



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

Calhoun County, Mississippi
Audited Financial Statements
and Special Reports
For the Year Ended
September 30, 2016

Fortenberry & Ballard, PC
Certified Public Accountants

Calhoun County, Mississippi
TABLE OF CONTENTS

PAGE #

FINANCIAL SECTION

Independent Auditor's Report.....	4
-----------------------------------	---

FINANCIAL STATEMENTS

Statement of Net Position.....	8
Statement of Activities	9
Balance Sheet - Governmental Funds	10
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Net Position - Proprietary Fund.....	14
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Fund.....	15
Statement of Cash Flows - Proprietary Fund.....	16
Statement of Fiduciary Assets and Liabilities.....	17
Notes to the Financial Statements	19
Notes to the Component Unit - Calhoun Health Services.....	50

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund.....	62
Budgetary Comparison Schedule - State Aid Fund.....	63
Schedule of the County's Proportionate Share of the Net Pension Liability.....	64
Schedule of the County's Contributions.....	65
Notes to the Required Supplementary Information.....	66

OTHER INFORMATION

Schedule of Surety Bonds for County Officials.....	69
--	----

SPECIAL REPORTS

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 <i>Government Auditing Standards</i>	71
Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)).....	73
Limited Internal Control and Compliance Review Management Report	80
Schedule of Findings and Responses.....	87

FINANCIAL REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Calhoun County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component unit, and the aggregate remaining fund information of Calhoun County, Mississippi (the County) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements 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 did not audit the financial statements of Calhoun County Health Services, component unit, which represent 100 percent, of the assets, net position, and revenues of the aggregate discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the aforementioned component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of Calhoun County, Mississippi, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules and corresponding notes, the Schedule of the County's Proportionate Share of the Net Pension Liability, and Schedule of the County's Contributions 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 and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Omission of Required Supplementary Information

Calhoun County, Mississippi has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial

statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Calhoun County, Mississippi's basic financial statements. The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2019, on our consideration of the Calhoun County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Calhoun County, Mississippi's internal control over financial reporting and compliance.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 26, 2019

Certified Public Accountants

FINANCIAL STATEMENTS

CALHOUN COUNTY, MISSISSIPPI
Statement of Net Position
September 30, 2016

Exhibit 1

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Calhoun County Health Services
ASSETS				
Cash	\$ 3,241,885	\$ 496,316	\$ 3,738,201	\$ 7,321,628
Cash - patient funds held by facility				57,085
Investments				48
Property tax receivable	4,533,305		4,533,305	
Accounts receivable (net of allowance for uncollectibles of \$346,431)		82,026	82,026	
Patient accounts receivable (net of allowance for uncollectibles of \$1,537,950)				3,365,625
Fines receivable (net of allowance for uncollectibles of \$997,716)	256,650		256,650	
Intergovernmental receivables	150,483	20,570	171,053	
Other receivables	45,428	4,845	50,273	1,178,960
Internal balances	114,944	(114,944)		
Estimated third-party payor settlements				539,792
Prepaid items				38,710
Inventories				250,244
Other assets				251,986
Capital assets:				
Land and construction in progress	1,095,822		1,095,822	44,800
Other capital assets, net	19,067,565	460,241	19,527,806	3,489,679
Total Assets	<u>28,506,082</u>	<u>949,054</u>	<u>29,455,136</u>	<u>16,538,557</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred amount related to pensions	1,128,569	99,604	1,228,173	-
Total Deferred Outflows of Resources	<u>1,128,569</u>	<u>99,604</u>	<u>1,228,173</u>	<u>-</u>
LIABILITIES				
Claims payable	274,392	80,114	354,506	2,570,135
Intergovernmental payables	113,806	63	113,869	
Accrued interest payable	30,793		30,793	
Amounts held in custody for others	11,322		11,322	153,559
Claims and judgments payable	131,069		131,069	
Long-term liabilities				
Due with one year:				
Capital debt	447,041	149,221	596,262	17,700
Non capital debt	3,656		3,656	909,173
Due in more than one year:				
Capital debt	3,615,956	108,673	3,724,629	28,885
Non-capital debt	150,772	28,560	179,332	
Net Pension Liability	5,626,229	497,395	6,123,624	
Total Liabilities	<u>10,405,036</u>	<u>864,026</u>	<u>11,269,062</u>	<u>3,679,452</u>
DEFERRED INFLOWS OF RESOURCES				
Property tax for future reporting period	4,533,305		4,533,305	-
Unearned revenue for future reporting period	175,000	51,821	226,821	-
Total Deferred Inflows of Resources	<u>4,708,305</u>	<u>51,821</u>	<u>4,760,126</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	16,100,390	202,347	16,302,737	2,578,721
Restricted for:				
Expendable:				
General government	45,556		45,556	
Public safety	225,059		225,059	
Public works	1,289,293		1,289,293	
Culture and recreation	20,678		20,678	
Economic development and assistance	26,412		26,412	
Debt service	313,865		313,865	
Unrestricted	(3,499,943)	(69,536)	(3,569,479)	10,280,384
Total Net Position	<u>\$ 14,521,310</u>	<u>\$ 132,811</u>	<u>\$ 14,654,121</u>	<u>\$ 12,859,105</u>

