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HOLMES COUNTY, MISSISSIPPI

AUDITED FINANCIAL STATEMENTS AND SPECIAL REPORTS

For the Year Ended September 30, 2011

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HOLMES COUNTY
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HOLMES COUNTY

FINANCIAL SECTION

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Mississippi Society of CPAs

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors
Holmes County, Mississippi

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 Holmes County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Holmes County, Mississippi, as of September 30, 2011, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2013, on our consideration of Holmes County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Holmes County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information 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 historic 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 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Holmes County, Mississippi's basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information 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 Reconciliation of Operating Costs of Solid Waste 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 Reconciliation of Operating Costs of Solid Waste is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Windham and Lacey, PLLC
December 18, 2013

HOLMES COUNTY

FINANCIAL STATEMENTS

HOLMES COUNTY
Statement of Net Assets
September 30, 2011

Exhibit 1

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Cash | \$ 6,635,469 | 105,855 | 6,741,324 |
| Investments - restricted | | 1,693,368 | 1,693,368 |
| Property tax receivable | 5,909,256 | | 5,909,256 |
| Accounts receivable (net of allowance for uncollectibles of \$1,010,920) | 6,048 | | 6,048 |
| Fines receivable (net of allowance for uncollectibles of \$1,578,259) | 498,112 | | 498,112 |
| Internal balances | 100,690 | (100,690) | |
| Capital leases receivable | 518,542 | | 518,542 |
| Intergovernmental receivables | 1,252,553 | 247,502 | 1,500,055 |
| Other receivables | 34,622 | 169,761 | 204,383 |
| Deferred charge - issuance cost | 38,576 | 129,794 | 168,370 |
| Capital assets: | | | |
| Land and construction in progress | 3,863,738 | 693,958 | 4,557,696 |
| Other capital assets, net | 12,035,362 | 3,774,867 | 15,810,229 |
| Total Assets | 30,892,968 | 6,714,415 | 37,607,383 |
| LIABILITIES | | | |
| Claims payable | 525,439 | 152,479 | 677,918 |
| Amounts held in custody for others | 169,672 | | 169,672 |
| Intergovernmental payables | 124,130 | | 124,130 |
| Accrued interest payable | 24,291 | 50,321 | 74,612 |
| Deferred revenue | 6,005,779 | | 6,005,779 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 1,189,167 | 442,466 | 1,631,633 |
| Non-capital debt | 120,488 | | 120,488 |
| Due in more than one year: | | | |
| Capital debt | 4,909,745 | 3,627,448 | 8,537,193 |
| Non-capital debt | 950,810 | | 950,810 |
| Total Liabilities | 14,019,521 | 4,272,714 | 18,292,235 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 9,800,188 | 398,911 | 10,199,099 |
| Restricted net assets: | | | |
| Expendable: | | | |
| General Government | 111,357 | | 111,357 |
| Debt service | 1,159,430 | 432,960 | 1,592,390 |
| Public safety | 473,602 | 1,609,830 | 2,083,432 |
| Public works | 917,517 | | 917,517 |
| Economic development | 504,398 | | 504,398 |
| Unemployment compensation | 20,000 | | 20,000 |
| Capital projects | 569,443 | | 569,443 |
| Unrestricted | 3,317,512 | | 3,317,512 |
| Total Net Assets | \$ 16,873,447 | 2,441,701 | 19,315,148 |

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

HOLMES COUNTY
Statement of Activities
For the Year Ended September 30, 2011

Exhibit 2

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | | |
|--|----------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary government: | | | | | | | |
| Governmental activities: | | | | | | | |
| General government | \$ 4,577,421 | 278,283 | 147,876 | 225,412 | (4,151,262) | | (4,151,262) |
| Public safety | 1,762,585 | 307,766 | 74,839 | | (1,154,568) | | (1,154,568) |
| Public works | 5,545,736 | 94,048 | 710,967 | 1,720,338 | (3,020,383) | | (3,020,383) |
| Health and welfare | 364,969 | | 43,106 | | (321,863) | | (321,863) |
| Conservation of natural resources | 112,721 | | | | (112,721) | | (112,721) |
| Economic development and assistance | 280,412 | | 62,246 | | (218,166) | | (218,166) |
| Interest on long-term debt | 270,964 | | | | (270,964) | | (270,964) |
| Total Governmental Activities | 12,914,808 | 680,097 | 1,039,034 | 1,945,750 | (9,249,927) | 0 | (9,249,927) |
| Business-type activities: | | | | | | | |
| Regional Jail | 2,797,235 | 2,758,155 | 0 | 0 | 0 | (39,080) | (39,080) |
| Total Business-type Activities | 2,797,235 | 2,758,155 | 0 | 0 | 0 | (39,080) | (39,080) |
| Total Primary Government | \$ 15,712,043 | 3,438,252 | 1,039,034 | 1,945,750 | (9,249,927) | (39,080) | (9,289,007) |
| General revenues: | | | | | | | |
| Taxes: | | | | | \$ 5,895,627 | | 5,895,627 |
| Property taxes | | | | | 197,550 | | 197,550 |
| Road & bridge privilege taxes | | | | | 2,048,499 | | 2,048,499 |
| In lieu tax - Pipeline | | | | | 314,154 | | 314,154 |
| Grants & contributions not restricted to specific programs | | | | | 200,025 | 149 | 200,174 |
| Unrestricted investment income | | | | | 357,699 | 358,668 | 716,367 |
| Miscellaneous | | | | | 9,013,554 | 358,817 | 9,372,371 |
| Total General Revenues | | | | | (236,373) | 319,737 | 83,364 |
| Changes in Net Assets | | | | | | | |
| Net Assets - Beginning, as previously reported | | | | | 17,081,061 | 2,109,929 | 19,190,990 |
| Prior period adjustments | | | | | 28,759 | 12,035 | 40,794 |
| Net Assets - Beginning, as restated | | | | | 17,109,820 | 2,121,964 | 19,231,784 |
| Net Assets - Ending | | | | | \$ 16,873,447 | 2,441,701 | 19,315,148 |

