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FORREST COUNTY, MISSISSIPPI

**AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS**

Year Ended September 30, 2013

FORREST COUNTY, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Forrest County, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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.

Members of the Board of Supervisors
Forrest County, Mississippi

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

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

Adverse Opinion

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

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Forrest County, Mississippi, as of September 30, 2013, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Members of the Board of Supervisors
Forrest County, Mississippi

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

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

Members of the Board of Supervisors
Forrest County, Mississippi

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of Forrest 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* in considering Forrest County, Mississippi's internal control over financial reporting and compliance.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 30, 2014

**FORREST COUNTY, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2013**

INTRODUCTION

This discussion and analysis of Forrest County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2013. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the County's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the County's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of the required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999.

Forrest County is located in the southern portion of the State of Mississippi approximately 85 miles south of Jackson, Mississippi, the State Capital. The population, according to the 2010 census, is 74,934. The local economic base is driven by diverse trade and service developments and a regional healthcare center of southeast Mississippi. Forrest County is also home to Camp Shelby, which serves as a National Guard training facility. The University of Southern Mississippi's presence within Forrest County also provides a large degree of economic stability to the County.

FINANCIAL HIGHLIGHTS

Forrest County is financially stable. The County has committed itself to financial management by using sound financial planning, budgeting and internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Key financial highlights for 2013 were as follows:

- Total net position for 2013, \$81,702,119 decreased \$2,255,326, or 2.66% from 2012, as restated, \$83,957,445.
- Total assets of governmental activities for 2013, \$147,420,817 increased by \$4,226,259 or 2.95% from 2012, \$143,194,559.
- Total liabilities for 2013, \$40,498,176 increased \$7,138,448 or 12.15% from 2012, \$58,739,996.
- In total, equity in cash and cash equivalents for 2013, \$32,790,377 increased \$1,220,090 or 3.86% from 2012, \$31,570,287. The cash increase was attributed in part to the first full year of operations of the newly constructed detention center and having completed purchases of equipment and furnishings for the center.

- Total assessed valuation for 2012 tax year (collected in fiscal year 2013 budget year) increased 14 million from the 2011 tax year (collected in fiscal year 2012 budget year). The 2012 assessed valuations (used to compute fiscal year 2013 collections) for the County also reflect a 57 million increase over the last six-year period (2006 tax rolls used to compute the 2007 budget) establishing that Forrest County continues to have a healthy tax base for economic stability.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary information is included in addition to the basic financial statements.

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

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

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

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

Component units are not included in our basic financial statements.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financial decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances both provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. 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.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position - Net position may serve over time as a useful indicator of the government's financial position. In the case of Forrest County, assets exceeded liabilities by \$82,143,125 as of September 30, 2013.

The largest portion of the County's net position (66.8%) reflects its investment in capital assets (e.g., roads, bridges, land, buildings, mobile equipment, furniture and equipment, and construction in progress) less related outstanding debt used to acquire such assets. The County uses these capital assets to provide services to its citizens.

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

Table 1 presents a summary of the County's net position at September 30, 2013, as compared to net position at September 30, 2012.

(See Table 1 on Next Page)

**Table 1
Net Position**

	Governmental Activities		Total Percentage Change
	2013	2012	
ASSETS			
Current and other assets	\$ 60,260,106	\$ 56,539,782	6.58%
Land and construction in progress	2,137,059	1,441,137	48.29%
Other capital assets, net	85,183,397	85,213,640	-0.04%
Total assets	147,580,562	143,194,559	3.06%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges - bond issuance costs	-	600,334	-100.00%
Total deferred outflow of resources	-	600,334	-100.00%
LIABILITIES			
Long-term liabilities, outstanding	35,956,664	34,095,999	5.46%
Other liabilities	4,541,512	2,688,427	68.93%
Total liabilities	40,498,176	36,784,426	10.10%
DEFERRED INFLOWS OF RESOURCES			
Unearned revenues - property taxes	25,380,267	21,955,570	15.60%
Total deferred inflow of resources	25,380,267	21,955,570	15.60%
NET POSITION			
Net investment in capital assets	54,929,362	56,327,899	-2.48%
Restricted	13,779,032	11,163,269	23.43%
Nonexpendable	159,745	-	100.00%
Unrestricted	12,833,980	16,963,395	-24.34%
Total net position	\$ 81,702,119	\$ 84,454,563	-3.26%

The following are significant current year transactions that have had an impact on the Statement of Net Position: the County received less in grants with no major hurricane damages during fiscal year 2013, accounting for most of the reduction in net position for fiscal year ending September 30, 2013.

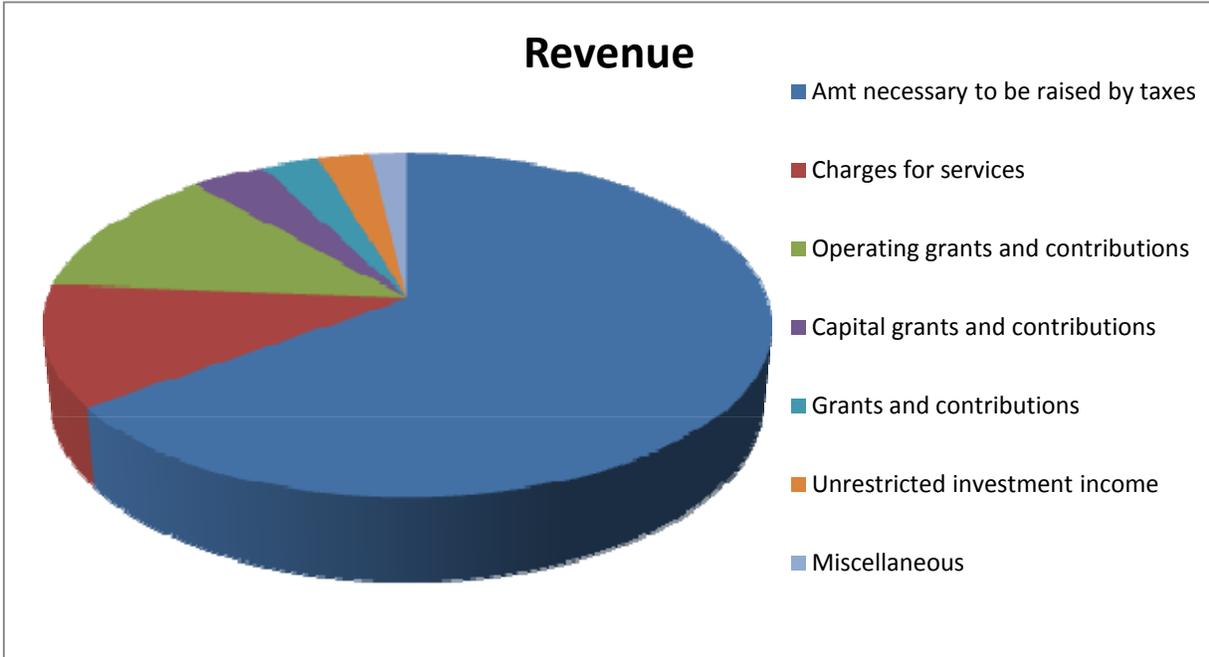
Changes in Net Position - Forrest County's total program and general revenues for the fiscal year ended September 30, 2013 were \$33,192,514. The total cost of all services provided was \$35,437,439. The decrease in net position was \$2,244,925. Table 2 presents a summary of the changes in net position for the fiscal year ended September 30, 2013, as compared to the fiscal year ended September 30, 2012.