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

CALHOUN COUNTY, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2016

Exhibit 2

					Net (Expense) Revenue and Changes in Net Position			Component Unit
Program Revenues					Primary Government			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Calhoun County Health Services
Primary government								
Government activities								
General government	\$ 2,879,783	332,238	52,218		(2,495,327)		(2,495,327)	
Public safety	1,238,982	299,350	106,777	560	(832,295)		(832,295)	
Public works	2,765,152		699,467	1,293,163	(772,522)		(772,522)	
Health and welfare	169,065		31,436		(137,629)		(137,629)	
Culture and recreation	39,719				(39,719)		(39,719)	
Education	277,497				(277,497)		(277,497)	
Conservation of natural resources	93,518				(93,518)		(93,518)	
Economic development and assistance	52,276				(52,276)		(52,276)	
Interest on long-term debt	159,257				(159,257)		(159,257)	
Pension Expense	811,292				(811,292)		(811,292)	
Total Governmental Activities	8,486,541	631,588	889,898	1,293,723	(5,671,332)		(5,671,332)	
Business-type activities:								
Solid Waste	789,421	830,487	11,473			52,539	52,539	
Pension Expense	70,642					(70,642)	(70,642)	
Total Business-type Activities	860,063	830,487	11,473	-	-	(18,103)	(18,103)	
Total Primary Government	9,346,604	1,462,075	901,371	1,293,723	(5,671,332)	(18,103)	(5,689,435)	
Component unit:								
Calhoun County Health Services	17,949,787	17,932,483		206,803				189,499
Component Unit	17,949,787	17,932,483	-	206,803				189,499
General revenues:								
Property taxes					\$ 5,050,412		5,050,412	
Road & bridge privilege taxes					172,736		172,736	
Grants and contributions not restricted to specific programs					461,392		461,392	
Unrestricted interest income					11,341	1,021	12,362	1,559
Miscellaneous					113,488	196,534	310,022	114,656
Total General Revenues					5,809,369	197,555	6,006,924	116,215
Changes in Net Position					138,037	179,452	317,489	305,714
Net Position - Beginning of year, as previously reported					14,396,527	(38,724)	14,357,803	12,553,391
Prior period adjustments					(13,254)	(7,917)	(21,171)	
Net Position - Beginning of year, as restated					14,383,273	(46,641)	14,336,632	12,553,391
Net Position - End of year					\$ 14,521,310	132,811	14,654,121	12,859,105