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

HOLMES COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2011

Exhibit 3

| | Major Funds | | | |
|--|---------------------|-------------------------|--------------------------|--------------------------|
| | General Fund | Engineer State Aid Fund | Other Governmental Funds | Total Governmental Funds |
| ASSETS | | | | |
| Cash | \$ 1,995,714 | 5,839 | 4,633,916 | 6,635,469 |
| Property tax receivable | 3,934,732 | | 1,974,524 | 5,909,256 |
| Accounts receivable (net of allowance for uncollectibles of \$1,010,920) | | | 6,048 | 6,048 |
| Fines receivable (net of allowance for uncollectibles of \$1,578,259) | 498,112 | | | 498,112 |
| Capital lease receivable | | | 518,542 | 518,542 |
| Intergovernmental receivables | 1,134,271 | 34,552 | 83,730 | 1,252,553 |
| Other receivables | 4,996 | | 29,626 | 34,622 |
| Due from other funds | 233,690 | | 167,519 | 401,209 |
| Total Assets | \$ 7,801,515 | 40,391 | 7,413,905 | 15,255,811 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Claims payable | \$ 202,600 | 10,504 | 312,335 | 525,439 |
| Amounts held in custody for others | 157,939 | | 11,733 | 169,672 |
| Intergovernmental payables | 124,130 | | | 124,130 |
| Due to other funds | 38,519 | | 262,000 | 300,519 |
| Deferred revenue | 4,432,844 | | 2,499,114 | 6,931,958 |
| Total Liabilities | 4,956,032 | 10,504 | 3,085,182 | 8,051,718 |
| Fund Balances: | | | | |
| Restricted for general government | | | 131,357 | 131,357 |
| Restricted for public safety | | | 473,602 | 473,602 |
| Restricted for public works | | 29,887 | 887,630 | 917,517 |
| Restricted for economic development | | | 252,481 | 252,481 |
| Restricted for debt service | | | 1,794,424 | 1,794,424 |
| Committed for economic development | | | 251,917 | 251,917 |
| Committed for capital projects | | | 569,443 | 569,443 |
| Unassigned | 2,845,483 | | (32,131) | 2,813,352 |
| Total Fund Balances | 2,845,483 | 29,887 | 4,328,723 | 7,204,093 |
| Total Liabilities and Fund Balances | \$ 7,801,515 | 40,391 | 7,413,905 | 15,255,811 |

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

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Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2011

Total Fund Balance - Governmental Funds \$ 7,204,093

Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1)
are different because:

Capital assets are used in governmental activities and are not financial resources
and, therefore, are not reported in the funds, net of accumulated depreciation
of \$7,289,414. 15,899,100

Other long-term assets are not available to pay for current period expenditures and,
therefore, are deferred in the funds. 504,160

Long-term liabilities are not due and payable in the current period and, therefore,
are not reported in the funds. (7,170,210)

Capital leases are not available to pay for current period expenditures and, therefore,
are deferred in the funds. 422,019

Bond issuance cost is deferred in the Statement of Net Assets and amortized
over the terms of the bonds. 38,576

Accrued interest payable is not due and payable in the current period and, therefore,
is not reported in the funds. (24,291)

Total Net Assets - Governmental Activities \$ 16,873,447

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

HOLMES COUNTY
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2011

Exhibit 4

| | Major Funds | | | Total Governmental Funds |
|---|---------------------|-------------------------------|--------------------------------|--------------------------------|
| | General Fund | Engineer State Aid Fund | Other Governmental Funds | |
| REVENUES | | | | |
| Property taxes | \$ 3,862,940 | | 2,032,687 | 5,895,627 |
| Road & bridge privilege taxes | | | 197,550 | 197,550 |
| In lieu tax - pipeline | 2,048,499 | | | 2,048,499 |
| Licenses, commissions, & other revenue | 132,570 | | 21,189 | 153,759 |
| Fines and forfeitures | 139,836 | | | 139,836 |
| Intergovernmental revenues | 621,139 | 1,788,579 | 889,220 | 3,298,938 |
| Charges for services | 34,817 | | 369,463 | 404,280 |
| Interest income | 189,121 | | 10,904 | 200,025 |
| Miscellaneous revenues | 106,076 | | 271,689 | 377,765 |
| Total Revenues | <u>7,134,998</u> | <u>1,788,579</u> | <u>3,792,702</u> | <u>12,716,279</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 4,070,068 | | 1,221,579 | 5,291,647 |
| Public safety | 1,485,237 | | 226,245 | 1,711,482 |
| Public works | 4,162 | 1,795,896 | 3,847,195 | 5,647,253 |
| Health & welfare | 343,869 | | 525,828 | 869,697 |
| Conservation of natural resources | 112,721 | | | 112,721 |
| Economic development assistance | 157,300 | | 111,262 | 268,562 |
| Debt Service: | | | | |
| Principal | 1,182 | | 1,025,192 | 1,026,374 |
| Interest | 4 | | 298,166 | 298,170 |
| Total Expenditures | <u>6,174,543</u> | <u>1,795,896</u> | <u>7,255,467</u> | <u>15,225,906</u> |
| Excess of Revenue Over (under) Expenditures | <u>960,455</u> | <u>(7,317)</u> | <u>(3,462,765)</u> | <u>(2,509,627)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | 51,625 | | 702,252 | 753,877 |
| Proceeds from sale of capital assets | 20,000 | | 55,495 | 75,495 |
| Transfers in | | | 286,000 | 286,000 |
| Transfers out | (286,000) | | | (286,000) |
| Lease principal payments | | | 19,680 | 19,680 |
| Total Other Financing Sources & Uses | <u>(214,375)</u> | <u>0</u> | <u>1,063,427</u> | <u>849,052</u> |
| Net Changes in Fund Balance | 746,080 | (7,317) | (2,399,338) | (1,660,575) |
| Fund Balance - Beginning | 2,099,403 | 37,204 | 6,728,061 | 8,864,668 |
| Fund Balance - Ending | <u>\$ 2,845,483</u> | <u>29,887</u> | <u>4,328,723</u> | <u>7,204,093</u> |

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

HOLMES 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, 2011

Net Changes in Fund Balances - Governmental Funds \$ (1,660,575)

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

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$2,027,258 exceeded depreciation, \$766,466 in the current period. 1,260,792

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$20,066 and the proceeds from the disposition of \$75,495 in the current period. (95,561)

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. (11,797)

Solid waste 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. (5,981)

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$753,877 were exceeded by debt repayments of \$1,026,374. 272,497

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 assets differs from the change in fund balances by a combination of the following items:

The amortization of issuance cost on bonds (3,274)
 The amount of increase in accrued interest payable 27,206

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 assets differs from change in fund balances by the principal collections on the capital leases. (19,680)

Change in Net Assets of Governmental Activities (Exhibit 2) \$ (236,373)

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

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HOLMES COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2011