(See Table 2 on Next Page)

Table 2
Changes in Net Position

	Governmental Activities		Total Percentage Change
	2013	2012	
REVENUES			
Program revenues:			
Charges for services	\$ 4,442,202	\$ 4,407,279	0.79%
Operating grants and contributions	3,035,355	3,721,396	-18.44%
Capital grants and contributions	1,141,705	1,800,714	-36.60%
Total program revenues	8,619,262	9,929,389	-13.19%
General revenues:			
Property taxes	23,079,625	21,488,884	7.40%
Other taxes	784,464	752,527	4.24%
Grants and contributions not restricted to specific programs	-	114,682	-100.00%
Other general revenues	709,163	926,183	-23.43%
Total general revenues	24,573,252	23,282,276	5.54%
Payments to component unit	-	(2,973,506)	
Total	33,192,514	30,238,159	9.77%
PROGRAM EXPENSES			
General government	12,668,262	11,832,733	7.06%
Public safety	12,478,868	8,726,876	42.99%
Public services	5,670,520	4,894,459	15.86%
Health/Welfare/Education	1,024,979	1,003,940	2.10%
Economic development	384,990	298,270	29.07%
Culture and recreation	1,745,859	1,785,140	-2.20%
Conservation natural resources	275,287	453,421	-39.29%
Interest and fiscal charges	1,199,075	1,264,120	-5.15%
Total program expenses	35,447,840	30,258,959	17.15%
Decrease in net position	(2,255,326)	(20,800)	-10742.91%
Net Position - Beginning	84,454,563	77,497,833	8.98%
Prior period adjustment	(497,118)	6,977,530	107.12%
Net Position - Beginning, as restated	83,957,445	84,475,363	-0.61%
Net Position - Ending	\$ 81,702,119	\$ 84,454,563	-3.26%

WHERE THE COUNTY GETS ITS REVENUE



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The focus of the County's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the County's net resources available for spending at the end of the year.

The financial performance of the County as a whole is reflected in its governmental funds. As the County completed the year, its governmental funds reported a combined fund balance of \$28,865,145, a decrease of \$1,224,245. The primary reason for this decrease in fund balance is in Fund 302 the Public Improvement Proceeds for the construction of the new detention center (regional jail). There were also less federal and state grants.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

During the year, Forrest County revised its annual operating budget on several occasions. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the County. Expenditure budgets were revised as federal and state projects were approved for funding in the County with these projects being mainly capital projects and/or awarded grants.

A schedule showing the original and final budget amounts compared to the County's financial activity for the General Fund and other major funds is provided in this report as required supplemental information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of September 30, 2013, Forrest County's total capital assets, net was \$87,320,456. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, and furniture and equipment.

Total accumulated depreciation as of September 30, 2013, was \$61,059,419. The balance in total net capital assets was \$87,320,456 at year-end.

Table 3 provides an overview of the County's capital assets net of accumulated depreciation.

**Table 3
Capital Assets (Net of Depreciation)**

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change</u>
Land and construction in progress	\$ 2,137,059	\$ 1,441,137	48.29%
Buildings and improvements	51,933,442	53,133,973	-2.26%
Infrastructure	28,105,007	26,274,639	6.97%
Machinery and equipment	<u>5,144,948</u>	<u>5,805,028</u>	-11.37%
Total	<u>\$ 87,320,456</u>	<u>\$ 86,654,777</u>	0.77%

Debt Administration - At September 30, 2013, Forrest County had \$35,956,664 in long-term debt outstanding. This includes general obligation bonds and other loans. Of this debt \$3,080,098 is due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15.00% of total assessed value of property. The County's outstanding debt as of September 30, 2013 was equal to 5.20% of the latest property assessments.

Table 4 is a summary of the total outstanding long-term debt obligations of the County.

(See Table 4 on Next Page)

Table 4
Outstanding Bonds, Notes and Long-Term Obligations at Year End

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change</u>
General obligation bonds	\$ 35,283,906	\$ 33,283,758	6.01%
Other loans	107,188	265,903	-59.69%
Compensated absences	<u>565,570</u>	<u>546,338</u>	3.52%
<i>Total bonded debt and compensated absences</i>	<u>\$ 35,956,664</u>	<u>\$ 34,095,999</u>	5.46%

CURRENT ISSUES

Forrest County continues to commit itself to financial excellence, making every effort to assure that its financial planning, budgeting, and internal financial controls are in keeping with sound financial management practices in meeting the challenges of the future. This is the cornerstone of Forrest County's pursuit of excellence in County Government.

In fiscal year 2014, Forrest County has continued to meet the challenges of current day financial obstacles.

The County is operating the new FEMA-MEMA County Shelter, a two-million dollar construction project. We are the flight from the coastal areas in the wake of hurricanes and have had several damaging tornados in our county, as well. The County also completed safe rooms for our volunteer fire departments and county work barns.

Fiscal year 2013 represented the first full year for the County to occupy the Billy McGee Regional Detention Center, which includes the latest technology of computers, cameras and operating equipment. During fiscal year 2014, the Sheriff and County officials have worked to secure more contracts for housing federal and state prisoners. This, in addition to our being a regional facility for those several counties in our area, will enhance our abilities to recover much of the operating costs of the facility with billings to outside contracts for housing their inmates. The County at this time is beginning the ground work to build a new service center at the site of the jail detention facility. This will house the Sheriff's service center that maintains and services the Forrest County Sheriff Department vehicle fleet. With the County's sound financial planning efforts, most of the work for the construction of the center will be completed by county staff enabling us to keep our costs to a minimum.

The County is working with the Area Development Partnership (ADP) in developing plans for a new industrial park in the southwest area of the county, located at a major intersection of Interstate 59 and Highway 98. This project has potential and interests of major concerns for our area. We are in the preliminary planning stages with enormous insight to the area's future growth and development. Our

current industrial park is fully occupied and this new park would keep the County in a position for new growth. The ADP and the County are working with a five-year campaign called "Competitive Edge". The plan is designed to create 2,780 new jobs, bringing in \$100 million in new capital investments and \$103 million in additional payroll throughout the duration of the program. This is our vision for a bright future.

The County continues the Kansas City Southern Railway expansion plans to make major expansion at the Port of Gulfport and a massive project of shipping containers by rail to the Hattiesburg area as a distribution point. This would be implemented in phases over several years.

The County feels we are continuing on the right tract in financial management as noted by our recent assignment rate of Aa3 by Moody's Investors to Forrest County as recently as October 25, 2012. This assignment was made on our Refunding Bonds, Series 2012 in the amount of \$2,400,000. The strengths of this rating noted our moderately sized tax base and regional presence of large healthcare facilities and universities. Also noted, was our historically strong financial management that has resulted in high reserves, which allows the County strength in continuous planning developments.

Forrest County officials have historically been strong in their concerns of the public dollars and their management of those funds in a conservative, yet progressive nature. Forrest County reflects on the past and looks to the future.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it received. If you have questions about this report or need additional financial information, please contact the Forrest County Chancery Clerk at Post Office Box 951, Hattiesburg, MS 39403-0951.