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

CALHOUN COUNTY, MISSISSIPPI

Balance Sheet - Governmental Funds

September 30, 2016

Exhibit 3

	Major Funds		Other	Total
	General	State Aid	Governmental	Governmental
	Fund	Fund	Funds	Funds
ASSETS				
Cash	\$ 1,084,547	\$ 53,060	\$ 2,104,278	\$ 3,241,885
Property tax receivable	2,850,870		1,682,435	4,533,305
Fines receivable (net of allowance for uncollectibles of \$997,716)	256,650			256,650
Intergovernmental receivables	91,609		58,874	150,483
Other receivables	28,090		14,338	42,428
Due from other funds	128,249		43,951	172,200
Advances to other funds	125,505		22,732	148,237
Total Assets	<u>\$ 4,565,520</u>	<u>\$ 53,060</u>	<u>\$ 3,926,608</u>	<u>\$ 8,545,188</u>
LIABILITIES				
Liabilities:				
Claims payable	\$ 114,891	\$ 17,708	\$ 141,793	\$ 274,392
Intergovernmental payables	112,732		1,074	113,806
Due to other funds	43,951		105,810	149,761
Advances from other funds	16,795		35,937	52,732
Amounts held in custody for others	11,322			11,322
Claims and judgments payable	131,069			131,069
Total Liabilities	<u>430,760</u>	<u>17,708</u>	<u>284,614</u>	<u>733,082</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	2,850,870		1,682,435	4,533,305
Unavailable revenue - fines	256,650			256,650
Unavailable revenue - federal grant revenue			175,000	175,000
Total Deferred Inflows of Resources	<u>3,107,520</u>	<u>0</u>	<u>1,857,435</u>	<u>4,964,955</u>
FUND BALANCES				
Nonspendable:				
Advances	125,505			125,505
Restricted for:				
General government			45,556	45,556
Public safety			225,059	225,059
Public works		35,352	1,253,941	1,289,293
Culture and recreation			20,678	20,678
Economic development and assistance			26,412	26,412
Debt service			344,658	344,658
Unassigned	901,735		(131,745)	769,990
Total Fund Balances	<u>1,027,240</u>	<u>35,352</u>	<u>1,784,559</u>	<u>2,847,151</u>
Total Liabilities, Deferred Inflows and Fund Balance	<u>\$ 4,565,520</u>	<u>\$ 53,060</u>	<u>\$ 3,926,608</u>	<u>\$ 8,545,188</u>

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

CALHOUN COUNTY, MISSISSIPPIExhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2016

Total Fund Balance - Governmental Funds	\$ 2,847,151
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 \$8,245,932.	20,163,387
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	256,650
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(4,217,425)
Pension obligations are not due and payable in the current period and, therefore are not reportable in the funds.	(5,626,229)
Deferred outflows of resources related to pension obligations are applicable to future periods and, therefore are not reported in the funds.	1,128,569
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(30,793)</u>
Total Net Position - Governmental Activities	\$ <u><u>14,521,310</u></u>

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

CALHOUN COUNTY, MISSISSIPPI

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2016

Exhibit 4

	Major Funds		Other	Total
	General	State Aid	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 3,170,474	\$	\$ 1,879,938	\$ 5,050,412
Road and bridge privilege taxes			172,736	172,736
Licenses, commissions and other revenue	142,036		20,281	162,317
Fines and forfeitures	208,908		40,191	249,099
Intergovernmental revenues	661,457	1,217,195	766,361	2,645,013
Charges for services	67,150		142,200	209,350
Interest income	6,653		4,688	11,341
Miscellaneous revenues	32,568		50,091	82,659
Total Revenues	<u>4,289,246</u>	<u>1,217,195</u>	<u>3,076,486</u>	<u>8,582,927</u>
EXPENDITURES				
Current:				
General government	2,643,701		279,919	2,923,620
Public safety	908,485		421,862	1,330,347
Public works		1,211,414	2,294,091	3,505,505
Health and welfare	141,734			141,734
Culture and recreation			29,429	29,429
Education	277,497			277,497
Conservation and natural resources	83,837		17,406	101,243
Economic development and assistance	15,673		36,603	52,276
Debt service:				
Principal	12,446		409,022	421,468
Interest			155,339	155,339
Total Expenditures	<u>4,083,373</u>	<u>1,211,414</u>	<u>3,643,671</u>	<u>8,938,458</u>
Excess of Revenues over (under) expenditures	<u>205,873</u>	<u>5,781</u>	<u>(567,185)</u>	<u>(355,531)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term capital debt	174,552		565,904	740,456
Proceeds from sale of capital assets			82,892	82,892
Transfers in			324,000	324,000
Transfers out	(324,000)			(324,000)
Total Other Financing Sources (Uses)	<u>(149,448)</u>	<u>-</u>	<u>972,796</u>	<u>823,348</u>
Net Changes in Fund Balances	<u>56,425</u>	<u>5,781</u>	<u>405,611</u>	<u>467,817</u>
Fund Balances - Beginning of year	<u>970,815</u>	<u>29,571</u>	<u>1,378,948</u>	<u>2,379,334</u>
Fund Balances - End of year	<u>\$ 1,027,240</u>	<u>\$ 35,352</u>	<u>\$ 1,784,559</u>	<u>\$ 2,847,151</u>