Exhibit 5

| | <u>Business-type Activities - Enterprise Fund</u> |
|---|---|
| | <u>Holmes-Humphreys Regional Correctional Facility Fund</u> |
| ASSETS | |
| Current assets: | |
| Cash | \$ 105,855 |
| Investments - restricted | 1,693,368 |
| Intergovernmental receivables | 247,502 |
| Other receivables | 169,761 |
| Total Current Assets | <u>2,216,486</u> |
| Noncurrent assets: | |
| Deferred charge - issuance cost | 129,794 |
| Capital assets: | |
| Land and construction in progress | 693,958 |
| Other capital assets, net | 3,774,867 |
| Total Noncurrent Assets | <u>4,598,619</u> |
| Total Assets | <u>6,815,105</u> |
| LIABILITIES | |
| Current liabilities: | |
| Claims payable | 152,479 |
| Accrued interest payable | 50,321 |
| Due to governmental funds | 100,690 |
| Capital debt: | |
| General obligations bonds payable | 77,466 |
| Limited obligations bonds payable | 365,000 |
| Total Current Liabilities | <u>745,956</u> |
| Noncurrent liabilities: | |
| Capital debt: | |
| General obligations bonds payable | 247,448 |
| Limited obligations bonds payable | 3,380,000 |
| Total Noncurrent Liabilities | <u>3,627,448</u> |
| Total Liabilities | <u>4,373,404</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 398,911 |
| Restricted for: | |
| Debt service | 432,960 |
| Public safety | 1,609,830 |
| Total Net Assets | <u>\$ 2,441,701</u> |

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

HOLMES COUNTY

Exhibit 6

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2011

| | Business-type Activities - Enterprise Fund |
|-------------------------------------|--|
| | Holmes-Humphreys Regional Correctional Facility Fund |
| Operating Revenues | |
| Charges for services | \$ 2,758,155 |
| Miscellaneous | 361,133 |
| Total Operating Revenues | <u>3,119,288</u> |
| Operating Expenses | |
| Personal services | 1,537,651 |
| Contractual services | 759,102 |
| Materials and supplies | 218,754 |
| Depreciation expense | 121,756 |
| Indirect administrative cost | 62,475 |
| Total Operating Expenses | <u>2,699,738</u> |
| Operating Income (Loss) | <u>419,550</u> |
| Nonoperating Revenues (Expenses) | |
| Interest income | 149 |
| Interest expense | (82,269) |
| Loss on sale of equipment | (2,465) |
| Bond issuance expense | (15,228) |
| Net Nonoperating Revenue (Expenses) | <u>(99,813)</u> |
| Changes in Net Assets | <u>319,737</u> |
| Net Assets - Beginning | 2,109,929 |
| Prior period adjustments | 12,035 |
| Net Assets - Beginning, as restated | <u>2,121,964</u> |
| Net Assets - Ending | <u>\$ 2,441,701</u> |

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

HOLMES COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2011

Exhibit 7

| | <u>Business-type Activities - Enterprise Fund</u> |
|---|---|
| | <u>Holmes-Humphreys Regional Correctional Facility Fund</u> |
| Cash Flows From Operating Activities | |
| Receipts from customers | \$ 2,731,883 |
| Payments to suppliers | (901,935) |
| Payments to employees | (1,530,236) |
| Payments to General Fund for indirect costs | (62,475) |
| Other operating cash receipts | 202,143 |
| Net Cash Provided (Used) by Operating Activities | <u>439,380</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Purchases of fixed assets | (314,231) |
| Cash received from other funds: | |
| Loans from other funds | 100,690 |
| Principal paid on long-term debt | (425,086) |
| Interest paid on debt | (153,987) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(792,614)</u> |
| Cash Flows From Investing Activities | |
| Interest and dividends on investments | 149 |
| Net Cash Provided (Used) by Investing Activities | <u>149</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | (353,085) |
| Cash and Cash Equivalents at Beginning of Year | <u>2,152,308</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 1,799,223</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Operating income (loss) | \$ 419,550 |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 121,756 |
| Changes in assets and liabilities: | |
| (Increase) decrease in intergovernmental receivable | (20,022) |
| (Increase) decrease in other receivables | (165,240) |
| Increase (decrease) in payable | 83,336 |
| Total Adjustments | <u>19,830</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 439,380</u> |

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

HOLMES COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2011

Exhibit 8

| | <u>Agency Funds</u> |
|------------------------------------|-------------------------|
| ASSETS | |
| Cash and investments | \$ 1,473,209 |
| Total Assets | <u>\$ 1,473,209</u> |
| | |
| LIABILITIES | |
| Amounts held in custody for others | \$ 52,100 |
| Intergovernmental payables | 1,421,109 |
| Total Liabilities | <u>\$ 1,473,209</u> |

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

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Holmes 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 Holmes County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county. There are no outside organizations that should be included as component units of the county's reporting entity.

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

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HOLMES COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

The Statement of Net Assets 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, 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.

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.

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 revenue 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 county's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

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.

HOLMES COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

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 all activities of the general government for which a separate fund has not been established.

Engineer State Aid Fund - This fund is used to account for revenues and expenditures for construction of roads and bridges.

The county reports the following major Proprietary Fund:

Holmes-Humphreys Regional Correctional Facility Fund (HHRCF) - Accounts for the county's activities of operating the correctional facility.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

PROPRIETARY FUND TYPE

Enterprise Funds - These funds are 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.

HOLMES COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

D. Account Classifications.

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

E. Deposits and Investments.

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

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

F. Receivables.

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

G. Interfund Transactions and Balances.

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

H. Restricted Assets.

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. Certain resources and revenues associated with the county's enterprise fund revenue bonds are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "revenue" fund is used to account for all revenues of the correctional facility and to provide payment for operating and maintenance expenses as well as required monthly deposits to other accounts to meet minimum requirements of trust agreement. The "depreciation and operating reserve" fund is used to pay the costs of major repairs and replacements to the correctional facility the costs of which are such that they should be spread over a number of years rather than charged as a current expense in a single year. The "debt service reserve" fund is used to report resources set aside to subsidize potential deficiencies from the county's operation that could adversely affect debt service payments. The "general" fund is used to pay the principal and interest payments due on the county's enterprise fund revenue bonds. The "insurance" fund is used to pay insurance premiums due on the facility. When both restricted and nonrestricted assets are available for use, the policy is to use nonrestricted assets first.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

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. The extent to which capital assets costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Holmes County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

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:

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

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

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.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

In the government-wide financial statements and in the Proprietary Fund in the 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 Assets. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. 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 assets and displayed in three components:

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvement of those assets.