FINANCIAL STATEMENTS

EXHIBIT 1

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 32,790,377
Cash with fiscal agents	98,126
Property tax receivable	25,380,267
Fines receivable, net of allowance for uncollectibles of \$5,402,922	1,474,132
Intergovernmental receivables	326,186
Other receivables	31,273
Prepaid bond insurance	159,745
Capital assets:	
Land and construction in progress	2,137,059
Other capital assets, net	85,183,397
Total assets	<u>147,580,562</u>
LIABILITIES	
Claims payable	2,504,686
Intergovernmental payables	664,053
Accrued interest payable	160,695
Other payables	1,212,078
Long-term liabilities:	
Due within one year:	
Capital debt	3,080,098
Due in more than one year:	
Capital debt	29,310,996
Non-capital debt	3,565,570
Total liabilities	<u>40,498,176</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenues - property taxes	25,380,267
Total deferred inflows of resources	<u>25,380,267</u>

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

EXHIBIT 1
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2013**

	Governmental Activities
<i>NET POSITION</i>	
Net investment in capital assets	\$ 54,929,362
Restricted:	
Expendable:	
General government	35,067
Debt service	2,429,285
Public safety	1,752,978
Public works	9,115,881
Conservation of natural resources	165,457
Unemployment compensation	115,358
Capital projects	165,006
Nonexpendable	159,745
Unrestricted	<u>12,833,980</u>
<i>Total net position</i>	<u><u>\$ 81,702,119</u></u>

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

EXHIBIT 2

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 12,668,262	\$ 1,774,935	\$ 813,411	\$ 36,539	\$ (10,043,377)
Public safety	12,478,868	2,667,267	743,177	233,814	(8,834,610)
Public works	5,670,520	-	996,971	-	(4,673,549)
Health and welfare	1,015,503	-	263,011	-	(752,492)
Culture and recreation	1,745,859	-	218,785	871,352	(655,722)
Education	9,476	-	-	-	(9,476)
Conservation of natural resources	275,287	-	-	-	(275,287)
Economic development and assistance	384,990	-	-	-	(384,990)
Interest on long-term debt	1,199,075	-	-	-	(1,199,075)
Total governmental activities	<u>35,447,840</u>	<u>4,442,202</u>	<u>3,035,355</u>	<u>1,141,705</u>	<u>(26,828,578)</u>
Total primary government	<u>\$ 35,447,840</u>	<u>\$ 4,442,202</u>	<u>\$ 3,035,355</u>	<u>\$ 1,141,705</u>	<u>(26,828,578)</u>
General revenues:					
Property taxes					23,079,625
Road and bridge privilege taxes					784,464
Grants and contributions not restricted to specific programs					-
Unrestricted interest income					67,667
Loss on sale of capital assets					(11,663)
Miscellaneous					653,159
Total general revenues					<u>24,573,252</u>
CHANGES IN NET POSITION					<u>(2,255,326)</u>
NET POSITION - BEGINNING					84,454,563
Prior period adjustment					(497,118)
NET POSITION - BEGINNING, AS RESTATED					<u>83,957,445</u>
NET POSITION - ENDING					<u>\$ 81,702,119</u>

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

EXHIBIT 3

FORREST COUNTY, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Negotiable Note Proceeds, 2013		
ASSETS					
Cash and cash equivalents	\$ 18,164,349	\$ 5,852,949	\$ 1,701,246	\$ 7,071,833	\$ 32,790,377
Cash with fiscal agents	43,069	-	-	55,057	98,126
Property tax receivable	17,623,750	2,849,484	-	4,907,033	25,380,267
Fines receivable (net of allowance for uncollectibles of \$5,507,922)	1,474,132	-	-	-	1,474,132
Intergovernmental receivables	315,389	-	-	10,797	326,186
Other receivables	31,273	-	-	-	31,273
Due from other funds	-	93,186	-	62,018	155,204
Total assets	\$ 37,651,962	\$ 8,795,619	\$ 1,701,246	\$ 12,106,738	\$ 60,255,565
LIABILITIES					
Claims payable	\$ 1,634,403	\$ 343,404	\$ 268,305	\$ 258,574	\$ 2,504,686
Intergovernmental payables	654,283	-	-	-	654,283
Due to other funds	164,974	-	-	-	164,974
Other payables	1,212,078	-	-	-	1,212,078
Total liabilities	<u>3,665,738</u>	<u>343,404</u>	<u>268,305</u>	<u>258,574</u>	<u>4,536,021</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	17,623,750	2,849,484	-	4,907,033	25,380,267
Unavailable revenue - fines	1,474,132	-	-	-	1,474,132
Total deferred inflows of resources	<u>19,097,882</u>	<u>2,849,484</u>	<u>-</u>	<u>4,907,033</u>	<u>26,854,399</u>
FUND BALANCES					
Restricted for:					
General government	-	-	-	35,067	35,067
Public safety	-	-	-	1,939,838	1,939,838
Public works	-	5,602,731	1,432,941	2,080,209	9,115,881
Conservation of natural resources	-	-	-	165,457	165,457
Debt service	-	-	-	2,589,981	2,589,981
Unemployment compensation	-	-	-	115,358	115,358
Committed to:					
Public safety	-	-	-	72,659	72,659
Culture and recreation	-	-	-	13,773	13,773
Unassigned	14,888,342	-	-	(71,211)	14,817,131
Total fund balances	<u>14,888,342</u>	<u>5,602,731</u>	<u>1,432,941</u>	<u>6,941,131</u>	<u>28,865,145</u>
Total liabilities and fund balances	\$ 37,651,962	\$ 8,795,619	\$ 1,701,246	\$ 12,106,738	\$ 60,255,565

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

EXHIBIT 3-1

FORREST COUNTY, MISSISSIPPI

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

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 28,865,145
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$61,059,419.	87,320,456
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,474,132
Long-term liabilities are not due and payable in the current period and, therefore is not reported in the funds.	(35,956,664)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(160,695)
Prepaid bond insurance	<u>159,745</u>
<i>Total net position - governmental activities (Exhibit 1)</i>	<u><u>\$ 81,702,119</u></u>

EXHIBIT 4

FORREST COUNTY, MISSISSIPPI

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Negotiable Note Proceeds, 2013		
REVENUES					
Property taxes	\$ 15,234,305	\$ 3,017,607	\$ -	\$ 4,827,713	\$ 23,079,625
Road and bridge privilege taxes	21,679	762,785	-	-	784,464
Licenses, commissions and other revenue	1,424,410	-	-	19,466	1,443,876
Fines and forfeitures	575,635	-	-	145,818	721,453
Intergovernmental revenues	2,420,237	852,363	-	996,997	4,269,597
Charges for services	2,053,387	-	-	-	2,053,387
Interest income	46,522	7,470	2,984	10,691	67,667
Miscellaneous revenues	316,516	1,047	-	424,809	742,372
Total revenues	<u>22,092,691</u>	<u>4,641,272</u>	<u>2,984</u>	<u>6,425,494</u>	<u>33,162,441</u>
EXPENDITURES					
Current:					
General government	11,208,298	-	-	755,588	11,963,886
Public safety	11,247,758	-	143,500	246,443	11,637,701
Public works	408,037	3,081,489	2,629,312	1,800,237	7,919,075
Health and welfare	1,016,784	-	-	-	1,016,784
Culture and recreation	697,089	-	-	1,132,006	1,829,095
Education	9,476	-	-	-	9,476
Conservation of natural resources	102,477	-	-	151,935	254,412
Economic development and assistance	384,990	-	-	-	384,990
Debt Service:					
Principal	87,783	-	-	2,345,932	2,433,715
Interest	1,262	-	-	1,143,474	1,144,736
Other debt service costs	-	-	-	70,576	70,576
Total expenditures	<u>25,163,954</u>	<u>3,081,489</u>	<u>2,772,812</u>	<u>7,646,191</u>	<u>38,664,446</u>
Excess of revenues over (under) expenditures	<u>(3,071,263)</u>	<u>1,559,783</u>	<u>(2,769,828)</u>	<u>(1,220,697)</u>	<u>(5,502,005)</u>
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	-	-	4,200,000	-	4,200,000
Refunding bonds issued	-	-	-	2,375,000	2,375,000
Proceeds from sale of capital assets	86,735	41,912	-	3,705	132,352
Premiums on bonds issued	-	-	-	83,994	83,994
Compensation for loss of capital assets	18,959	6,264	-	4,732	29,955
Transfers in	26,000	-	2,769	718,966	747,735
Transfers out	(660,000)	-	-	(87,735)	(747,735)
Other uses	(183,853)	-	-	-	(183,853)
Payments to bond refunding escrow agent	-	-	-	(2,359,688)	(2,359,688)
Total other financing sources (uses)	<u>(712,159)</u>	<u>48,176</u>	<u>4,202,769</u>	<u>738,974</u>	<u>4,277,760</u>
Net changes in fund balances	<u>(3,783,422)</u>	<u>1,607,959</u>	<u>1,432,941</u>	<u>(481,723)</u>	<u>(1,224,245)</u>
FUND BALANCES - BEGINNING	<u>18,671,764</u>	<u>3,994,772</u>	<u>-</u>	<u>7,422,854</u>	<u>30,089,390</u>
FUND BALANCES - ENDING	<u>\$ 14,888,342</u>	<u>\$ 5,602,731</u>	<u>\$ 1,432,941</u>	<u>\$ 6,941,131</u>	<u>\$ 28,865,145</u>

