board of Supervisors should ensure that purchases over \$5,000 but not over \$50,000 be made from the lowest and best bidder of at least two competitive written bid quotes.

Board of Supervisors' Response

Changes have been made and policies restated to all department heads regarding purchasing procedures. The department heads will work with the purchasing clerk to insure all policies and procedures are properly followed.

2. Purchase over \$50,000 was not advertised for competitive bidding.

Finding

Section 31-7-13, Miss. Code Ann. (1972) specifies that contracts for public construction which involve and expenditure of more than \$50,000 may be made from the lowest and best bidder after advertising for competitive bids once each week for two consecutive weeks in a regular newspaper published in the county in which such governing authority is located. The County purchased components of and constructed an inmate detention facility at the Sheriff's department that had a total cost of \$57,262. The project, as a whole, was not advertised for competitive bids as required by statute. Furthermore, there is no documentation or approval of the jail project in the Board of Supervisors' minute books. Failure to advertise for competitive bids for purchases over \$50,000, as required by state law, could result in a loss of public funds.

Recommendation

The Board of Supervisors should ensure that all construction projects, and other purchases, with an estimated cost of more than \$50,000 should be advertised for competitive bids as required by state law.

Board of Supervisors' Response

This is understood and will be corrected. While the County does save substantial money when purchasing components and providing some labor themselves, all future projects will adhere to the above.

Inventory Control Clerk.

3. Inventory Control Clerk should maintain an inventory control system.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal controls over capital assets should include marking all assets as property of the county, reconciling capital asset amounts added to inventory to invoices to ensure proper accounting, and obtaining Board of Supervisors' approval for all capital asset purchases. As reported in the prior year's audit report, deficiencies were noted during audit test work. The following deficiencies were noted:

- a) An inmate detention facility constructed at the Sheriff's department in FY 2013 was added to county inventory at the incorrect amount of \$4.5 million, instead of the actual cost of \$57,262, and without approval and documentation of this approval for the project in the board minutes.
- b) A shed constructed at the Sheriff's department was added to county inventory at the incorrect amount of \$25,000, instead of the actual cost of \$48,101, and without approval and documentation of this approval for the project in the board minutes.
- c) A shed was constructed for District 5 without approval and documentation of this approval in the board minutes.

A lack of internal controls over capital assets could result in the loss or misuse of these assets.

Recommendation

The Inventory Control Clerk should ensure that adequate internal controls are put in place over capital assets to ensure that all county assets are accounted for properly in the inventory records. All purchases should be approved before being added to inventory.

Inventory Control Clerk's Response

New procedures have been put into place to address these concerns. The inventory control system is being monitored and will function as described.

Purchase Clerk.

4. The Purchase Clerk shall be responsible for the maintenance of the central purchasing system of the County

Finding

Section 31-7-103, Miss. Code Ann. (1972) requires the Purchase Clerk to maintain the central purchasing system of the county in compliance with requirements prescribed by the State Department of Audit. Purchasing guidelines require board approval for purchases that require quotes. As reported in the prior year's audit report, deficiencies in the central purchasing system of the county were noted. During the audit of expenditures, the following exceptions were noted:

- a. A vendor bill for plumbing work was dated one week before the purchase requisitions and purchase orders.
- b. Quotes taken for fencing work at the Agri-Center do not meet the criteria to be proper quotes.
- c. Vendor invoice shows a shipping date for E-911 equipment that is prior to the purchase requisition and purchase order date.
- d. Purchase requisition and order was issued for a purchase, over \$5,000, that had not been approved by the Board of Supervisors and that quotes were not obtained.
- e. Purchase requisition and order was issued for material for a District 5 shed, but items received, per receiving reports and invoices, exceeded the purchase order amount by \$10,196.

Failure to follow state purchasing laws and guidelines could result in the loss of public funds.

Recommendation

The Purchase Clerk should ensure that purchase requisitions are signed by the appropriate department head, disapprove any purchase requisitions which, in his/her opinion, are not in compliance with the purchasing laws of the state, initiate purchase orders for no more than \$5,000 following board and department policies and good business practices, and under written board authority, accept the lowest and best competitive written quote for purchases greater than \$5,000 and not more than \$50,000.

Purchase Clerk's Response

These findings have been addressed and measures have been put into place so that they will not be repeated. As Purchase Clerk, I have since completed training and have made sure that compliance with all procedures is being followed. All department heads have been reminded of the purchasing procedures and the limitations and requirements of all transactions.

Assistant Receiving Clerk.

5. Assistant Receiving Clerk was not sufficiently bonded.

Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Assistant Receiving Clerk to execute a bond for \$50,000 to be payable, conditioned and approved as provided by law. One Assistant Receiving Clerk was not bonded. The failure to bond the Assistant Receiving Clerk for the required amount would limit the amount available for recovery if a loss occurred.

Recommendation

The Assistant Receiving Clerk should be bonded for \$50,000 as required by law.

Assistant Receiving Clerk's Response

I will comply with this finding.

In our opinion, because of the noncompliance referred to in the preceding paragraph, Pontotoc County, Mississippi, did not comply, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2013.

Pontotoc County's purchasing system was not in compliance with state laws governing central purchasing for fiscal year 2013. The system was retested and as of June 4th, 2015, Pontotoc County was in compliance with the central purchasing system.

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.

Pontotoc County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

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

JOE E. MCKNIGHT, CPA
Director, County Audit Section

October 10, 2016

PONTOTOC COUNTY
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 from other than the lowest bidder.

PONTOTOC COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2013

Schedule 2

Our test results did not identify any emergency purchases.

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

Schedule 3

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

PONTOTOC COUNTY

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**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR**

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Pontotoc County, Mississippi

In planning and performing our audit of the financial statements of Pontotoc County, Mississippi for the year ended September 30, 2013, we considered Pontotoc 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 Pontotoc 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 October 6, 2016, on the financial statements of Pontotoc County, Mississippi.

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

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

Board of Supervisors.

1. Required documentation should be filed with PERS when hiring PER service retirees.

Finding

The Mississippi Public Employees Retirement System (PERS) requires, under the reemployment provisions of Section 25-11-127, Miss. Code Ann. (1972), counties hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgement of Re-Employment of Retiree" with the PERS office within five days from the date of employment of the retiree. It also states that the service retiree will earn no more than one-half (1/2) of the full-time authorized salary for the position at the time of employment. As stated in the prior two years' audit reports, during our test of internal control related to the payroll expenditures, we noted that the County employed service retirees. Lack of internal controls related to the payroll cycle resulted in County personnel not correctly filing all of the necessary forms required for PERS service retirees. The Mississippi Public Employees Retirement System could assess a penalty per occurrence payable by the County for not filing PERS Form 4B within five days of re-employment of the service retiree.