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

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

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.

In accordance with Government Accounting Standards Board 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, the county classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The county currently has no reported non-spendable fund balances.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The county currently has \$3,569,381 reported as restricted fund balance.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The county had \$821,360 fund balances reported in this category at year end.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by management other than the highest decision making authority of the county. The county currently has no reported assigned fund balance.

Unassigned – includes positive fund balance with the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

The county uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the county would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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.

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2011, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

(3) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

| <u>Explanation</u> | <u>Amount</u> |
|--|------------------|
| Governmental Activities: | |
| To correct errors in capital assets, net of accumulated depreciation | \$ <u>28,759</u> |
| Total prior period adjustments | \$ <u>28,759</u> |

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

Exhibit 6 - Statement of Revenues, Expenses and Changes in Fund Net Assets

| <u>Explanation</u> | <u>Amount</u> |
|--|------------------|
| Business-type Activities: | |
| To correct errors in capital assets, net of accumulated depreciation | \$ 12,035 |
| Total prior period adjustments | <u>\$ 12,035</u> |

(4) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2011, was \$8,214,533 and the bank balance was \$8,747,611. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

Investments:

Investments balances at September 30, 2011, are as follows:

| <u>Investment Type</u> | <u>Maturities</u> | <u>Fair Value</u> | <u>Rating</u> |
|-------------------------------------|--------------------|---------------------|---------------|
| Hancock Horizon Treasury Securities | | | |
| Money Market Mutual Funds | Less than one year | \$ 1,693,368 | AAAm |
| Total | | <u>\$ 1,693,368</u> | |

Interest Rate Risk. The county does not have a formal investment policy that limits maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972), limits the maturity period of any investment to no more than one year. The average weighted maturity of the securities in the Hancock Horizon Treasury Securities Money Market Mutual Funds was less than one year.

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. These investments are held by the Hancock Bank trust department. All of the county's investments are uninsured and unregistered. The investment in the Hancock Horizon Treasury Securities Money Market Mutual Funds is not backed by the full faith and credit of the federal government.

Concentration of Credit Risk. Disclosure of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U. S. Government, investments in mutual funds or external investment pools. The county places no limit on the amount the county may invest in any one issuer.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2011:

A. Due From/To Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|--------------------------|-------------------|
| General | Other Governmental Funds | \$ 133,000 |
| General | Enterprise Fund | 100,690 |
| Other Governmental Funds | General | 38,519 |
| Other Governmental Funds | Other Governmental Funds | <u>129,000</u> |
| Total | | <u>\$ 401,209</u> |

The receivable to the General Fund from Other Governmental Funds represents amounts loaned other funds for grant programs that have not been reimbursed as of September 30, 2011. The receivable to the Enterprise Fund from the General Fund represents amounts loaned for repairs to the facility, until insurance proceeds are received. The receivable to Other Governmental Funds from the General Fund represents the tax revenue collected but not settled until October, 2011. The receivable to Other Governmental Funds from Other Governmental Funds represents loans to meet obligations timely. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
|--------------------------|---------------------|-------------------|
| Other Governmental Funds | General Fund | \$ <u>286,000</u> |
| Total | | <u>\$ 286,000</u> |

The principal purpose of interfund transfers was to provide funds for materials for law library, cover operating expense of road funds, and close out old accounts. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(6) Intergovernmental Receivables.

Intergovernmental Receivables at September 30, 2011, consisted of the following:

| <u>Description</u> | <u>Amount</u> |
|---|-------------------------|
| Governmental Activities: | |
| Legislative tag credit | \$ 57,750 |
| State ABC | |
| Reimbursement for city garbage pickup | 9,492 |
| Youth court | 988 |
| Reimbursement for litter pickup | 7,383 |
| Privilege tax | 6,133 |
| Motor vehicle fuel tax distribution | 27,020 |
| Harvest permits | 1,139 |
| Overweight fines | 162 |
| Timber severance | 820 |
| Oil severance | 2,057 |
| FEMA grant | 12,973 |
| Rural development grant | 31,265 |
| State-aid engineer fees | 34,552 |
| Chancery court reimbursements | 1,497 |
| Law library reimbursements | 5,129 |
| Payments in lieu of tax | <u>1,054,193</u> |
| Total Governmental Activities | <u>\$ 1,252,553</u> |
| Business-type Activities: | |
| Reimbursement for housing state inmates | \$ 234,627 |
| Reimbursement for housing city inmates | <u>12,875</u> |
| Total Business-type Activities | <u>\$ 247,502</u> |

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HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2011:

Governmental Activities:

| | Balance Oct. 1, 2010 | Additions | Deletions | Adjustments * | Balance Sept. 30, 2011 |
|---|-------------------------|------------------|----------------|--------------------|---------------------------|
| Non-Depreciable Capital Assets | | | | | |
| Land | \$ 287,420 | | | | 287,420 |
| Construction in progress | 3,267,094 | 1,458,265 | | (1,149,041) | 3,576,318 |
| Total Non-Depreciable Capital Assets | 3,554,514 | 1,458,265 | 0 | (1,149,041) | 3,863,738 |
| Depreciable Capital Assets | | | | | |
| Infrastructure | 6,863,132 | | | 1,149,041 | 8,012,173 |
| Buildings | 4,234,995 | | | | 4,234,995 |
| Mobile equipment | 3,990,357 | 65,116 | 313,853 | 482,664 | 4,224,284 |
| Furniture and equipment | 733,800 | | 282,175 | 65,000 | 516,625 |
| Leased property under capital leases | 2,380,486 | 503,877 | | (547,664) | 2,336,699 |
| Total Depreciable Capital Assets | 18,202,770 | 568,993 | 596,028 | 1,149,041 | 19,324,776 |
| Less accumulated depreciation for: | | | | | |
| Infrastructure | 1,160,455 | 239,139 | | (28,759) | 1,370,835 |
| Buildings | 1,768,589 | 65,152 | | | 1,833,741 |
| Mobile equipment | 3,033,881 | 217,326 | 267,166 | 201,269 | 3,185,310 |
| Furniture and equipment | 544,239 | 29,900 | 233,301 | 58,500 | 399,338 |
| Leased property under capital leases | 545,010 | 214,949 | | (259,769) | 500,190 |
| Total accumulated depreciation | 7,052,174 | 766,466 | 500,467 | (28,759) | 7,289,414 |
| Total Depreciable Capital Assets - Net | 11,150,596 | (197,473) | 95,561 | 1,177,800 | 12,035,362 |
| Governmental Activities Capital Assets - Net | \$ 14,705,110 | 1,260,792 | 95,561 | 28,759 | 15,899,100 |

* This adjustment is to correct prior year accumulated depreciation errors.