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

EXHIBIT 4-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Amount</u>
Net changes in fund balances - governmental funds (Exhibit 4)	\$ (1,224,245)
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 (\$4,045,423) exceeded depreciation (\$3,231,245) in the current period.	814,178
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss \$11,663 and the proceeds from the sale of \$132,352 in the current period.	(81,986)
Fine revenue recognized on the modified accrual basis in the funds during the current year decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	133,604
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt proceeds of \$6,629,306 exceeded debt repayments of \$4,763,715.	(1,865,591)

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2013**

	<u>Amount</u>
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
The amount of (increase) decrease in:	
Compensated absences	\$ (19,232)
Accrued interest payable	(26,228)
Amortization of deferred charges	(18,308)
Premium on refunding bond	42,466
Amortization of prepaid bond insurance	<u>(9,984)</u>
Change in net position of governmental activities (Exhibit 2)	<u><u>\$ (2,255,326)</u></u>

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

EXHIBIT 5

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2013**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 857,460
Due from other funds	<u>9,770</u>
Total assets	<u><u>\$ 867,230</u></u>
LIABILITIES	
Amounts held in custody for others	\$ 153,997
Other liabilities	657,988
Intergovernmental payables	<u>55,245</u>
Total liabilities	<u><u>\$ 867,230</u></u>

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

NOTES TO FINANCIAL STATEMENTS

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - Forrest 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 Forrest County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

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

- Forrest General Hospital
- Rawls Springs Volunteer Fire Department
- North Forrest Fire Protection District
- Forrest County Agricultural High School

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
- Tax Collector
- Sheriff

B. Individual Component Unit Disclosure:

Blended Component Units

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Forrest County Public Improvement Corporation was incorporated as a nonprofit under Section 31-8-3, Miss. Code Ann. (1972), which allows counties to enter into lease agreements with any corporation. The corporation's three-member board of directors is appointed by the Board of Supervisors. Although legally separate from the primary government, the corporation's balances and transactions are blended with the balances and transactions of the primary government. The corporation produces a financial benefit through its ability to finance the construction, acquisition and renovation of capital facilities for the primary government and imposes a financial burden on the primary government by obligating funds to repay the debt pursuant to a lease agreement. See Note 11 for further disclosure concerning the issuance of certificates of participation (COPs) and related capital facilities construction, acquisition and renovation.

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

Government-wide Financial Statements:

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fund Financial Statements:

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

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

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

The County reports the following major Governmental Funds:

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Negotiable Note Proceeds, 2013 - This fund is used to account for the loan proceeds for the Series 2013 \$4,200,000 general obligation five year note.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUND TYPES

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ -	N/A
Infrastructure	-	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For fiscal year 2013, deferred outflows of resources consist of deferred charges from bond issuance costs.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For fiscal year 2013, deferred inflows of resources consist of unearned revenues from property taxes.

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

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

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

L. Equity Classifications

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

Fund Financial Statements:

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

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

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

Committed fund balance includes amounts that can be used only for specific purposes pursuant to constraints imposed by a formal action of the Board of Supervisors, the County's highest level of decision-making authority. This formal action is an order of the Board of Supervisors as approved in the board minutes.

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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.

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

NOTE 2 - CHANGE IN ACCOUNTING STANDARD

The County, pursuant to GASB 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statements No. 14 and No. 34*, updated their documentation as to the determination of component units. As disclosed in Note 1, Management has chosen to omit from these financial statements the component units which have significant operational or financial relationships with the County.

For the fiscal year ended September 30, 2013, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effect on a government's net position.

For the fiscal year ended September 30, 2013, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

NOTE 3 - BEGINNING FUND BALANCE ADJUSTMENT

For the year ended September 30, 2013, the Series 2009 Bond & Interest Fund – Jail and the Public Improvement Proceeds, 2008 Fund were reclassified from Major Governmental Funds to Other Governmental Funds. This resulted in an increase to the Other Governmental Funds beginning fund balance of \$997,663.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 4 - PRIOR PERIOD ADJUSTMENT

A summary of the significant fund equity adjustment is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To adjust beginning balances of unamortized bond issuance costs	\$ 430,605
To adjust beginning balances of capital assets	66,513
<i>Total prior period adjustment</i>	<u>\$ 497,118</u>

NOTE 5 - DEPOSITS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2013, was \$33,725,028, and the bank balance was \$33,813,345. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Cash with Fiscal Agents - The carrying amount of the County's cash with fiscal agents held by financial institutions was \$98,126 at September 30, 2013. Included in this amount is \$55,057 in County's 2012 Qualified School Construction Bond Sinking Fund.

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.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 6 - INTERFUND TRANSACTIONS AND BALANCES

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

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Maintenance Fund	General Fund	\$ 93,186
Other Governmental Funds	General Fund	62,018
Agency Funds	General Fund	9,770
Total		\$ 164,974

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

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 26,000
Other Governmental Funds	General Fund	660,000
Negotiable Note Proceeds, 2013	Other Governmental Funds	2,769
Other Governmental Funds	Other Governmental Funds	58,966
Total		\$ 747,735

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 7 - INTERGOVERNMENTAL RECEIVABLES

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

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	\$ 289,080
Metro Narcotics	26,309
Solid Waste Grant Receivable	<u>10,797</u>
<i>Total governmental activities</i>	<u>\$ 326,186</u>

NOTE 8 - OTHER RECEIVABLES

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

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
General Fund:	
Tax Collector bad checks	\$ <u>31,273</u>
Total General Fund	<u>31,273</u>
<i>Total governmental activities</i>	<u>\$ 31,273</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 9 - CAPITAL ASSETS

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

Governmental activities:

	<u>Balance Oct. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance Sep. 30, 2013</u>
Non-depreciable capital assets:					
Land	\$ 1,414,183	\$ 722,876	\$ -	\$ -	\$ 2,137,059
Construction in progress	26,954	-	-	(26,954)	-
Total non-depreciable capital assets	<u>1,441,137</u>	<u>722,876</u>	<u>-</u>	<u>(26,954)</u>	<u>2,137,059</u>
Depreciable capital assets:					
Infrastructure	61,377,857	2,707,312	-	-	64,085,169
Buildings	65,518,903	-	-	-	65,518,903
Improvements other than buildings	1,253,034	175,500	-	(32,430)	1,396,104
Mobile equipment	13,262,425	370,253	588,397	7,146	13,051,427
Furniture and equipment	2,308,743	69,482	158,729	(28,283)	2,191,213
Total depreciable capital assets	<u>143,720,962</u>	<u>3,322,547</u>	<u>747,126</u>	<u>(53,567)</u>	<u>146,242,816</u>
Less accumulated depreciation for:					
Infrastructure	35,103,218	876,944	-	-	35,980,162
Buildings	13,150,159	1,292,082	-	-	14,442,241
Improvements other than buildings	487,805	54,112	-	(2,593)	539,324
Mobile equipment	8,167,276	872,182	519,849	14,039	8,533,648
Furniture and equipment	1,598,864	135,925	145,291	(25,454)	1,564,044
Total accumulated depreciation	<u>58,507,322</u>	<u>3,231,245</u>	<u>665,140</u>	<u>(14,008)</u>	<u>61,059,419</u>
Total depreciable capital assets, net	<u>85,213,640</u>	<u>91,302</u>	<u>81,986</u>	<u>(39,559)</u>	<u>85,183,397</u>
Governmental activities capital assets, net	<u>\$ 86,654,777</u>	<u>\$ 814,178</u>	<u>\$ 81,986</u>	<u>\$ (66,513)</u>	<u>\$ 87,320,456</u>

The adjustments to capital assets are due to the reclassification made between capital asset categories, to adjust for amounts included in prior year construction in progress that were determined to be less than the capitalization threshold, and to adjust for understatement of prior year balances as contained in the detailed subsidiary records.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 9 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	Amount
General government	\$ 815,801
Public safety	1,096,942
Public works	1,199,513
Health and welfare	6,603
Culture and recreation	91,511
Conservation of natural resources	20,875
Total governmental activities depreciation expense	\$ 3,231,245

NOTE 10 - CLAIMS AND JUDGMENTS

Risk Financing - The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2013, to January 1, 2014. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2013

NOTE 11 - LONG-TERM DEBT

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

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General obligation bonds:			
Multi-purpose center project refinancing, Series 2012	\$ 2,375,000	2.00%	12/2016
G.O. refunding bond, Series 2011	2,235,000	1.00% - 2.00%	03/2020
Public improvement bond, Series 2009	20,705,000	3.50 - 5.00%	03/2029
G.O. refunding bond, Series 2009B	2,570,000	3.00 - 3.50%	01/2019
G.O. negotiable notes, Series 2013	4,200,000	1.39%	12/2017
G.O. bond, Series 2012 (Qualified School Construction Bond)	<u>3,000,000</u>	0.00%	08/2027
Total general obligation bonds	<u><u>\$ 35,085,000</u></u>		
B. Other loans:			
Sunrise Volunteer Fire Department	\$ 13,353	2.99%	03/2014
Rawls Springs Volunteer Fire Department	14,091	2.99%	03/2014
Macedonia Volunteer Fire Department	12,687	2.99%	03/2014
Brooklyn Volunteer Fire Department	25,146	3.22%	02/2015
Dixie Volunteer Fire Department	<u>41,911</u>	3.22%	02/2015
Total other loans	<u><u>\$ 107,188</u></u>		

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2013

NOTE 11 - LONG-TERM DEBT (Cont.)

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

Governmental Activities:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 3,006,970	\$ 1,109,587
2015	3,093,326	1,033,106
2016	3,174,840	954,142
2017	3,271,514	870,094
2018	2,728,350	788,458
2019 - 2023	7,325,000	2,986,313
2024 - 2028	10,705,000 *	1,423,541
2029	1,780,000	44,500
Total	\$ 35,085,000	\$ 9,209,741

*Includes \$3,000,000 principal due on Qualified School Construction Bonds.

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 73,128	\$ 3,358
2015	34,060	1,097
Total	\$ 107,188	\$ 4,455

As more fully explained in Note 12, debt has been issued by the County that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

<u>Description and Purpose</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
G.O. bond, series 2012 (Qualified school construction bonds payable)	0%	8/1/2012	8/1/2027	\$ 3,000,000	\$ 3,000,000

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 11 - LONG-TERM DEBT (Cont.)

Certificates of Participation (COPs) designated as "qualified tax exempt obligations" for purposes of Section 265 of the Internal Revenue Code of 1986, as amended, were issued during the fiscal year ended September 30, 1995, for the purpose of financing the construction of a youth detention facility and for the acquisition and renovations of a shopping center to be used for a welfare building. The COPs are not general obligations of the County and, therefore, are not secured by the County's full faith and credit. However, the County, as lessee, is obligated as the sole source of payment pursuant to a 15-year lease purchase agreement for the youth detention facility and a 20-year lease purchase agreement for the public facilities project with the lessor, Forrest County Public Improvements Corporation, a blended component unit of Forrest County. Because the County's obligation to make lease payments is also the sole source of payment for the COPs, the lease obligation is not recorded. Instead the COPs are considered, in substance, limited debt obligations of the County, and accordingly, are reflected in the Statement of Net Position. The COPs are being retired by General Fund revenues, and title to the property will transfer to the County upon satisfactory performance of the lease terms.

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, 2013, the amount of outstanding debt was equal to 5.20% of the latest property assessments.

Current Refunding

On November 29, 2012, the County issued \$2,375,000 in general obligation refunding bonds with an average interest rate of 2.0% to advance refund \$2,330,000 of the following outstanding bond issue:

<u>Issue</u>	<u>Average Interest</u>	<u>Outstanding Amount Refunded</u>
G.O. Public Refunding Bonds, Series 2004	3.36%	\$ 2,330,000

The County refunded the above bonds to reduce its total debt service payments over the next four years by almost \$77,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$75,750.

FORREST COUNTY, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE EIGHTEEN
YEAR ENDED SEPTEMBER 30, 2013**

NOTE 11 - LONG-TERM DEBT (Cont.)

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

	<u>Balance Oct. 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments*</u>	<u>Balance Sep. 30, 2013</u>	<u>Amount Due Within One Year</u>
Governmental Activities:						
Compensated absences	\$ 546,338	\$ 19,232	\$ -	\$ -	\$ 565,570	\$ -
General obligation bonds	30,115,000	6,575,000	2,275,000	(2,330,000)	32,085,000	3,006,970
General obligation bonds - qualified school construction bond	3,000,000	-	-	-	3,000,000	-
Less:						
Deferred amount on refunding	(79,718)	(29,688)	(18,308)	-	(91,098)	-
Add:						
Premiums	248,476	83,994	42,466	-	290,004	-
Total general obligation bonds	<u>33,283,758</u>	<u>6,629,306</u>	<u>2,299,158</u>	<u>(2,330,000)</u>	<u>35,283,906</u>	<u>3,006,970</u>
Other loans	<u>265,903</u>	<u>-</u>	<u>158,715</u>	<u>-</u>	<u>107,188</u>	<u>73,128</u>
Total governmental activities	<u><u>\$ 34,095,999</u></u>	<u><u>\$ 6,648,538</u></u>	<u><u>\$ 2,457,873</u></u>	<u><u>\$ (2,330,000)</u></u>	<u><u>\$ 35,956,664</u></u>	<u><u>\$ 3,080,098</u></u>

*Adjustments reflect bonds refunded in November, 2012.

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 12 - QUALIFIED SCHOOL CONSTRUCTION BONDS

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance.