Recommendation

The Board of Supervisors should implement procedures to ensure that the County correctly files PERS Form 4B “Certification/Acknowledgement of Re-Employment of Retiree” for all retirees hired by the County within five days of employment. We also recommend that the Board of Supervisors ensures service retirees earn no more than what is allowed on their Form 4B.

Board of Supervisors’ Response

The Board of Supervisors will require all retirees to file PERS Form 4B if re-employed by Pontotoc County and will retain a copy in the personnel file of the employee. Pontotoc County will also monitor earnings to ensure compliance.

2. Controls over repayment of interfund advances should be strengthened.

Finding

As reported in the prior two years’ audit reports, the County has interfund loans outstanding that are over a year old. These interfund loans total \$141,456 as of September 30, 2013. These advances relate to indirect costs associated with garbage collection activities, an ad valorem tax posting error, loan for insurance costs, a loan for CDBG grant fees, and a balance left from an interfund sale of equipment. The Mississippi Code is silent regarding the authority of the County to make these loans. Failure to repay these loans constitutes a diversion of legally restricted funds.

Recommendation

The Board of Supervisors should ensure that these old interfund advances are repaid.

Board of Supervisors’ Response

Pontotoc County has complied with this request. Funds to be credited were established after payroll clearing was reconciled in 2016. Funds are currently being credited to account for the needed adjustment.

Auditor’s note

Advances resulting from indirect costs totaling \$22,576 and posting errors totaling \$6,884 were repaid in November 2014.

3. No public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is an employee.

Finding

Section 25-4-105, Miss. Code Ann. (1972), states that no public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent, other than in his contract of employment, or have a material financial interest in any business which is a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent. As reported in the prior year audit report, the Board of Supervisors entered into a three year contract with a full-time county employee, employed in the Tax Assessor’s office, for G.I.S. services for \$1,166 per month, plus any necessary equipment and software, to be paid from the General fund, for a total estimated contract cost of \$48,800, of which \$14,000 was paid in fiscal year 2013. Any person violating the provisions of this section shall be punished as provided for in Sections 25-4-109 and 25-4-111

Recommendation

The Board of Supervisors should not enter into illegal contracts with employees of the county.

Board of Supervisors’ Response

The Board of Supervisors has corrected this issue and will not enter into illegal contracts with county employees.

4. No public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is an employee

Finding

Section 25-4-105 (3), Miss. Code Ann. (1972), states that no public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent, other than in his contract of employment, or have a material financial interest in any business which is a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent. The Board of Supervisors entered into a year contract with a company that a County Election Commissioner appears to have a financial interest in, for hauling services for rip rap and/or limestone (and no other materials) as the primary bidder, to be paid from the county fund for which services are provided. The total paid for hauling services for fiscal year 2012-2013 was \$53,806. Any person violating the provisions of this section shall be punished as provided for in Sections 25-4-109 and 25-4-111.

Recommendation

The Board of Supervisors should not enter into contracts with employees of the County that are in violation of ethics laws.

Board of Supervisors' Response

The board will not enter into illegal contracts with county employees. The above-referenced situation is being addressed and will be corrected based on further discussions with the Mississippi Ethics Commission. The County did not enter into a contract with the election commissioner but possibly with a company for which the commissioner may hold an ownership interest.

5. The work eligibility status of all newly hired employees should be verified.

Finding

Section 71-11-3, Miss. Code Ann. (1972) states that an "employee" is any person or entity that is hired to perform work within the State of Mississippi and to whom a United States Internal Revenue Service Form W-2 or Form 1099 must be issued and that employers in the State of Mississippi shall only hire employees who are legal citizens of the United States of America or are legal aliens. Furthermore, every employer shall register with and utilize the status verification system to verify the federal employment authorization status of all newly hired employees.

During our audit, we noted that the County paid a total of \$19,000 for contract labor services to an individual who could not or would not provide a valid social security number or taxpayer identification number to the County for Form 1099 reporting purposes. This same individual was paid \$9,906 in FY 2012, \$7,830 in FY 2014, and \$5,136 in FY 2015, for a total of \$41,872. No Forms 1099 were filed with the Internal Revenue Service for the payments to this individual as required by the Internal Revenue Code, nor did the County utilize the status verification system for this individual.

It shall be a felony for any person to accept or perform employment for compensation knowing or in reckless disregard that the person is an unauthorized alien with respect to employment during the period in which the unauthorized employment occurred. Failure to verify the work eligibility status of employees could result in making payments to individuals who are not legal citizens or legal aliens. Failure to file Forms 1099 as required could result in the assessment of penalties against the County by the Internal Revenue Service.

Recommendation

The Board of Supervisors should verify employment eligibility status of all newly hired employees of the County and ensure Forms 1099 are filed with the Internal Revenue Service as required by the Internal Revenue Code.

Board of Supervisors' Response

This has been addressed and at no time in the future will this occur again. All verifications will take place and all forms will be signed and submitted.

6. Pontotoc County should strengthen passwords.

Finding

As reported in the prior year's audit report, during our review, we noted that Pontotoc County is using some parameters associated with password strength that meet industry standard best practices. However, the County has some password parameters that would not meet these standards, thereby creating unnecessary risk for Pontotoc County information assets.

Recommendation

We recommend that Pontotoc County improve its password strength by changing password parameters to comply with password management best practices and industry standards.

Board of Supervisors' Response

We are currently consulting with Three Rivers Planning and Development District, Inc. to resolve the issue and to comply with best practices and industry standards.

7. Pontotoc County should expire all individual's passwords on a periodic basis.

Finding

As reported in the prior year's audit report, a review of Pontotoc County's security settings revealed that some user's passwords were set to expire on a more infrequent basis than recommended in best business practices. All passwords should be set to expire in accordance with policy to be determined by Pontotoc County.

Recommendation

We recommend that a policy be implemented to ensure passwords are expired on a regular basis. In addition, Pontotoc County should conduct access reviews for information assets on a periodic basis (at least annually). Documentation of these reviews should be signed by the person conducting them and retained for review by auditors.

Board of Supervisors' Response

We are currently in the process of implementing the above recommendations and procedures.