Business-type Activities:

| | Balance Oct. 1, 2010 | Additions | Deletions | Adjustments * | Balance Sept. 30, 2011 |
|---|-------------------------|----------------|---------------|---------------|---------------------------|
| Non-Depreciable Capital Assets | | | | | |
| Land | \$ 120,000 | | | | 120,000 |
| Construction in progress | 247,692 | 314,231 | | 12,035 | 573,958 |
| Total Non-Depreciable Capital Assets | 367,692 | 314,231 | 0 | 12,035 | 693,958 |
| Depreciable Capital Assets | | | | | |
| Buildings | 4,759,957 | | | | 4,759,957 |
| Improvements other than buildings | 36,149 | | | | 36,149 |
| Mobile equipment | 179,908 | | 24,649 | | 155,259 |
| Furniture and equipment | 36,781 | | | | 36,781 |
| Total Depreciable Capital Assets | 5,012,795 | 0 | 24,649 | 0 | 4,988,146 |

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

| | Balance Oct. 1, 2010 | Additions | Deletions | Adjustments * | Balance Sept. 30, 2011 |
|---|-------------------------|------------------|---------------|---------------|---------------------------|
| <u>Less accumulated depreciation for:</u> | | | | | |
| Buildings | 951,991 | 95,199 | | | 1,047,190 |
| Improvements other than buildings | 3,253 | 1,627 | | | 4,880 |
| Mobile equipment | 128,690 | 23,265 | 22,184 | | 129,771 |
| Furniture and equipment | 29,773 | 1,665 | | | 31,438 |
| Total accumulated depreciation | <u>1,113,707</u> | <u>121,756</u> | <u>22,184</u> | <u>0</u> | <u>1,213,279</u> |
| Total Depreciable Capital Assets - Net | <u>3,899,088</u> | <u>(121,756)</u> | <u>2,465</u> | <u>0</u> | <u>3,774,867</u> |
| Business-type Activities Capital Assets - Net | <u>\$ 4,266,780</u> | <u>192,475</u> | <u>2,465</u> | <u>12,035</u> | <u>4,468,825</u> |

Depreciation expense was charged to the following functions:

| | Amount |
|--|-------------------|
| <u>Governmental activities:</u> | |
| General government | \$ 35,989 |
| Public safety | 77,227 |
| Public works | 632,587 |
| Health and welfare | 8,813 |
| Economic development | 11,850 |
| Total governmental activities depreciation expense | <u>\$ 766,466</u> |
| <u>Business-type activities:</u> | |
| Correctional facility | <u>\$ 121,756</u> |

Commitments with respect to unfinished capital projects at September 30, 2011, consisted of the following:

| <u>Description of Commitment</u> | <u>Remaining Financial Commitment</u> | <u>Date of Completion</u> |
|----------------------------------|---|-------------------------------|
| Circuit Court Building | \$ 137,737 | February 2012 |

(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, 2011 to January 1, 2012. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

(9) Capital Leases.

As Lessor:

The county leases the following property as of September 30, 2011:

| <u>Classes of Property</u> | <u>Amount</u> |
|----------------------------|-------------------|
| Buildings | \$ 495,000 |
| Land | 55,000 |
| Total | <u>\$ 550,000</u> |

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2011, are as follows:

| <u>Year Ending September 30</u> | <u>Principal</u> | <u>Interest</u> |
|---------------------------------|-------------------|-----------------|
| 2012 | \$ 24,282 | 12,329 |
| 2013 | 25,013 | 11,590 |
| 2014 | 25,774 | 10,829 |
| 2015 | 26,555 | 10,045 |
| 2016 | 27,365 | 9,238 |
| 2017 - 2021 | 149,831 | 33,185 |
| 2022 - 2026 | <u>143,199</u> | <u>9,307</u> |
| Total | <u>\$ 422,019</u> | <u>96,523</u> |

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2011:

| <u>Class of Property</u> | <u>Governmental Activities</u> |
|--------------------------------------|------------------------------------|
| Mobile equipment | \$ <u>2,336,699</u> |
| Total | 2,336,699 |
| Less: Accumulated depreciation | <u>500,190</u> |
| Leased Property Under Capital Leases | <u>\$ 1,836,509</u> |

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

The following is a schedule by years of the total payments due as of September 30, 2011:

| <u>Year Ending September 30</u> | <u>Governmental Activities</u> | |
|---------------------------------|--------------------------------|-----------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2012 | \$ 787,757 | 47,834 |
| 2013 | 456,897 | 24,531 |
| 2014 | 345,323 | 8,832 |
| 2015 | 88,175 | 667 |
| Total | <u>\$ 1,678,152</u> | <u>81,864</u> |

(10) Long -term Debt.

Debt outstanding as of September 30, 2011, consisted of the following:

| <u>Description and Purpose</u> | <u>Amount Outstanding</u> | <u>Interest Rate</u> | <u>Final Maturity Date</u> |
|-------------------------------------|---------------------------|----------------------|----------------------------|
| Governmental Activities: | | | |
| A. General Obligation Bonds: | | | |
| EDA industrial park | \$ 165,000 | 7.60/7.90% | 03-13 |
| District 5 road and bridge | 120,000 | 2.25% | 12-14 |
| District 2 road and bridge | 140,000 | 4.10% | 09-16 |
| District 4 road and bridge | 205,000 | 2.95% | 09-15 |
| District 4 road and bridge | 62,937 | 3.30% | 09-13 |
| County building bond | 1,800,000 | 3.75/5.125% | 09-28 |
| County road and building | <u>1,900,000</u> | 3.10/4.25% | 08-25 |
| Total General Obligation Bonds | <u>\$ 4,392,937</u> | | |
| B. Capital Leases: | | | |
| JD 6430 tractor | \$ 2,484 | 3.31% | 10-11 |
| Mack dump truck | 10,046 | 3.45% | 04-12 |
| Road paver | 62,191 | 4.34% | 11-12 |
| Garbage carts | 26,844 | 3.59% | 04-13 |
| Volvo motor grader | 157,030 | 3.05% | 09-12 |
| Volvo motor grader | 157,030 | 3.05% | 09-12 |
| Caterpillar backhoe | 26,741 | 3.13% | 10-13 |
| JD 6430 tractor & boom mower | 48,141 | 3.13% | 10-13 |
| 2 Peterbuilt trucks | 169,476 | 3.23% | 12-14 |
| Mack garbage truck | 125,487 | 3.11% | 08-12 |
| 2006 Case 580 backhoe | 20,957 | 3.12% | 12-12 |