On August 1, 2012, the County issued G.O. Bond, Series 2012 (Qualified School Construction Bonds) on behalf of Forrest County Agricultural High School (FCAHS) in the amount of \$3,000,000. The stated interest rate on the bonds is 0% with an applicable tax credit rate of 4.41%. The County remitted the entire amount of the bond proceeds, net of \$26,494 issuance costs, to FCAHS for capital improvement projects. The net amount remitted for these bonds totaled \$2,973,506 for the year ended September 30, 2013 and is described as payments to component unit on the financial statement exhibits.

Pursuant to the bond documents, these bonds are to be repaid in full on August 1, 2027, from the proceeds of the annual minimum sinking fund deposit schedule. The County was originally scheduled to make 15 equal annual payments of \$200,000 into a sinking fund, with a maximum permitted yield of 3.34%. These sinking fund requirements were adjusted during fiscal year 2013 to reflect annual payments of \$210,000 for years 2014 – 2022 and \$211,000 for years 2023 – 2027. The amount accumulated in the sinking fund at the end of the 15-year period will be sufficient to retire the debt. The amount on deposit at September 30, 2013 was \$55,057.

The following schedule reports the projected annual deposits required for the sinking fund.
(Actual annual funding could be reduced by accumulated interest earned).

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 210,000
2015	210,000
2016	210,000
2017	210,000
2018	210,000
2019-2023	1,051,000
2024-2027	844,000
Total	\$ 2,945,000

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 13 - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

The following funds reported deficits in net position at September 30, 2013:

<u>Fund</u>	<u>Deficit Amount</u>
USM/Metro Crime Scene Unit	\$ 21,854
Multipurpose Center	49,357

NOTE 14 - 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 a defendant in a case that has been filed in the United States District Court for the Southern District of Mississippi that involves claims against the County by three former inmates, their families, and/or estates for wrongful arrest, conviction, and incarceration in connection with a capital murder committed in 1979. A companion case has also been filed to determine the duties of the County's former insurer to defend and/or indemnify the County against the plaintiffs' claims in the above-noted wrongful arrest, conviction, and incarceration litigation. Both cases are in the preliminary, pre-discovery stage, and their respective outcomes are considered to be uncertain as of June 30, 2014, which is the date the financial statements were available to be issued. Legal counsel also noted that both cases will involve significant defense costs that may be recoverable depending upon the resolution of the case involving the County's former insurer. To the extent that the wrongful arrest, conviction, and incarceration case may also involve a substantial settlement or judgment, the amount and structure of the same would be determined by several currently unknown factors, including but not limited to the resolution of the case involving the County's former insurer.

The County is party to other 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.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 15 - JOINT VENTURES

The County participates in the following joint ventures:

Forrest County is a participant with the City of Hattiesburg in a joint venture, authorized by Chapter 956, House Bill 1865, of the Local and Private Laws of 1994, to operate the Forrest County Industrial Park Commission. The joint venture was created to develop and operate an industrial park complex for the citizens of Forrest County and the City of Hattiesburg. The Forrest County Board of Supervisors appoints five of ten members of the board. By contractual agreement, the County's appropriation to the joint venture was \$130,000 in fiscal year 2013. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from Post Office Box 1898, Hattiesburg, Mississippi 39403.

Forrest County is a participant with Jones County, the Cities of Hattiesburg and Laurel, and the State of Mississippi in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1971), to operate the Hattiesburg-Laurel Regional Airport Authority. The joint venture was created to develop and maintain the airport for the members of the authority. The Forrest County Board of Supervisors appoints one of the five members of the board of commissioners. By contractual agreement, the County's appropriation to the joint venture was \$243,003 in fiscal year 2013. Complete financial statements for the Hattiesburg-Laurel Regional Airport Authority can be obtained from 1002 Terminal Drive, Moselle, Mississippi 39459.

Forrest County is a participant with the Cities of Hattiesburg and Petal in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Library of Hattiesburg, Petal and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The Forrest County Board of Supervisors appoints six of the fifteen members of the board of directors. By contractual agreement, the County's appropriation to the joint venture was \$719,229 in fiscal year 2013. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

The County participates in the following jointly governed organizations:

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Forrest County Board of Supervisors appoints two of the sixteen members of the college board of trustees. The County appropriated \$1,219,947 for maintenance and support of the college in fiscal year 2013.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2013

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Forrest County Board of Supervisors appoints one of the nine members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The County contributed \$257,050 for support of the district in fiscal year 2013.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone, and Wayne. The Forrest County Board of Supervisors appoints one of the twenty-seven members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$115,561 to the agency in fiscal year 2013.

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River, and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Forrest County Board of Supervisors appoints one of the twenty-four members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each County provides a modest amount of financial support when matching funds are required for federal grants. Contributions for fiscal year 2013 totaled \$25,000.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Forrest County Board of Supervisors appoints one of the nine members of the board of commissioners. The County appropriated \$201,875 for support of the agency in fiscal year 2013.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a fifteen member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Pearl and Leaf Rivers Rails-to-Trails Recreational District operates in a district composed of the Counties of Forrest, Jefferson Davis and Lamar and the Cities of Bassfield, Hattiesburg, Prentiss and Sumrall. The Forrest County Board of Supervisors appoints one of seven members of the board of directors. The County appropriated \$132,021 for the support of the district in fiscal year 2013.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-THREE

YEAR ENDED SEPTEMBER 30, 2013

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

The City of Hattiesburg - Forrest County Emergency Management District operates in a district composed of Forrest County and the City of Hattiesburg. The Forrest County Board of Supervisors appoints three of the six members of the council. Operating funds are provided by state grants, E-911 charges and direct contributions.

NOTE 17 - DEFINED BENEFIT PENSION PLAN

Plan Description - Forrest 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, Mississippi 39201-1005 or by calling 1-800-444-PERS.

Funding Policy - At September 30, 2013, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2013 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ended September 30, 2013, 2012, and 2011 were \$1,768,026, \$1,342,313, and \$1,187,799 respectively, equal to the required contributions for each year.

NOTE 18 - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Forrest County evaluated the activity of the County through June 30, 2014, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-FOUR

YEAR ENDED SEPTEMBER 30, 2013

NOTE 18 - SUBSEQUENT EVENTS (Cont.)

In July, 2013 the County executed the necessary documentation required to create a regional economic development alliance named the Forrest-Lamar Alliance. This allowed the County to enter into an Alliance Agreement pursuant to the terms and provisions of Sections 54-64-1, et seq, Ms. Annotated Code of 1972, known as the "Regional Economic Development Act (REDA)". On October 7, 2013, Forrest and Lamar Counties submitted applications to the Mississippi Development Authority and received Certificates of Public Convenience and Necessity documentation and obtained approval of the REDA Agreement from the State of Mississippi's Attorney General's Office. This agreement prescribes cost and revenue-sharing ratios, bonding arrangements, and procedural guidelines for the administration of the Alliance.