8. Pontotoc County should create a rotation of backups offsite.

Finding

As reported in the prior year's audit report, Pontotoc County is currently creating backups, but they are not taking the backups offsite. Without off-site storage of backup files and applications, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Recommendation

We recommend that Pontotoc County implement a plan to backup systems containing financial related data on a consistent basis to ensure that all backup files are taken offsite on a regular basis and stored in a safe and secure location. This process should be documented in the Pontotoc County Disaster Recovery Plan. With close proximity of a bank, it would be convenient and safe to place the backup media in the night deposit drop and then place them in a safe deposit box the next day. It is further recommended that media be kept at the bank for several days (e.g., one week), in case of a disaster situation that required recovery and problems in reading recovery media were experienced.

Board of Supervisors' Response

Pontotoc County has a disaster recovery plan now in place that addresses this issue. AS400 "High Availability" is now operational and fully addresses these concerns.

9. Pontotoc County should install network banners on its internal network.

Finding

As reported in the prior year's audit report, during our review of Pontotoc County, we noted that the system did not display appropriate network banners on its internal network. Network banners are electronic messages that provide notice of legal rights to users of computer networks. Bannering assists in the prosecution of computer related incidents by helping prevent certain defenses made by the perpetrator.

Recommendation

We recommend that Pontotoc County implement appropriate network banners on its internal network.

Board of Supervisors' Response

This issue has been corrected.

10. Pontotoc County should improve its server room environment management.

Finding

As reported in the prior year's audit report, Pontotoc County's computer room is located in an open office in the Pontotoc County courthouse in the corner of the room. The room is secure in that there are people working during business hours in and around the computer. However, the computer is in the open and has the potential of being accessed by unauthorized personnel. The room does have air conditioning, but does not have monitoring equipment for fire, heat and other conditions that can have an adverse effect on electronic equipment.

Recommendation

We recommend that Pontotoc County establish an area specifically for computerized equipment that can be locked and provision it with environmental control and monitoring equipment for heat, humidity, and other conditions that might affect computerized equipment. This equipment should also have the capability to notify the proper personnel when these conditions vary outside of preset ranges.

Board of Supervisors' Response

We have and are consulting with Three Rivers Planning and Development District, Inc. to secure such a location and will correct this security/environmental issue as soon as possible.

11. Actual expenditures exceeded final budget amounts.

Finding

Section 19-11-17, Miss. Code Ann. (1972), prohibits the incurring of expenditures in excess of the final budget as approved by the Board of Supervisors. Actual expenditures exceeded budgeted amount by \$51,385 in the General Fund. Failure to limit actual expenditures to budgeted amounts, could result in the County having insufficient funds to pay expenditures.

Recommendation

The Board of Supervisors should not make expenditures in excess of budgeted amounts.

Board of Supervisors' Response

Leadership is now in place to monitor and oversee the day to day budget expenditures. All efforts are being made to address budget issues and correct any findings immediately. The Board of Supervisors are receiving and reviewing monthly county expenditures and budget balances.

Board of Supervisors and former Circuit Clerk.

12. An unauthorized payment was made to the former Circuit Clerk.

Finding

Section 25-11-106.1(2)(a), Mississippi Code Ann. (1972) states:

(i) The County is responsible for employer contributions on net income attributable to direct treasury or county payroll income paid to the chancery or circuit clerk from the county.

(ii) Except as otherwise provided in this subsection (2), the chancery or circuit clerk is responsible for the employee contributions on net income attributable to direct treasury or county payroll income paid to the clerk and both the employee and employer share of contributions on the proportionate share of net income attributable to fees.

(iii) For contributions required for calendar year 2011 and any calendar year thereafter, the county may elect, by majority vote of the board of supervisors spread upon its minutes, to be responsible for the employer share of contributions on the proportionate share of net income of the chancery and circuit clerk attributable to fees. If the county elects to be responsible for employer contributions under this provision, the election shall be irrevocable until the board of supervisors takes office for the next succeeding term of office at which time the board may elect whether to continue the election. Notice shall be given to the executive director of any election made under this subparagraph (iii) within five (5) days after the election is made.

During the audit of the Circuit Clerk's 2011 annual fee report, we noted that the Circuit Clerk claimed a payment of \$11,918 to the Mississippi Public Employees Retirement System (PERS) that was not an allowable payment for the 2011 calendar year which resulted in the clerk exceeding the salary limitation by \$10,426. The Office of the State Auditor issued an exception against the Circuit Clerk for this amount. The Circuit Clerk paid this amount to the county on May 17, 2013.

On July 16, 2012, personnel from PERS wrote a letter to the Circuit Clerk indicating that she had overpaid PERS by \$4,049.06 and requested that she file an amended financial report.

On February 15, 2013, the Board of Supervisors voted to pay PERS \$6,376.94 pursuant to Section 25-11-106.1 for the employers share of contributions for the previous Circuit Clerk for the year ended December 31, 2011, stating that the amount was erroneously paid by the Circuit Clerk individually and requested that PERS refund this amount to the clerk to correct the reporting error. Per a board order dated May 6, 2013, the Board of Supervisors subsequently voided this check and ordered the Clerk of the Board to show an internal receipt for the voided check. **Auditor note:** *The recording of the "internal receipt" for the voided check consisted of reporting a fraudulently overstated revenue and expenditure.*

On May 17, 2013, the County recorded a receipt payable to the Board of Supervisors from PERS dated March 29, 2013, for a refund of \$4,049.06, which is the amount overpaid by the former Circuit Clerk.

Furthermore, on May 17, 2013, the Board of Supervisors ordered the Chancery Clerk to pay the sum of \$10,426 to the Circuit Clerk for "said funds being the total amount of overpayment by the previous Pontotoc County Circuit Clerk".

During our audit, we found no record that the Board of Supervisors ever elected, by majority vote of the board of supervisors spread upon its minutes, to be responsible for the employer share of contributions on the proportionate share of net income of the chancery and circuit clerk attributable to fees, or that notice was given to the executive director of any election made under this subparagraph (iii) within five (5) days after the election is made as required in subsection (2)(a)(iii) above. Therefore, the \$6,376.94 that the Board of Supervisors stated was "erroneously paid by the Circuit Clerk individually" was indeed owed by the Circuit Clerk, not by the county. We also noted that there have been no other payments to PERS for the employer share of contributions for the previous Chancery Clerk or

current Chancery or Circuit Clerks, nor have we found any record of a revocation of such an election.

Based on audit procedures performed, we have determined that the Board of Supervisors made an unauthorized payment to the former Circuit Clerk of \$6,376.94. This payment is considered a donation and has resulted in the loss of public funds.

Recommendation

The former Circuit Clerk and/or the Board of Supervisors should repay \$6,376.94 to the General Fund of the County immediately. The Board of Supervisors should ensure that all future disbursements are authorized by law.