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

| <u>Description and Purpose</u> | <u>Amount Outstanding</u> | <u>Interest Rate</u> | <u>Final Maturity Date</u> |
|---------------------------------------|-------------------------------|--------------------------|------------------------------------|
| Kobelco excavator | 128,083 | 3.32% | 09-14 |
| 3 Mack dump trucks | 281,844 | 3.27% | 09-13 |
| 2 2011 Crown Victorias | 51,625 | 3.11% | 08-14 |
| Kobelco excavator | 132,703 | 3.45% | 12-14 |
| JD 5093 tractor | 39,820 | 3.11% | 09-14 |
| Alamo boom | 41,550 | 3.11% | 08-14 |
| 2 2011 Mack dump trucks | <u>196,100</u> | 3.24% | 12-13 |
| Total Capital Leases | <u>\$ 1,678,152</u> | | |
| C. Other Loans: | | | |
| MDEZA loan | \$ 650,000 | 0.00% | 03-12 |
| Fire truck | 27,823 | 2.00% | 02-14 |
| Capital improvement loan | <u>421,298</u> | 3.00% | 11-25 |
| Total Other Loans | <u>\$ 1,099,121</u> | | |
| Business-type Activities: | | | |
| A. General Obligation Bonds: | | | |
| HHRCF Building | \$ <u>324,914</u> | 3.17% | 03-15 |
| Total General Obligation Bonds | <u>\$ 324,914</u> | | |
| B. Limited Obligation Bonds: | | | |
| Urban renewal revenue refunding bonds | \$ <u>3,745,000</u> * | 3.00/4.00% | 06-20 |
| Total Limited Obligation Bonds | <u>\$ 3,745,000</u> | | |

* Limited obligation urban renewal revenue refunding bonds were issued with a face value of \$4,210,000 for the purpose of the refunding and redemption of the outstanding principal of the county's Urban Renewal Revenue Bonds (Holmes County, MS Regional Correctional Facility project), Series 1999, dated November 1, 1999, at par plus accrued interest. The bonds are not a general obligation of the county and, therefore, are not secured by the full faith and credit of the county. The sole source of payment for the revenue bonds is income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

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

Governmental Activities:

| Year Ending Sept. 30 | General Obligation | | Other Loans | |
|----------------------|--------------------|-----------|-------------|----------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 390,958 | 170,726 | 130,940 | 12,842 |
| 2013 | 406,979 | 151,861 | 136,542 | 11,877 |
| 2014 | 305,000 | 135,642 | 131,490 | 10,923 |
| 2015 | 315,000 | 121,652 | 376,492 | 10,112 |
| 2016 | 235,000 | 112,021 | 27,297 | 9,306 |
| 2017 - 2021 | 1,180,000 | 407,929 | 149,458 | 33,559 |
| 2022 - 2026 | 1,275,000 | 173,810 | 146,902 | 9,680 |
| 2027 - 2028 | 285,000 | 16,124 | | |
| Total | \$ 4,392,937 | 1,289,765 | 1,099,121 | 98,299 |

Business-type Activities:

| Year Ending Sept. 30 | General Obligation | | Limited Obligation | |
|----------------------|--------------------|----------|--------------------|----------|
| | Principal | Interest | Principal | Interest |
| 2012 | \$ 77,466 | 10,299 | 365,000 | 127,462 |
| 2013 | 79,922 | 7,844 | 375,000 | 116,363 |
| 2014 | 82,456 | 5,311 | 390,000 | 104,887 |
| 2015 | 85,070 | 2,697 | 400,000 | 92,037 |
| 2016 | | | 415,000 | 77,775 |
| 2017 - 2021 | | | 1,800,000 | 146,656 |
| Total | \$ 324,914 | 26,151 | 3,745,000 | 665,180 |

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2011, the amount of outstanding debt was equal to 3.68% of the latest property assessments.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2011:

| | Balance Oct. 1, 2010 | Additions | Reductions | Adjustments | Balance Sept. 30, 2011 | Amount due within one year |
|----------------------------------|-------------------------|----------------|------------------|-------------|---------------------------|----------------------------------|
| Governmental Activities: | \$ | | | | | |
| General obligation bonds | 4,592,905 | 250,000 | 449,968 | | 4,392,937 | 390,958 |
| Capital leases | 1,603,919 | 503,877 | 429,644 | | 1,678,152 | 787,757 |
| Other loans | 1,245,883 | | 146,762 | | 1,099,121 | 130,940 |
| Total | \$ 7,442,707 | 753,877 | 1,026,374 | 0 | 7,170,210 | 1,309,655 |
| Business-type Activities: | | | | | | |
| General obligation bonds | \$ 400,000 | | 75,086 | | 324,914 | 77,466 |
| Limited obligation bonds | 4,095,000 | | 350,000 | | 3,745,000 | 365,000 |
| Total | \$ 4,495,000 | 0 | 425,086 | 0 | 4,069,914 | 442,466 |

(11) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2011:

| Fund | Deficit Amount |
|--|-------------------|
| AOC/Drug-DUI Fund | \$ 47,380 |
| Rural Development Office Furniture and Equipment | 26,279 |
| Law Library | 2,241 |
| Municipal Solid Waste Fund | 53,769 |
| District 2 Road Fund | 44,278 |
| District 3 Bridge Fund | 61,901 |
| District 4 Bridge Fund | 55,213 |
| Lexington Homes I & S Fund | 4,850 |

(12) Contingencies.

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

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

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HOLMES COUNTY

Notes to Financial Statements For the Year Ended September 30, 2011

(13) Related Organizations.

The Holmes County Board of Supervisors is responsible for appointing a voting majority of the members on the board of the Sweethome Water and Sewer District, but the county's accountability for this organization does not extend beyond making board appointments.

(14) Joint Venture.

The county participates in the following joint venture:

Holmes County entered into an interlocal agreement with Claiborne, Grenada, Humphreys, Leflore and Tunica Counties to provide a multi-jurisdictional drug enforcement task force known as North Central Narcotics Task Force. Most of the funding is provided by a federal grant, with the local entities contributing a minimum of 25 percent. Holmes County contributed \$0 to the task force in fiscal year 2011.

(15) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Holmes Community College operates in a district composed of the Counties of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo. The Holmes County Board of Supervisors appoints six of the 22 members of the board of trustees. The county appropriated \$427,570 for maintenance and support of the college in fiscal year 2011.