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

CALHOUN COUNTY, MISSISSIPPI**Exhibit 4-1**

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

Net Changes in Fund Balances - Governmental Funds \$ 467,817

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

Governmental Funds report capital outlays as expenditures. However, in the
Statement of Activities, the cost of those assets is allocated over their estimated
useful lives and reported as depreciation expense. Thus, the change in net position
differs from the change in fund balances by the amount that capital outlays of
\$1,318,895, exceeded depreciation of \$790,029, in the current period. 528,866

In the Statement of Activities, only gains and losses from the sale of capital assets
are reported, whereas in the Governmental Funds, proceeds from the sale of capital
assets increase financial resources. Thus, the change in net position differs from the
change in fund balances by the amount of the net gain of \$30,829 and loss of \$2,630
and the proceeds from the sale of \$82,892. (54,693)

Fine revenue recognized on the modified accrual basis in the funds during the
current year is reduced because prior year recognition would have been required
on the Statement of Activities using the full-accrual basis of accounting. 10,822

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 of debt proceeds
of \$740,456 exceeded debt repayments of \$421,468. (318,988)

Items reported in the Statement of Activities relating to the implementation of GASB 68 are
not reported in the governmental funds. These activities include:

Recognition of pension expense for the current year	(811,292)
Recognition of contributions made during the fiscal year	317,971

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:

(Increase) Decrease in accrued interest payable	(3,918)
(Increase) Decrease in compensated absences	1,452

Change in Net Position of Governmental Activities \$ 138,037

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

CALHOUN COUNTY, MISSISSIPPI
Statement of Net Position - Proprietary Fund
September 30, 2016

Exhibit 5

	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 496,316
Accounts receivable (net of allowance for uncollectibles of \$346,431)	82,026
Intergovernmental receivables	20,570
Other receivables	4,845
Total Current Assets	<u>603,757</u>
Noncurrent assets:	
Capital assets:	
Other capital assets, net	460,241
Total Noncurrent Assets	<u>460,241</u>
Total Assets	<u>1,063,998</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount related to pensions	99,604
Total Deferred Outflows of Resources	<u>99,604</u>
 LIABILITIES	
Current liabilities:	
Claims payable	80,114
Intergovernmental payables	63
Due to other funds	19,439
Advances from other funds	95,505
Capital debt:	
Capital leases payable	149,221
Total Current Liabilities	<u>344,342</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	108,673
Non-capital debt:	
Compensated absences payable	28,560
Net pension liability	497,395
Total Noncurrent Liabilities	<u>634,628</u>
Total Liabilities	<u>978,970</u>
 DEFERRED INFLOWS OF RESOURCES	
Unearned revenue for future reporting period	51,821
Total Deferred Inflows of Resources	<u>51,821</u>
 NET POSITION	
Net investment in capital assets	202,347
Unrestricted	(69,536)
Total Net Position	<u>\$ 132,811</u>

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

CALHOUN COUNTY, MISSISSIPPI

Statement of Revenues, Expenses and Changes in Net Position - Proprietary Fund
 For the Year Ended September 30, 2016

Exhibit 6

	Solid Waste Fund
Operating Revenues	
Charges for services	\$ 830,487
Intergovernmental revenues	11,473
Other Income	196,534
Total Operating Revenues	<u>1,038,494</u>
Operating Expenses	
Personal services	255,716
Contractual services	222,721
Materials and supplies	220,817
Depreciation expense	67,272
Indirect administrative cost	19,439
Pension Expense	70,642
Total Operating Expenses	<u>856,607</u>
Operating Income (Loss)	<u>181,887</u>
Nonoperating Revenues (Expenses)	
Interest income	1,021
Interest expense	(3,456)
Net Nonoperating Revenue (Expenses)	<u>(2,435)</u>
Net Income (Loss)	<u>179,452</u>
Net Position - Beginning of year, as previously reported	(38,724)
Prior period adjustments	<u>(7,917)</u>
Net Position - Beginning of year, as restated	<u>(46,641)</u>
Net Position - Ending	<u><u>\$ 132,811</u></u>

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

CALHOUN COUNTY, MISSISSIPPI
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2016