Board of Supervisors' and former Circuit Clerk's Response

Due to advice from the Mississippi State Auditor's Office, former Circuit Clerk Tracy Robinson, was unable to make her corrected payment to PERS by December 31, 2012. After the new term of office (and new Board of Supervisors took office) in January, 2013, the former Circuit Clerk Tracy Robinson requested the new Board to pay her employee contributions as a result of the issues created above. The new Board made the requisite findings pursuant to M.C.A. 25-11-106.1 (Part 3) by Order dated February 15, 2013. During the new term of office, no other elected officials made a similar request to the Board. The actions of the Board were not impermissible and were allowed under M.C.A. 25-11-106.1 (Part 3) after the determination of the new Board. That this Board dealt with the only year of Tracy Robinson's term over which it had authority. There was no "donation" or loss of public funds.

M.C.A. Section 25-11-106.1 was legislation intended to protect those officials requesting board approval to present later retaliation by changing positions at a subsequent time in the term; further, the statute was not intended to be restrictive but protective in its application to officials.

Auditor's note

Section 25-11 -106.1(2)(a), Mississippi Code Ann. (1972), clearly states the process by which the Board of Supervisors can elect to be responsible for the employer share of contributions on the proportionate share of net income of the chancery and circuit clerk attributable to fees. The Board of Supervisors did not take any actions to comply with this process by authorizing this election by majority vote, spreading this action in the board minutes and notifying the executive director of this election. Therefore, the payment to PERS by the former Circuit Clerk was not erroneous and the payment to her was not authorized by law.

Chancery Clerk.

13. Internal controls over accounting and reconciling Chancery Clerk fee income and expenses should be strengthened.

Finding

Section 9-1-43, Miss. Code Ann (1972) requires the Chancery Clerk to maintain a cash fee journal. The December 2013 bank reconciliation for the Chancery Clerk fee journal account was not completed. When the auditor attempted to reconcile the December 31st bank statement for the Chancery Clerk's fee journal account to the December 31st cash balance of the fee journal, there was an unidentified difference of \$2,528.08. Failure to properly maintain the fee journal could result in misappropriation of public funds.

Recommendation:

The Chancery Clerk should ensure that the fee journal is properly maintained and the bank statement is reconciled to the fee journal.

Chancery Clerk's Response:

I will comply with this finding.

Sheriff, Board of Supervisors, Chancery Clerk and Payroll Clerk.

14. The Sheriff received compensation in excess of amounts allowed by statutes.

Finding

Section 25-3-25(1) Mississippi Code Ann. (1972), specifies that the annual salary for each Sheriff shall be based on the total population of his county, which is \$62,400 for a population between 25,000 and 34,000. Section 25-3-25(10) Mississippi Code Ann. (1972) allows the Board of Supervisors of any county to pay an annual supplement to the sheriff not to exceed \$10,000, as approved and spread upon the board minutes. The Board of Supervisors approved a \$10,000 supplement to be effective August 1, 2012. The Sheriff's compensation was shorted by \$717 in fiscal year 2012 and exceeded allowed amounts by \$5,017 in fiscal year 2013 and by \$3,450 in fiscal year 2014, for a net over payment of \$7,750, due to a clerical error. Payments made in excess of statutory authority result in the loss of public funds.

Recommendation

The Board of Supervisors, Chancery Clerk and the Payroll Clerk should ensure that all compensation paid to the Sheriff is in accordance with amounts allowed by statute. The Sheriff should repay the \$7,750 plus fringes of \$1,761 to the General Fund of the county.

Sheriff's Response

In 2012, I, Leo Mask, as Sheriff for Pontotoc County, MS, asked for my supplement in the amount of \$10,000. I was told that some counties were receiving up to \$15,000 in supplements by the Board of Supervisors. When I noticed my check increased, I assumed that I had been approved for the \$15,000 supplement. When the Board was made aware, no further action was taken. When audits were performed, nothing surfaced so I assumed everything was okay.

Chancery Clerk's Response

During the transition of employees in 2012, and during the process of switching accounting systems from Delta to Three Rivers V.I.S.A., clerical errors occurred which resulted in this apparent overpayment. Payroll numbers were entered incorrectly at that time by a third party associated with the V.I.S.A. system. Therefore, the resulting overpayment was strictly a clerical error resulting from the changes in staff and accounting systems.

Auditor's Note

The Sheriff did not receive compensation in excess of the amounts allowed by law until the 2013 fiscal year. These excess amounts were reported to the Sheriff by the auditors during the 2013 fiscal year audit.

The Mississippi Office of the State Auditor has taken exception to certain costs. The details of the exceptions and dispositions are as follows:

Exception Issued On:

Tracy Robinson, Circuit clerk

Nature of Exception:

See Board of Supervisors/Circuit Clerk Finding # 12 described in this report.

Amount of Exception:

\$6,376.94

Disposition of Exception:

The Circuit Clerk repaid \$6,376.94 on October 10, 2016, to the General Fund as evidenced by depository receipt #101016.

Exception Issued On:

Leo Mask, Sheriff

Nature of Exception:

See Sheriff/Board of Supervisor/Chancery Clerk/Payroll Clerk Finding # 14 described in this report.

Amount of Exception:

\$9,511

Disposition of Exception:

The Sheriff repaid \$9,511 on October 10, 2016, to the General Fund as evidence by depository receipt #101116.

Exception Issued On:

Maggie Patrick, Payroll Clerk

Nature of Exception:

See Board of Supervisors Finding 2013-0003 described in the Schedule of Findings and Questioned Costs.

Amount of Exception:

\$1,866

Disposition of Exception:

The Payroll Clerk repaid \$1,866 on October 6, 2016, to the General Fund as evidenced by depository receipt #034391.

Pontotoc County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

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



JOE E. MCKNIGHT, CPA
Director, County Audit Section

October 10, 2016

PONTOTOC COUNTY

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PONTOTOC COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PONTOTOC COUNTY

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PONTOTOC COUNTY

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 | Qualified |
| | Business-type activities | Qualified |
| | Aggregate discretely presented component units | Adverse |
| | General Fund | Qualified |
| | Countywide Road Maintenance Fund | Unmodified |
| | Industrial Development Fund | Unmodified |
| | Solid Waste Fund | Qualified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

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(s) disclosed that are required to be reported in accordance with Section __.510(a) of OMB Circular A-133? | No |
| 7. | Identification of major program: | |
| | Workforce Investment Act Cluster CFDA# 17.258, 17.259, 17.278 | |
| 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 |

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Section 2: Financial Statement Findings

Board of Supervisors.

Material Weakness

2013-001. Financial data for component units not included in financial statements.