The Mid-Mississippi Regional Library System operates in a district composed of the Counties of Attala, Holmes, Leake, Montgomery and Winston. The Holmes County Board of Supervisors appoints one of the five members of the library board of directors. The county appropriated \$134,577 for maintenance and support of the library in fiscal year 2011.

North Central Planning and Development District operates in a district composed of the Counties of Attala, Carroll, Grenada, Holmes, Leflore, Montgomery and Yalobusha. The Holmes County Board of Supervisors appoints four of the 28 members of the board of directors. The county appropriated \$58,500 to the district in fiscal year 2011.

Region Six Mental Health/Mental Retardation Center Life Help operates in a district composed of the Counties of Attala, Carroll, Grenada, Holmes, Humphreys, Leflore, Montgomery and Sunflower. The Holmes County Board of Supervisors appoints one of the eight members of the district board of commissioners. Holmes County appropriated \$27,000 for maintenance and support of the center in fiscal year 2011.

The Yazoo-Mississippi Water Management District operates in a district composed of the Counties of Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, Leflore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Washington and Yazoo. The Holmes County Board of Supervisors appoints one of the 21 members of the district board of commissioners. The county levied a .61 mill tax in support of the district in fiscal year 2011.

(16) Defined Benefit Pension Plan.

Plan Description. Holmes 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 calling 1-800-444-PERS.

HOLMES COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2011

Funding Policy. PERS members are required to contribute 9.0% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2011 was 12.00% 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, 2011, 2010, and 2009 were \$497,651, \$475,324, and \$483,861 respectively, equal to the required contributions for each year.

(17) Subsequent Events.

Events that occur after the Statement of Net Assets 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 Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Holmes County evaluated the activity of the county through December 18, 2013, and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

Subsequent to September 30, 2011, the county issued the following debt obligations:

| <u>Issue Date</u> | <u>Interest Rate</u> | <u>Issue Amount</u> | <u>Type of Financing</u> | <u>Source of Financing</u> |
|-------------------|----------------------|---------------------|--------------------------|----------------------------|
| 5/20/2012 | 1.93% | \$ 60,755 | Lease purchase | Ad valorem tax |
| 5/21/2012 | 2.56% | 158,463 | Lease purchase | Ad valorem tax |
| 5/21/2012 | 2.13% | 200,000 | Note | Ad valorem tax |
| 5/21/2012 | 2.13% | 150,000 | Note | Ad valorem tax |
| 6/25/2012 | 1.94% | 125,985 | Lease purchase | Ad valorem tax |
| 6/25/2012 | 1.94% | 251,970 | Lease purchase | Ad valorem tax |
| 6/25/2012 | 1.9% | 164,000 | Lease purchase | Ad valorem tax |
| 6/25/2012 | 1.94% | 125,985 | Lease purchase | Ad valorem tax |
| 6/27/2012 | 2.12% | 181,600 | Lease purchase | Ad valorem tax |
| 6/27/2012 | 2.12% | 67,600 | Lease purchase | Ad valorem tax |
| 6/27/2012 | 1.9% | 164,000 | Lease purchase | Ad valorem tax |
| 7/5/2012 | 1.96% | 45,536 | Lease purchase | Ad valorem tax |
| 7/5/2012 | 1.96% | 38,092 | Lease purchase | Ad valorem tax |
| 8/8/2012 | 2.19% | 52,930 | Lease purchase | Ad valorem tax |
| 10/10/2012 | 2.01% | 164,000 | Lease purchase | Ad valorem tax |
| 12/31/2012 | 2.56% | 158,463 | Lease purchase | Ad valorem tax |
| 1/31/2013 | 1.78% | 189,646 | Lease purchase | Ad valorem tax |
| 2/6/2013 | 1.96% | 105,777 | Lease purchase | Ad valorem tax |
| 2/6/2013 | 1.96% | 105,777 | Lease purchase | Ad valorem tax |
| 2/6/2013 | 1.96% | 105,777 | Lease purchase | Ad valorem tax |
| 2/26/2013 | 1.83% | 379,292 | Lease purchase | Ad valorem tax |
| 7/1/2013 | 2.9% | 600,000 | Note | Ad valorem tax |
| 11/13/2013 | 2.08% | 161,644 | Lease purchase | Ad valorem tax |
| 11/13/2013 | 2.08% | 161,644 | Lease purchase | Ad valorem tax |

HOLMES COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2011

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|---------------------|------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 3,947,964 | 3,859,181 | 3,859,180 | \$ 1 |
| Licenses, commissions and other revenue | 156,875 | 123,998 | 133,427 | (9,429) |
| Fines and forfeitures | 169,100 | 137,662 | 137,663 | (1) |
| Intergovernmental revenues | 468,928 | 743,746 | 734,319 | 9,427 |
| Charges for services | 37,000 | 37,169 | 37,169 | |
| Interest income | 192,000 | 200,845 | 200,845 | |
| Miscellaneous revenues | 130,420 | 280,665 | 280,665 | |
| Total Revenues | <u>5,102,287</u> | <u>5,383,266</u> | <u>5,383,268</u> | <u>(2)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 2,888,076 | 3,377,291 | 3,314,816 | (62,475) |
| Public safety | 1,469,029 | 1,424,437 | 1,424,437 | |
| Public works | 34,856 | 4,162 | 4,162 | |
| Health and welfare | 360,556 | 337,598 | 337,598 | |
| Conservation of natural resources | 115,712 | 105,789 | 105,789 | |
| Economic development and assistance | 158,058 | 161,607 | 161,610 | 3 |
| Total Expenditures | <u>5,026,287</u> | <u>5,410,884</u> | <u>5,348,412</u> | <u>(62,472)</u> |
| Excess of Revenues over (under) Expenditures | <u>76,000</u> | <u>(27,618)</u> | <u>34,856</u> | <u>(62,474)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Other financing sources | 335,000 | 62,475 | | 62,475 |
| Other financing uses | <u>(383,000)</u> | <u>(186,000)</u> | <u>(186,000)</u> | |
| Total Other Financing Sources and Uses | <u>(48,000)</u> | <u>(123,525)</u> | <u>(186,000)</u> | <u>62,475</u> |
| Net Change in Fund Balance | 28,000 | (151,143) | (151,144) | (1) |
| Fund Balances - Beginning | <u>1,070,000</u> | <u>1,450,872</u> | <u>2,031,898</u> | <u>581,026</u> |
| Fund Balances - Ending | <u>\$ 1,098,000</u> | <u>1,299,729</u> | <u>1,880,754</u> | <u>\$ 581,025</u> |