The County is involved in litigation regarding Phillip Bivens, et al. vs. Forrest County, et al. (S.D.Miss. No. 2:13-CV-8), which involves claims against the County by three former inmates, their families, and/or their estates for wrongful arrest, conviction, and incarceration in connection with a capital murder committed in 1979. A companion case, the Travelers Indemnity Company, et al. vs. Forrest County, et al. (S.D.Miss. No. 214-CV-22) has been filed to determine the duties of the County's former insurer to defend and/or indemnify the County against the Bivens plaintiff's claims. Both cases are in the preliminary, pre-discovery stage, and their respective outcomes are uncertain. Both cases will involve significant defense costs that may be recoverable depending upon the resolution of the Travelers case. To the extent that the Bivens case may also involve a substantial settlement or judgment, the amount and structure of the same would be determined by several currently unknown factors, including but not limited to the resolution of the Travelers case.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2013**

	Original Budget
REVENUES	
Property taxes	\$ 15,085,410
Licenses, commissions and other revenue	1,056,210
Fines and forfeitures	510,000
Intergovernmental revenues	1,534,500
Charges for services	1,500,000
Interest income	28,300
Miscellaneous revenues	74,500
<i>Total revenues</i>	<u>19,788,920</u>
EXPENDITURES	
Current:	
General government	12,824,887
Public safety	10,529,683
Public works	243,003
Health and welfare	1,098,374
Culture and recreation	1,652,853
Education	9,476
Conservation of natural resources	108,153
Economic development and assistance	242,484
Debt Service	137,912
<i>Total expenditures</i>	<u>26,846,825</u>
Excess of revenues over (under) expenditures	<u>(7,057,905)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	568,627
Transfers out	(685,000)
Other financing sources	-
Other financing uses	(10,000)
<i>Total other financing sources and uses</i>	<u>(126,373)</u>
NET CHANGE IN FUND BALANCES	(7,184,278)
Fund balances - beginning	<u>18,568,629</u>
Fund balances - ending	<u><u>\$ 11,384,351</u></u>

The accompanying notes to the required supplemental information are an integral part of this statement.

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 15,075,410	\$ 15,219,968	\$ 144,558
1,067,114	1,444,617	377,503
510,175	580,091	69,916
2,674,599	3,042,753	368,154
2,000,000	2,053,387	53,387
28,300	45,844	17,544
191,975	197,857	5,882
<u>21,547,573</u>	<u>22,584,517</u>	<u>1,036,944</u>
12,245,321	11,003,390	1,241,931
11,027,805	10,699,168	328,637
412,608	410,596	2,012
1,081,968	1,011,436	70,532
1,784,056	1,297,382	486,674
9,476	9,476	-
108,153	100,021	8,132
283,984	272,916	11,068
137,912	137,912	-
<u>27,091,283</u>	<u>24,942,297</u>	<u>2,148,986</u>
<u>(5,543,710)</u>	<u>(2,357,780)</u>	<u>3,185,930</u>
568,627	26,000	(542,627)
(720,750)	(173,887)	546,863
105,694	105,694	-
<u>(3,050)</u>	<u>(9,966)</u>	<u>(6,916)</u>
<u>(49,479)</u>	<u>(52,159)</u>	<u>(2,680)</u>
(5,593,189)	(2,409,939)	3,183,250
18,623,222	18,623,222	-
<u>\$ 13,030,033</u>	<u>\$ 16,213,283</u>	<u>\$ 3,183,250</u>

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2013**

	Original Budget
REVENUES	
Property taxes	\$ 2,784,171
Road and bridge privilege taxes	500,000
Intergovernmental revenues	565,000
Interest income	3,000
Miscellaneous revenues	300
Total revenues	<u>3,852,471</u>
EXPENDITURES	
Current:	
Public works	<u>4,224,280</u>
Total expenditures	<u>4,224,280</u>
Excess of revenues over (under) expenditures	<u>(371,809)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	<u>-</u>
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(371,809)
Fund balances - beginning	<u>3,300,000</u>
Fund balances - ending	<u>\$ 2,928,191</u>

The accompanying notes to the required supplemental information are an integral part of this statement.

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 2,911,371	\$ 3,016,527	\$ 105,156
761,337	761,337	-
747,000	852,363	105,363
3,000	7,467	4,467
1,146	1,047	(99)
<u>4,423,854</u>	<u>4,638,741</u>	<u>214,887</u>
<u>4,224,280</u>	<u>2,819,805</u>	<u>1,404,475</u>
<u>4,224,280</u>	<u>2,819,805</u>	<u>1,404,475</u>
<u>199,574</u>	<u>1,818,936</u>	<u>1,619,362</u>
<u>48,176</u>	<u>48,176</u>	<u>-</u>
<u>48,176</u>	<u>48,176</u>	<u>-</u>
247,750	1,867,112	1,619,362
<u>3,985,834</u>	<u>3,985,834</u>	<u>-</u>
<u>\$ 4,233,584</u>	<u>\$ 5,852,946</u>	<u>\$ 1,619,362</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2013

NOTE 1 - 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, the Tax Assessor and the Tax 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.

NOTE 2 - 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.

NOTE 3 - 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).

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2013

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

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

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Road and Bridge Maintenance Fund</u>
Budget (cash basis)	\$ (2,409,939)	\$ 1,867,112
Increase (decrease):		
Net adjustments for revenue accruals	(491,826)	2,529
Net adjustments for expenditure accruals	<u>(881,657)</u>	<u>(261,682)</u>
GAAP Basis	<u>\$ (3,783,422)</u>	<u>\$ 1,607,959</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture:</i>			
Passed-through Mississippi Office of State Treasurer Schools and Roads - Grants to States	10.665*	N/A	<u>\$ 179,565</u>
<i>U.S. Department of Housing and Urban Development:</i>			
Passed-through the Mississippi Development Authority HOME Investment Partnerships Program	14.239	1218-M06-SG-280-134	<u>125,000</u>
<i>U.S. Department of the Interior:</i>			
Payments in Lieu of Taxes (Direct Program)	15.226	N/A	<u>16,805</u>
<i>U.S. Department of Justice:</i>			
Passed-through the City of Hattiesburg Edward Byrne Memorial Justice Assistance Grant Program	16.738*	2012-DJ-BX-1161	9,620
Passed-through the Mississippi Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738*	11NM1181	69,679
Edward Byrne Memorial Justice Assistance Grant Program Total U.S. Department of Justice	16.738*	12NM1181	<u>166,503</u> <u>245,802</u>
<i>U.S. Department of Transportation:</i>			
Federal Highway Administration/Passed-through the Mississippi Department of Transportation: Highway Planning and Construction	20.205	N/A	<u>42,850</u>

SCHEDULE 3
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Health and Human Services:</i>			
Substance Abuse and Mental Health Services Administration Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Direct Program)	93.243	N/A	<u>\$ 46,898</u>
<i>U.S. Department of Homeland Security:</i>			
Passed-through the Mississippi Emergency Management Agency Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	<u>19,805</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 676,725</u>

FORREST COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2013**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - CFDA 10.665 SCHOOL AND ROADS - GRANTS TO STATES

Of the federal expenditures presented in the schedule, the County provided federal awards totaling \$103,250 to subrecipients during the year ended September 30, 2013.

OTHER INFORMATION

SCHEDULE 4

SCHEDULE OF SURETY BONDS FOR COUNTY OFFICIALS - UNAUDITED
Year Ended September 30, 2013

Position	Company	Bond
Supervisor District 1	Brierfield Insurance Company	\$ 100,000
Supervisor District 2	Brierfield Insurance Company	100,000
Supervisor District 3	Brierfield Insurance Company	100,000
Supervisor District 4	Western Surety Company	100,000
Supervisor District 5	Brierfield Insurance Company	100,000
County Administrator	Brierfield Insurance Company	100,000
Chief Financial Officer	Brierfield Insurance Company	100,000
Chancery Clerk	Brierfield Insurance Company	100,000
Purchase Clerk	Brierfield Insurance Company	75,000
Receiving Clerk	Brierfield Insurance Company	75,000
Assistant Receiving Clerks, each	Brierfield Insurance Company	50,000
Inventory Control Clerk	Brierfield Insurance Company	75,000
Road Manager	Brierfield Insurance Company	100,000
Constables, each	Brierfield Insurance Company	50,000
Circuit Clerk	Brierfield Insurance Company	100,000
Deputy Circuit Clerks	Brierfield Insurance Company	50,000
Sheriff	Brierfield Insurance Company	100,000
Sheriff's Deputies, each	Brierfield Insurance Company	50,000
Justice Court Judges, each	Brierfield Insurance Company	50,000
Deputy Justice Court Clerks, each	Brierfield Insurance Company	50,000
Tax Collector	Brierfield Insurance Company	100,000
Tax Assessor	Brierfield Insurance Company	100,000
Deputy Tax Collectors, each	Brierfield Insurance Company	50,000
Deputy Tax Assessors, each	Brierfield Insurance Company	25,000

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**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
Forrest County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated JUNE 30, 2014. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units.