Finding

Generally accepted accounting principles require the financial data of 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 years' audit reports, the financial statements do not include the financial data of the County's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

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

Board of Supervisors' Response

Pontotoc County will comply.

Material Weakness

2013-002. Liability for postemployment benefits not recorded and note disclosure for postemployment benefits not reported.

Finding

Pontotoc County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the County's health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as a single employer defined benefit health care plan. GASB Statement 45 requires the County to report on an accrual basis the liability associated with other postemployment benefits. As reported in the prior years' audit reports, the County has not recorded a liability for other postemployment benefits nor has the County reported the note disclosures which are required by accounting principles generally accepted in the United States of America. The County does not issue a publicly available financial report for its health insurance plan. The failure to properly follow generally accepted accounting principles resulted in a qualified opinion on the governmental activities, business-type activities and Solid Waste Fund.

Recommendation

The Board of Supervisors should have an actuarial valuation performed annually so that a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Board of Supervisors' Response

Pontotoc County will comply as soon as economically feasible.

Material Weakness

2013-003. Internal controls over payroll should be strengthened.

Finding

An effective system of internal control over the County payroll should include proper segregation of duties and proper authorization and documentation of payroll and salary increases. As reported in the prior two years' audit reports, inadequate controls exist in the payroll functions:

- a) The employment and salaries of all county employees are not properly authorized in the Board of Supervisors' minutes and filed in the individual personnel files.
- b) Five instances were noted, of payroll checks being physically voided that were not voided in the payroll system.
- c) Four instances were noted of gross pay being issued on payroll checks without sufficient documentation to support the payments. These gross payments totaled \$1,210 plus fringes of \$267.
- d) The Payroll Clerk was overpaid \$1,512 plus fringes of \$354.
- e) The Agri-Center Director was overpaid \$16,467 plus fringes of \$3,853 in FY 2013 and \$7,600 plus fringes of \$1,778 in FY 2014, before the discrepancy was noted by the County.
- f) The Sheriff was overpaid by \$7,750 plus fringes of \$1,761.
- g) State withholding income taxes were overpaid to the Department of Revenue in the amount of \$126,258.
- h) We also noted that out of the \$9,625 of amounts owed to the County for insurance reimbursements as reported in the prior year audit report, \$3,075 was never collected by the County.
- i) Three checks totaling \$39,788 to an insurance company were shown as outstanding for over three months without any documentation of efforts to identify a reason for these checks not clearing the bank. These checks were subsequently voided in March 2016.
- j) The Payroll Clerk has access to print cartridge used to print checks with electronic signature and prints the checks without any oversight.

Without proper controls, unauthorized and/or inaccurate payroll checks could be processed.

Recommendation

The Board of Supervisors should implement an adequate system of internal control over the County payroll function.

An adequate system should include the following features:

- a) Responsibilities for the supervision and time-keeping function should be separate from personnel, payroll processing, disbursement and general ledger functions.
- b) Authorization for all payroll and employment status changes should be recorded in the Board of Supervisors' minute books.
- c) Documentation for all payroll and employment status changes should be kept in each individual personnel file.
- d) Changes to the EDP master payroll file should be documented.
- e) The hiring and termination of all county employees should be documented in the Board of Supervisors' minute books. The Payroll Clerk should ensure that all payroll amounts are accurate and supported by adequate documentation.
- f) Balances owed the County for insurance reimbursements should be collected by the County or paid to the County by the Board of Supervisors.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

- g) The Board of Supervisors should collect the payroll overpayments to County employees, including fringes, or repay these amounts to the County.
- h) State withholding income tax returns that were filed and paid using incorrect amounts should be amended with the Mississippi Department of Revenue, to receive a refund of overpayments.
- i) Reasons for long outstanding checks should be investigated and documented in a timely manner.
- j) The Payroll Clerk should not be able to print payroll checks with electronic signatures without adequate oversight and controls.

Board of Supervisors' / Chancery Clerk's / Payroll Clerk's Response

Payroll has been addressed, reconciled, and adjustments made. State withholding has been approved for refund of all overpayment. Functions will be implemented to address all other concerns.

Material Weakness

2013-004. Controls over fines receivable should be strengthened.

Finding

An effective system of internal controls over Justice Court and Circuit Court fines receivable should include maintaining and preserving adequate subsidiary records to substantiate the total fines receivable balance and should ensure that fines receivable are properly aged in order to estimate the collectability of these fines receivable and include only fines due to the County. Management did not maintain and preserve adequate subsidiary records documenting the existence and valuation of fines receivable for Justice Court and Circuit Court fines receivable and the aging of fines receivable at September 30, 2013. The fines receivable reports used for recording fines receivable, net for fiscal year 2013 were printed after the fiscal year end of September 30, 2013, therefore, a determination of the accuracy of the amount booked for fines receivable could not be made. Failure to establish control procedures over aging of Justice Court and Circuit Court fines receivable and printing the fines receivable reports at the close of the fiscal year could result in erroneous amounts being reported in the financial statements.

Recommendation

The Board of Supervisors should ensure that control procedures are in place to allow for the preparation and preservation of a detailed aged fines receivable schedule to properly report the fines receivable due to the County at net realizable value in the financial statements. The fines receivable reports should be generated at the close of each fiscal year and the reports include only fines due to the County as of September 30th of each year. A copy of these reports should be maintained in order for audit.

Board of Supervisors' Response

This issue has been resolved.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Material Weakness
Material Noncompliance

2013-005. The Board of Supervisors levied a tax for ambulance service that is not authorized by law.

Finding

Section 19-3-40(3), Miss. Code Ann. (1972), prohibits the Board of Supervisors from levying taxes other than those authorized by statute. As stated in the prior two year's audit reports, the Board of Supervisors levied a tax for ambulance service under Section 41-55-7, Miss. Code Ann. (1972), which is not an authority to levy, but an authority to spend money from the General Fund for ambulance services. We know of no authority for the Board of Supervisors to impose a separate tax levy for the ambulance service.

Recommendation

In the future, the Board of Supervisors should only levy taxes that are authorized by statute. Furthermore, the Board of Supervisors should account for taxes collected under this unauthorized levy as if they were General Fund tax collections for purposes of limitation on tax increases.

Board of Supervisors' Response

Pontotoc County owns the physical plant and property where the hospital is located. It was leased to North Mississippi Medical Center on September 25, 1987, (M.B. 38, Pages 216-233) for a primary term of 20 years with a renewal term of 20 years. Pontotoc County also entered into a long term operating agreement on the same date (M.B. 38, Pages 226-233). Section 4 of that operating agreement included reimbursing the lessee for operating an ambulance service for an amount up to the equivalent of 2 mills. M.C.A., Section 41-55-1 applies to this finding. The Mississippi Attorney General (#90-0729) has opined that..."statute authorizes (Co) to charge user fees to individuals....would in actuality be tax for support of ambulance service."