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

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HOLMES COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Engineer State Aid Road Fund
 For the Year Ended September 30, 2011

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------------------------|---|
| REVENUES | | | | |
| Intergovernmental revenue | \$ 310,000 | 171,198 | 171,198 | |
| Total Revenues | <u>310,000</u> | <u>171,198</u> | <u>171,198</u> | <u>0</u> |
| EXPENDITURES | | | | |
| Public works | 242,000 | 114,179 | 114,179 | |
| Total Expenditures | <u>242,000</u> | <u>114,179</u> | <u>114,179</u> | <u>0</u> |
| Excess of Revenues over (under) Expenditures | <u>68,000</u> | <u>57,019</u> | <u>57,019</u> | <u>0</u> |
| Fund Balances - Beginning | <u>6,561</u> | <u>50,000</u> | <u>(51,180)</u> | <u>101,180</u> |
| Fund Balances - Ending | <u>\$ 74,561</u> | <u>107,019</u> | <u>5,839</u> | <u>101,180</u> |

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

HOLMES COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2011

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 the Engineer State Aid Fund:

| | General Fund | State Aid Road Fund |
|--|-------------------|---------------------------|
| | <u> </u> | <u> </u> |
| Budget (Cash Basis) | \$ (151,144) | 57,019 |
| Increase (Decrease) | | |
| Net adjustments for revenue accruals | 1,823,355 | 1,617,381 |
| Net adjustments for expenditure accruals | <u>(926,131)</u> | <u>(1,681,717)</u> |
| GAAP Basis | <u>\$ 746,080</u> | <u>(7,317)</u> |

HOLMES COUNTY

SUPPLEMENTAL INFORMATION

HOLMES COUNTY
 Reconciliation of Operating Costs of Solid Waste
 For the Year Ended September 30, 2011

Operating Expenditures, Cash Basis:

| | |
|---|------------------------------|
| Salaries | \$ 166,297 |
| Expendable Commodities: | |
| Gasoline and petroleum products | 62,673 |
| Tires and tubes | 7,601 |
| Repair parts | 15,565 |
| Supplies | 4,606 |
| Postage and box rent | 2,711 |
| Insurance on equipment | 18,000 |
| Contractual services | 189 |
| Solid waste disposal fees | 47,528 |
| Office supplies | 464 |
| Telephone and utilities | 1,314 |
| Principal retirement and interest | <u>54,956</u> |
| Solid Waste Cash Basis Operating Expenditures | 381,904 |
| Full Cost Expenses: | |
| Indirect administrative costs | 4,016 |
| Depreciation on equipment | 16,624 |
| Net effect of other accrued expenses | <u>11,422</u> |
| Solid Waste Full Cost Operating Expenses | <u><u>\$ 413,966</u></u> |

HOLMES COUNTY

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676
Fax (601)939-8761

Members:
American Institute of CPAs
Mississippi Society of CPAs

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
Holmes County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Holmes County, Mississippi, as of and for the year ended September 30, 2011, which collectively comprise the county's basic financial statements and have issued our report thereon dated December 18, 2013. 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

Management of the county is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Holmes County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

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 their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

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

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



Windham and Lacey, PLLC
December 18, 2013

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
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Mississippi Society of CPAs

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

Members of the Board of Supervisors
Holmes County, Mississippi

We have examined Holmes County, Mississippi's 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 Sections 31-7-13 Miss. Code Ann. (1972), during the year ended September 30, 2011. The Board of Supervisors of Holmes 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 Holmes 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 the 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.

In our opinion, Holmes County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2011.

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 the examination.

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



Windham and Lacey, PLLC
December 18, 2013

HOLMES COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2011

Schedule 1

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

HOLMES COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2011

Schedule 2

Our test results did not identify any emergency purchases.

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HOLMES COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2011

| <u>Date</u> | <u>Item Purchased</u> | <u>Amount Paid</u> | <u>Vendor</u> | <u>Reason for Sole Source</u> |
|-------------|-----------------------------------|--------------------|---------------|---|
| 7/5/2011 | Chancery Court Reporter equipment | \$ 5,494 | Stenograph | Only manufacturer of the industry standard Equipment. |

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Members:
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Mississippi Society of CPAs

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Holmes County, Mississippi

In planning and performing our audit of the financial statements of Holmes County, Mississippi for the year ended September 30, 2011, we considered Holmes 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 Holmes County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 18, 2013, on the financial statements of Holmes 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 immaterial instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your responses are disclosed below:

Circuit Clerk.

1. Finding

Section 9-1-45, Miss. Code Ann. (1972), requires the Circuit Clerk to file "a true and accurate annual report..." of revenues and expenses, not later than April 15 of each year. The Circuit Clerk's fee journal lacked the accurate extensions of recorded checks into expense categories, which were not totaled and reconciled, causing an unequal balance in debits and credits. The year end totals on the fee journal did not equal amounts reported on the annual financial report. Without proper accounting for revenues and expenses, failure to file annual reports according to statute could result in loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should maintain fee journals that accurately account for revenues and expenses of the office and reconcile to bank statements. Fee journal totals should equal amounts reported on the annual financial report.

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Circuit Clerk's Response

The Annual Report was filed to meet the deadline; however, the checks from the civil and criminal show the total collected by me for the year are OK.

I will comply by checking my payroll submission monthly reports each month and amend my Annual Report to show the same.

2. Finding

The Circuit Clerk's reconciled bank balances did not agree with the criminal and civil journals' balances. Failure to properly reconcile accounts could result in loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should properly reconcile all accounts to the bank statements monthly, investigate and identify differences, and settle unidentified funds to the county.

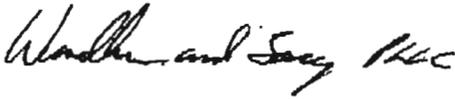
Circuit Clerk's Response

Cases for Eminent Domain and monies held for appeal may be held for more than 2 years depending on the circumstances involving parties to the law suits.

I WILL COMPLY.

Holmes 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.



Windham and Lacey, PLLC
December 18, 2013

HOLMES COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

HOLMES COUNTY

Schedule of Findings and Responses
For the Year Ended September 30, 2011

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental Activities | Unqualified |
| | Business-type Activities | Unqualified |
| | General Fund | Unqualified |
| | Engineer State Aid Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness identified? | No |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Section 2: Financial Statement Findings

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

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