Internal Control Over Financial Reporting

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2013-01 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2013-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Forrest 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2013-03 and 2013-04.

Forrest County, Mississippi's Response to Findings

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

Members of the Board of Supervisors
Forrest County, Mississippi

Purpose of this Report

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 30, 2014

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

Members of the Board of Supervisors
Forrest County, Mississippi

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Forrest County, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and*

Members of the Board of Supervisors
Forrest County, Mississippi

Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Forrest County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Forrest County, Mississippi's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

Members of the Board of Supervisors
Forrest County, Mississippi

deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 30, 2014

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**INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM, AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115, MISSISSIPPI CODE ANNOTATED [1972])**

Members of the Board of Supervisors
Forrest County, Mississippi

We have examined Forrest County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2013. The Board of Supervisors of Forrest 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 Forrest 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.

Members of the Board of Supervisors
Forrest County, Mississippi

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

In our opinion, Forrest County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2013.

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 30, 2014

SCHEDULE 5

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2013**

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

SCHEDULE 6

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2013**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
03/26/13	Computer and back-up hard drive	\$ 850	Best Buy	Computer crashed during trial

SCHEDULE 7

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2013**

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

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**LIMITED INTERNAL CONTROL AND
COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors
Forrest County, Mississippi

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

Sheriff

1. Finding

Monthly bank reconciliations are not being prepared for the sheriff's clearing account.

Recommendation

We recommend that monthly bank reconciliations are prepared and reviewed on a timely basis.

Sheriff's Response

The Sheriff's office will prepare monthly bank reconciliations on the Sheriff's clearing account. This will be reviewed and final approval given as acknowledged by the Sheriff's signature.

2. Finding

The September 2013 settlement was not remitted to the Chancery Clerk.

Recommendation

The Sheriff's office should remit receipts to the Chancery Clerk during the subsequent month of receipt.

Sheriff's Response

The Sheriff's office will remit receipts to the Chancery Clerk as settlement of the subsequent month's receipts. The noted September 2013 settlement will be remitted as this time having identified the error.

3. Finding

According to the Mississippi Code subsection 19-25-73, prisoner's meals are not to exceed \$6.00 per day. The \$6.00 must include the cost of the meals and wages paid to employees for preparing the meals. During fieldwork, it was noted that the prisoners' meals exceed \$6.00 per day.

Members of the Board of Supervisors
Forrest County, Mississippi

3. Finding (Cont.)

Recommendation

We recommend that the meals be adjusted to meet the \$6.00 per day maximum.

Sheriff's Response

The Sheriff's office is working with a meal planner to reduce the prisoner per day meal costs.

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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 30, 2014

***SCHEDULE OF FINDINGS AND
QUESTIONED COSTS
AND RESPONSES***

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2013**

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Unqualified |
| | Each major fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | A. Material weaknesses identified? | Yes |
| | B. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major programs: | |
| | A. Material weaknesses identified? | None reported |
| | B. Significant deficiency identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major federal programs | Unqualified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section_.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads – Grants to States
16.738	Edward Byrne Memorial Justice Assistance Program

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2013

SECTION 1: SUMMARY OF AUDITOR'S RESULTS (Cont.)

Federal Awards Continued:

- | | | |
|----|--|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

SECTION 2: FINANCIAL STATEMENT FINDINGS

Material Weakness

- 2013-01 The financial statements do not include the financial data for the County's legally separate component units.

Finding

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

Recommendation

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

Board of Supervisor's Response

Corrective action will be taken in the form of maintaining the data.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2013

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Significant Deficiency

2013-02 The Sheriff's Office is not preparing monthly bank reconciliations on the Sheriff's clearing account.

Finding

Monthly bank reconciliations are not being prepared for the sheriff's clearing account.

Recommendation

The Sheriff's office should prepare monthly bank reconciliations and have them reviewed on a timely basis.

Sheriff's Response

The Sheriff's office will prepare monthly bank reconciliations on the Sheriff's clearing account. This will be reviewed and final approval given as acknowledged by the Sheriff's signature.

Compliance

2013-03 The September 2013 settlement was not remitted by the Sheriff's office to the Chancery Clerk.

Finding

The September 2013 settlement was not remitted to the Chancery Clerk.

Recommendation

The Sheriff's office should remit receipts to the Chancery Clerk during the subsequent month of receipt.

Sheriff's Response

The Sheriff's office will remit receipts to the Chancery Clerk as settlement of the subsequent month's receipts. The noted September 2013 settlement will be remitted at this time having identified the error.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2013

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

2013-04 Prisoner's meals exceed the \$6.00 per day maximum.

Finding

According to the Mississippi Code subsection 19-25-73, prisoner's meals are not to exceed \$6.00 per day. The \$6.00 must include the cost of the meals and wages paid to employees for preparing the meals. During fieldwork, it was noted that the prisoners' meals exceed \$6.00 per day.

Recommendation

We recommend that the meals be adjusted to meet the \$6.00 per day maximum.

Sheriff's response

The Sheriff's office is working with a meal planner to reduce the prisoner per day meal costs.

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

Forrest County, Mississippi

SUMMARY SCHEDULE FOR PRIOR AUDIT FINDINGS

Year Ended September 30, 2013

BOARD OF SUPERVISORS

DAVID HOGAN
DISTRICT 1, PRESIDENT

CHARLES MARSHALL
DISTRICT 2

BURKETT ROSS
DISTRICT 3

RODERICK WOULLARD
DISTRICT 4, VICE PRESIDENT

CHRIS BOWEN
DISTRICT 5



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ATTORNEY

BETTY CARLISLE
COUNTY ADMINISTRATOR

**Summary Schedule of Prior Audit Findings
Year Ended September 30, 2013**

The following is an update of the prior audit finding and is prepared in accordance with the Office of Management and Budget Circular A-133, Section .315(b).

Finding 2012-2

Summary of prior audit finding – Controls over grant reporting should be implemented

CFDA 93.243 U.S. Department of Health and Human Services

Status – FULLY CORRECTED

The County has implemented documented review procedures that would allow for accurate and complete reporting of grant activities, including documentation of person responsible for filing required reports and person responsible for reviewing the reports for accuracy. Responsible personnel will have regular discussions regarding reporting compliance.

Contact: Betty Carlisle, County Administrator

Finding 2012-3

Summary of prior audit finding – Controls over cash management should be implemented

CFDA 93.243 U.S. Department of Health and Human Services

Status – FULLY CORRECTED

The County has implemented procedures that will allow for a documented reimbursement payment process based upon program costs that are paid pursuant to this grant program. Cash management compliance will be met by only drawing down cash for reimbursement of current expenditures.

Contact: Betty Carlisle, County Administrator