Auditor's Note

The Attorney General opinion referenced in response states "This office is of the opinion that Section 41-55-1 authorizes a city to charge a user fee to individuals who actually use the ambulance service but does not authorize a city to charge an availability fee, as a general fee charged to all homeowners and businesses regardless of whether or not they use the service would in actuality be a tax for the support of an ambulance service."

Section 19-3-40(3), Miss. Code Ann. (1972), prohibits the Board of Supervisors from levying taxes other than those authorized by statute. There is no statute that authorizes a tax for support of an ambulance service.

Material Weakness
Material Noncompliance

2013-006. The Board of Supervisors levied a tax for advertising county resources that is not authorized by law.

Finding

Section 19-3-40(3), Miss. Code Ann. (1972), prohibits the Board of Supervisors from levying taxes other than those authorized by statute. As stated in the prior two year's audit reports, the Board of Supervisors levied a tax to advertise county resources under Section 17-3-1, Miss. Code Ann. (1972), which is an authority to spend money from the General Fund for advertising county resources. Furthermore, the taxes generated from using this tax levy were given to the planning and development district which is not advertising county resources. We know of no authority for the Board of Supervisors to impose a separate tax levy for advertising county resources.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Recommendation

In the future, the Board of Supervisors should only levy taxes that are authorized by statute. Furthermore, the Board of Supervisors should account for those taxes collected under this unauthorized levy as if they were General Fund tax collections for purposes of limitation on tax increases. Section 17-19-1, Miss. Code Ann. (1972), allows the Board of Supervisors to give the planning and development district money.

Board of Supervisors' Response

This finding has been corrected.

Material Weakness

Material Noncompliance

2013-007. The Board of Supervisors authorized payments to planning and development district past their term of office without statutory authority.

Finding

Absent specific authority, the governing authorities of the county may not bind their successors in office to commitments which take away the rights and powers conferred by law in the absence of express statutory authority. As reported in the prior two years' audits, on December 31, 2010, the Board of Supervisors approved an order to pay \$33,400 to Three Rivers Planning and Development District on an annual basis for seven year to be used to create and retain jobs in the county at any industrial site in the County. Therefore, the execution of the board order with a seven year annual basis is voidable and subject to being canceled by their successors in office. In FY 2013, the county paid Three Rivers Planning and Development District \$40,000.

Recommendation

The Board of Supervisors should not make contracts past their term of office without specific statutory authority.

Board of Supervisors' Response

Only July 14, 2014, the County amended its agreement with the planning and development district to clearly show the commitment is voidable by a subsequent board in a new term in office.

Auditor's Note

On July 14, 2014, the Board of Supervisors amended its board order dated December 30, 2010, to show that it is not binding on subsequent terms of Boards of Supervisors and is voidable after the initial term by subsequent Boards of Supervisors.

Material Weakness

Material Noncompliance

2013-008. The Board of Supervisors did not cite the specific levy authority from the Mississippi Code for each county levy.

Finding

Section 27-39-317, Miss. Code Ann. (1972), requires the Board of Supervisors to specify the purpose of each tax levy when approving the tax levy. The specific authority from the Mississippi Code should be cited for each tax levy contained in the County ad valorem tax levy. As reported in the prior two year's audit reports, the Board of Supervisors approved the fiscal year ended September 30, 2013 tax levy without

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

citing the specific authority from the Mississippi Code for the following purposes: Volunteer Fire Departments and the Pontotoc County Industrial Park. A statutory authority does exist for a county to levy for each of these purposes; however, we were unable to verify the authority or the correctness of the amount levied. The omissions of legal descriptions could lead to improper or unauthorized tax levies.

Recommendation

The Board of Supervisors should cite the specific levy authority from the Mississippi Code for each county levy.

Board of Supervisors' Response

This issue has been corrected.

Significant Deficiency

2013-009. Pontotoc County should establish and test a disaster recovery process.

Finding

As reported in the prior year's audit report, during our review of the IS controls of Pontotoc County ("the County"), we noted the County has not established a disaster recovery process. As a result, Pontotoc County cannot fully ensure that the County's information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions. Control Objectives for Information and Related Technology (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster. Failure to maintain an adequate recovery plan could impede the County's ability to regain computer operations in the event of a disaster.

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and periodically restoring these files and programs as part of a formal, documented disaster recovery exercise. Such actions maintain the organization's ability to restore data files, which may be impossible to re-create.

Pontotoc County is currently using an automated system to perform daily back-ups of the AS400, but is not restoring such files as part of a formal, documented disaster recovery exercise. Without proper assurance that back-up files can be utilized to adequately restore all critical data in a timely manner in the event of disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalates in relationship to the longer an exposure goes unmitigated.

Recommendation

We recommend that Pontotoc County develop, implement, and test a plan to ensure that critical data and applications are recoverable in case of a disaster scenario. We further recommend that Pontotoc County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster. The plan should be updated when needed in order to maintain readiness for a disaster scenario.

Board of Supervisors' Response

Pontotoc County will consult with Three Rivers Planning and Development District, Inc. to develop a plan and thereafter test its response and sufficiency.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Significant Deficiency

2013-010. Pontotoc County should implement a formal information security policy.

Finding

As reported in the prior year's audit report, Pontotoc County has not adopted a formal Information Security Policy or Enterprise Security Plan. The lack of a formal Information Security Policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and Internet protocol.

Recommendation

A robust set of Information Technology Policies should cover at least the following areas:

- Acceptable Use
- Portable Computing
- Change Management
- Encryption
- Security Incident Response
- Risk Management
- Backup and Recovery
- Business Continuity / Disaster Recovery

While full compliance with all facets of such a policy may be an economic challenge for Pontotoc County, beginning steps to become compliant with a policy covering areas such as those listed above are necessary. We recommend that Pontotoc County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by county supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

Board of Supervisors' Response

Pontotoc County will address this issue where feasible.

Significant Deficiency

2013-011. Pontotoc County needs to replace obsolete computer hardware and software.

Finding

As reported in the prior year's audit report, Pontotoc County is running operating systems as well as applications on some of its personal computers (PCs) that might not be supported by vendors. Due to lack of such support, these systems could become vulnerable to hackers and malware such as viruses.