Exhibit 7

	Solid Waste Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 815,349
Payments to suppliers	(397,149)
Payments to employees	(278,336)
Other operating cash receipts	203,162
Net Cash Provided (Used) by Operating Activities	<u>343,026</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(137,268)
Proceeds from long-term capital debt	137,268
Principal paid on long-term debt	(64,469)
Interest paid on debt	(3,456)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(67,925)</u>
Cash Flows From Investing Activities	
Interest on deposits	1,021
Net Cash Provided (Used) by Investing Activities	<u>1,021</u>
Net Increase (Decrease) in Cash and Cash Equivalents	276,122
Cash and Cash Equivalents at Beginning of Year	220,194
Cash and Cash Equivalents at End of Year	<u>\$ 496,316</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 181,887
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	67,272
Changes in assets, deferred outflows of resources and liabilities:	
(Increase) decrease in accounts receivable	(3,028)
(Increase) decrease in intergovernmental receivable	(8,338)
(Increase) decrease in other receivables	(4,845)
(Increase) decrease in other deferred outflows of resources	(22,761)
Increase (decrease) in claims payable	46,389
Increase (decrease) in intergovernmental payables	63
Increase (decrease) in compensated absences liability	5,003
Increase (decrease) in unearned revenue	(3,772)
Increase (decrease) in pension liability	65,717
Increase (decrease) in interfund payable	19,439
Total Adjustment	<u>161,139</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 343,026</u>

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

CALHOUN COUNTY, MISSISSIPPI
Statement of Fiduciary Assets and Liabilities
September 30, 2016

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 79,966
Total Assets	<u>\$ 79,966</u>
LIABILITIES	
Intergovernmental payables	\$ 73,820
Due to other funds	3,000
Other liabilities	3,146
Total Liabilities	<u>\$ 79,966</u>

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

Calhoun County, Mississippi

Notes to the Financial Statements
For the year ended September 30, 2016

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

Calhoun County, Mississippi (the 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 Calhoun County, Mississippi to present these financial statements on the primary government and its component units which have significant operational or financial relationship with the County.

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's legal entity and therefore are reported as part of the primary government financial statements.

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

B. Individual Component Unit Disclosures

Discretely Presented Component Unit

The component unit's column in the financial statements include the financial data of the following component unit of the County. It is reported in a separate column to emphasize that it is legally separate from the County. A majority of the members of the governing body of this component unit are appointed by the County Board of Supervisors.

Calhoun County Health Services - It was created on October 1, 2000, with the combination of Calhoun County Nursing Home which was owned by Calhoun County, Mississippi, and Hillcrest Hospital which was owned by Calhoun City, Mississippi. The facility is governed by a Board of Trustees appointed by the Board of Supervisors of Calhoun County, Mississippi, and the Board of Alderman of Calhoun City, Mississippi.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

C. Basis of Presentation

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

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information concerning the County as a whole. The statements include all nonfiduciary activities of the primary government and its component 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 and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements:

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

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

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

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

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

The County reports the following major Governmental Fund:

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

State Aid Fund - This fund accounts for monies from specific revenue sources that are restricted for state aid projects.

Calhoun County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

The County reports the following major Enterprise Fund:

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

Additionally, the County reports the following fund types:

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

PROPRIETARY FUND TYPES

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

FIDUCIARY FUND 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.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

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.

G. Receivables

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

H. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

I. Inventories and Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for Governmental Fund Types since the costs of such items are accounted for as expenditures in the period of acquisition.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

J. Capital Assets

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

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

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

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

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

K. 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) until then.

Deferred outflows related to pensions - This amount represents the County's proportionate share of the deferred outflows of resources reported by the pension plan in which the County participates. See Note 16 for additional details.

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 and so will not be recognized as an inflow of resources (revenue) until then. The County has deferred inflows which are presented as a deferred inflow for property tax and a deferred inflow for unavailable revenue.

Unearned revenue for future reporting period - When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Unavailable revenue - federal grant revenue - When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

Property taxes for future reporting period - Unavailable revenue - property tax -
Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue - fines - When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

L. Long-term Liabilities

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

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Position. Bond premiums and discounts 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.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Equity Classifications

Government-wide Financial Statements:

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

1. 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

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

attributable to the acquisition, construction or improvements of those assets.

2. 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.
3. Unrestricted net position - All other net position not meeting the definition of "restricted" or "net investment in capital assets."

Net Position Flow Assumption:

When an expense 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 expenses 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.

Fund Financial Statements:

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

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

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

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

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

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.

Fund Balance Flow Assumption:

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.

O. Property Tax Revenues

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

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

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

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

P. 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 the expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

Q. 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 and Proprietary Fund 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.