Recommendation

We recommend that Pontotoc County develop a plan to replace the operating systems, applications, and hardware where necessary that is associated with lack of support from vendors as soon as possible. Computers that originally came loaded with operating systems or applications that are no longer supported by vendors will have hardware that most likely cannot run the newest operating systems or applications, thereby requiring replacement of hardware, operating systems and applications in many cases. Due to the possible large number of PCs that need replacing this could involve a sizable expenditure by the County. Due to the cost and effort involved in such a project, this project should be begun as soon as possible.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
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Board of Supervisors' Response

New computers with updated systems have been added. Three Rivers Planning and Development District, Inc. assisted and oversaw this process which has caused Pontotoc County to now be in full compliance.

Chancery Clerk.

Material Weakness

2013-012. Segregation of duties in Chancery Clerk's office should be strengthened.

Finding

An effective system of internal control should include the separation of duties over the accounting for the collections, recording and disbursement of cash. As reported in the prior three years' audit reports, the Chancery Clerk's office does not have an adequate separation of duties over the accounting functions. Observations showed that one deputy clerk in the Chancery Clerk office receipted money, then wrote up deposits and took them to the bank as well. Another deputy clerk receipted money and was in charge of reconciliations of bank accounts. However, bank reconciliations were not completed during fiscal year 2013. The Chancery Clerk and the Board of Supervisors only review the cash disbursements made. The conditions could result in unrecorded transactions, misstated financial reports, undetected errors or misappropriation of funds.

Recommendation

The Chancery Clerk should implement effective internal control policies that allow for the proper segregation of duties for the collection, deposit preparation, disbursement, general journal, recording and reconciling functions.

Chancery Clerk's Response

Separation of duties has been achieved. All reconciliations are up to date and will remain so. These functions are now being completed by three different individuals plus the Chancery Clerk.

Material Weakness

2013-013. Internal controls over accounting procedures should be strengthened.

Finding

An effective system of internal control over the accounting procedures of the county should include timely bank reconciliations. As reported in the prior year's audit report, we noted during audit test work, that bank reconciliations were not prepared at September 30, 2013. Reconciliations were prepared by the CPA when compiling the financial statements.

The failure to reconcile the bank accounts in a timely manner could result in the loss of public funds.

Recommendation

The Chancery Clerk should implement procedures to ensure bank accounts are reconciled in a timely manner.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Chancery Clerk's Response

This issue has been corrected.

Material Weakness

2013-014. Internal controls over land redemption collections and settlements should be strengthened.

Finding

An effective system of internal controls over land redemption collections and settlements should include the timely deposit of collections, monthly settlements of all collections that detail releases included in the settlement and reconciling land redemption cash balance to the bank statement. As reported in the prior year's audit report, our audit of land redemption revealed the following deficiencies:

- a) A cash count performed on October 30, 2013 revealed a cash shortage in the land redemption funds.
- b) Reconciliations of land redemption bank account statements had not been done since August 2012.
- c) A significant number of land redemption receipts could not be traced to a deposit.
- d) Monthly settlements were not being reconciled to receipts.

Failure to implement adequate controls over land redemption collections and settlements may lead to a loss of public funds.

Recommendation

The Chancery Clerk should ensure that controls are in place over land redemption collections and settlements in order to maintain accountability and safeguard these funds.

Chancery Clerk's Response

All of the above has been addressed and corrections were made.

Auditor's note

The matter was referred to the Investigative Division of the Office of the State Auditor. On July 9, 2015, the County received the amount of \$8,082.17, from the Mississippi Office of the State Auditor Exception Clearing Account which represented funds recovered from the Chancery Clerk's former Administrative Assistant for embezzlement.

Material Weakness

2013-015. Internal controls over payment of claims should be strengthened.

Finding

An effective system of internal control over payment of claims should include the Chancery Clerk ensuring that claims payable personnel are verifying that invoice quantities and amounts are in agreement with purchase requisition, purchase order and receiving report amounts and that the Board of Supervisors has approved the claim for payment. As reported in the prior year's audit report, we noted deficiencies in the payment of claims.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

We noted the following deficiencies:

- a) A claim was paid from an incorrect department in the amount of \$23,415.
- b) A claim for software and related software training was paid twice, in the amount of \$5,550.
- c) A claim was paid from an email sent to a County employee, not an actual invoice, in the amount of \$3,224.
- d) A claim for fill dirt, in the amount of \$2,185, was paid from a handwritten note signed by a Supervisor, with no purchasing documentation or board approval noted. Furthermore, the claim was paid from an incorrect fund.
- e) A claim was paid in April 2013 that exceeded the purchase order amount.
- f) The claims payable clerk prints checks with electronic signature without any oversight.

Failure to implement adequate controls over claims payments could lead to the County paying for items not received by the County or not approved by the Board of Supervisors or a loss of public funds.

Recommendation

The Chancery Clerk should ensure that claims paid are paid from the correct fund and department and are matched to vendor invoices and/or Board approval to ensure the correct amount is being paid. The Chancery Clerk should obtain a refund of \$5,550 for the duplicate payment to the vendor. The claims payable clerk should not be able to print claim checks with electronic signatures without adequate oversight and controls.

Chancery Clerk's Response

The above items have been addressed and are now correct. A refund was requested due to the double payments and was approved by the company involved.

Sheriff.

Material Weakness

2013-016. Internal controls over accounting functions in the Sheriff's department should be strengthened.

Finding

An effective system of internal control should include an adequate separation of duties and the maintenance and reconciliation of records documenting cash collections and settlements. Controls were inadequate over cash. The following deficiencies were noted during our audit:

- a) The duties of the bookkeeper included preparing deposits, posting receipts and settlements to the cash journal, preparing settlements, disbursing funds and reconciling the cash journal to the bank statements.
- b) Collections were not deposited on a weekly basis and no deposits were made in one month even though receipts were written and posted to the cash journal.
- c) All settlement amounts and check numbers were not maintained in the cash journal.
- d) The cash journal was not properly reconciled to the bank statements.
- e) All collections had not been settled to the proper entities.
- f) Audit procedures performed identified a significant cash shortage.

The failure to implement adequate controls over the collection, recording and disbursement functions could result in inaccurate reporting, incomplete settlements and increase the possibility of the loss or misappropriation of public funds.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Recommendation

The Sheriff should ensure that there is an adequate separation of duties in the collecting, recording and settlement functions. The Sheriff should ensure that funds are deposited on a daily basis, cash journals are properly maintained and reconciled monthly to the bank statements, and that funds are properly settled to the county.

Sheriff's Response

I have someone in place now to check on this.

Auditor's note

This matter has been referred to the Investigative Division of the Office of the State Auditor.

Inventory Control Clerk.

Material Weakness

2013-017. Internal controls over capital assets should be strengthened.

Finding

An effective system of internal controls over capital assets should include marking all assets as property of the county, reconciling capital asset amounts added to inventory to invoices to ensure proper accounting, and obtaining Board of Supervisors' approval for all capital asset purchases. During audit test work, the following deficiencies were noted:

- a) The addition of an inmate detention facility constructed at the Sheriff's department in FY 2013 was added to county inventory at the incorrect amount of \$4.5 million, instead of the actual cost of \$57,262, and without approval and documentation of this approval for the project in the board minutes.
- b) The addition of a shed constructed at the Sheriff's department was added to county inventory at the incorrect amount of \$25,000, instead of the actual cost of \$48,101, and without approval and documentation of this approval for the project in the board minutes.
- c) The addition of a shed was constructed for District 5 without approval and documentation of this approval in the board minutes.

A lack of controls over capital assets could result in the loss or misuse of these assets.

Recommendation

The Inventory Control Clerk should ensure that adequate internal controls are put in place over capital assets to ensure that all county assets are accounted for properly in the inventory records. All purchases should be approved before being added to inventory.

Inventory Control Clerk's Response

Inventory control has been addressed at all levels. Inventory has been reviewed, adjusted and is currently updated.

PONTOTOC COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2013

Justice Court Clerk.

Material Weakness

2013-018. Segregation of duties in Justice Court Clerk's office should be strengthened.

Finding

An effective system of internal controls should include an adequate separation of duties, maintenance and reconciliation of records documenting daily collections and adequate physical safeguards over cash collections. As reported in the prior two years' audit reports, controls were inadequate over cash. The cash collection and disbursement functions in the Justice Court Office were not adequately separated for effective internal control. The following deficiencies were noted:

- a) The Deputy Justice Court Clerk collects cash and issues receipts; prepares daily check-up sheets, deposits and makes monthly settlements, takes deposits to the bank; posts the cash journal; reconciles banks statements; and writes check for all disbursements.
- b) The Justice Court Clerk Office does not have locked cash drawers or a locked safe to safeguard cash collections during the day and overnight.
- c) The Justice Court Clerk did not make deposits every day.
- d) The Justice Court Clerk did not prepare daily check-up sheets every day. Daily check-up sheets are printed off when deposits are made, which is sometimes for several days' collections.

Failure to implement adequate internal controls over collections, receipts and disbursements as well as implementing necessary physical safeguards could result in the loss of public funds.

Recommendation

The Justice Court Clerk should take steps to ensure that there is an adequate separation of duties in the collection, recording, and disbursement functions of the Justice Court Clerk's Office or that there is external oversight over the operations of the Justice Court Clerk's Office. She should also ensure that records documenting daily collections are properly maintained and reconciled to the daily deposits and that controls are in place to properly safeguard cash collections.

Justice Court Clerk's Response

Pontotoc County will correct this deficiency.

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.

PONTOTOC COUNTY

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PONTOTOC COUNTY

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

PONTOTOC COUNTY

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Ricky Ferguson
Pontotoc County Chancery Clerk

Board of Supervisors

Wayne Stokes
District One

Mike McGregor
District Two

Brad Ward
District Three

Board of Supervisors

Ernie Wright
District Four

Dan McKnight
District Five

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For Year Ending September 30, 2013

Office of the State Auditor
PO Box 956
Jackson, Mississippi 39205

Gentlemen:

Pontotoc County respectfully submits the following summary schedule of prior audit findings relative to federal awards.

APPALACHIAN AREA DEVELOPMENT

2012 - FINDING NO. 18: Appalachian Area Development, Appalachian Regional Commission, Passed-through Tennessee Valley Authority, TV-85102V, FY 2012, CFDA No. 23.002.

Condition: Audit procedures revealed two instances in which federal funds were not disbursed timely. One instance was approximately three months and the other was 20 days. The Tennessee Valley Authority Appalachian Regional Commission - Funded Project agreement requires the County to submit a certified, proper invoice to TVA for its direct costs incurred. OMB Circular A-133 Compliance Supplement requires the time elapsing from the receipt of federal funds to their disbursement to be minimized.

Recommendation: The Board of Supervisors should implement procedures to minimize the time elapsing between the receipt of federal funds and their disbursement.

Current Status: The Board of Supervisors will implement and monitor procedures to minimize the elapse of time between the receipt of federal funds and disbursement.

2012 - FINDING NO. 19: Appalachian Area Development, Appalachian Regional Commission, Passed-through Tennessee Valley Authority, TV-85102V, FY 2012, CFDA No. 23.002.

Condition: During audit procedures, it was noted that there were no formal procedures in place to directly monitor compliance with Davis-Bacon Act requirements and it was noted that three employees were not paid according to applicable wage scales. The Tennessee Valley Authority

P. O. Box 209 - Pontotoc, MS 38863 - 662-489-3900

Appalachian Regional Commission-Funded Project agreement requires compliance with the Davis-Bacon Act.

Recommendation: The Board of Supervisors should establish policies and procedures to ensure that appropriate compliance monitoring measures are in place with respect to Davis-Bacon Act wage requirements.

Current Status: The above underpayment was a result of miscommunication between the project engineer and county personnel. Subsequent to its discovery, there were three underpaid individuals identified who were subsequently paid in full. Compliance measures are now in place to ensure appropriate compliance with the Davis-Bacon Act for any future projects.

2012 - FINDING NO. 20: Appalachian Area Development, Appalachian Regional Commission, Passed-through Tennessee Valley Authority, TV-85102V, FY 2012, CFDA No. 23.002.

Condition: During audit test work, the following instances were noted in which submitted invoices/requests for reimbursement were not accurate:

1. An invoice was reduced upon payment to the vendor; however, the amount of the request for reimbursement was not reduced.
2. The amount entered on the request for reimbursement was incorrectly reduced by the 5% to be withheld by the grant administrator.
3. One invoice was not included in request for reimbursement.

The Tennessee Valley Authority Appalachian Regional Commission - Funded Project Agreement requires the County to submit a certified, proper invoice to TVA for its direct costs incurred. Requests submitted for federal reimbursement should be complete, accurate and appropriately supported.

Recommendation: The Board of Supervisors should implement procedures to ensure requests for reimbursement are complete, accurate and appropriately supported.

Current Status: The Board of Supervisors has and will implement procedures to ensure requests for reimbursement are timely, complete and accurate, and supported by documentation.

Sincerely,



Ernie Wright
Board President

[Telephone # _____]

Date: 6/3/16