(2) Prior Period Adjustment

Exhibit 2 - Statement of Activities

Governmental Activities

Explanation	Amount
To record corrections in capital assets.	\$ <u>(13,254)</u>

Business-type Activities

Explanation	Amount
To record corrections in capital assets.	\$ <u>(7,917)</u>

Exhibit 6 - Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds

Explanation	Amount
To record corrections to capital assets.	\$ <u>(7,917)</u>

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(3) Deposits

The carrying amount of the County's total deposits with financial institutions at September 30, 2016, was \$3,818,167 and the bank balance was \$3,818,237. 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).

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. 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). Deposits above the 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.

(4) Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2016:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste Fund	\$ 19,439
	Fiduciary Funds	3,000
	Other Governmental Funds	105,810
Other Governmental Funds	General Fund	43,951
Total		<u>\$ 172,200</u>

The receivables represent indirect cost, tax revenue collected but not settled until October 2016 and loans to cover negative cash balances.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

B. Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 95,505
	Other Governmental Funds	30,000
Other Governmental Funds	General Fund	16,795
	Other Governmental Funds	5,937
Total		<u>\$ 148,237</u>

The advances represent prior year indirect cost, prior year grant administrative cost and errors in posting tax revenue to the wrong account.

C. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	<u>\$ 324,000</u>

The purpose of the interfund transfer was to cover negative cash balances, provide funds to cover operating expenses and to close a fund. All interfund transfers were routine and consistent with activities of the fund making the transfer.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(5) Intergovernmental Receivables

Intergovernmental receivables at September 30, 2016 consisted of the following:

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative tax credit	\$ 69,013
Reimbursement for welfare	8,621
Harvest permit	1,284
Youth Court Grant	2,047
Reimbursement for housing prisoners	6,020
Timber severance tax	735
Emergency Management Performance Grant	7,714
Motor vehicle fuel tax	43,776
Truck and bus privilege	9,086
Miscellaneous	2,187
Total Governmental Activities	\$ <u><u>150,483</u></u>

Business-type Activities:

City of Calhoun City	\$ 7,689
City of Bruce	8,448
Town of Derma	4,433
Total Business-type Activities	\$ <u><u>20,570</u></u>

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(6) Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2016:

Governmental activities:

	Balance Oct. 1, 2015	Additions	Retirements	Transfers & Adjustments	Balance Sept. 30, 2016
Non-depreciable capital assets:					
Land	\$ 593,687				593,687
Construction in progress	1,348,906	557,030		(1,403,801)	502,135
Total non-depreciable capital assets	1,942,593	557,030		(1,403,801)	1,095,822
Depreciable capital assets:					
Infrastructure	9,960,486			887,127	10,847,613
Buildings	10,214,079			480,621	10,694,700
Improvements other than buildings	414,442				414,442
Mobile equipment	3,719,193	82,517	114,656	95,281	3,782,335
Furniture and equipment	336,200			(36,577)	299,623
Property under capital leases	703,301	679,348	76,960	(30,905)	1,274,784
Total depreciable capital assets	25,347,701	761,865	191,616	1,395,547	27,313,497
Less accumulated depreciation for:					
Infrastructure	1,202,300	293,454			1,495,754
Buildings	2,768,478	185,612			2,954,090
Improvements other than buildings	144,091	16,578			160,669
Mobile equipment	2,998,577	140,872	102,291	27,267	3,064,425
Furniture and equipment	243,547	14,297		(24,517)	233,327
Property under capital leases	230,833	139,216	34,632	2,250	337,667
Total accumulated depreciation	7,587,826	790,029	136,923	5,000	8,245,932
Total depreciable capital assets, net	17,759,875	(28,164)	54,693	1,390,547	19,067,565
Governmental activities capital assets, net	\$ 19,702,468	528,866	54,693	(13,254)	20,163,387

Adjustment were made to correctly present capital assets.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

Commitments with respect to unfinished capital projects at September 30, 2016, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
SAP - 07(75) CR177 Bridge Repair	\$ <u>120,000</u>	March 2016

Business-type Activities:

	<u>Balance Oct. 1, 2015</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance Sept. 30, 2016</u>
Depreciable capital assets:				
Mobile equipment	\$ 616,564			616,564
Furniture and equipment	29,000			29,000
Property under capital leases	325,494	137,268		462,762
Total depreciable capital assets	971,058	137,268	0	1,108,326
Less accumulated depreciation for:				
Mobile equipment	476,898	21,894	7,917	506,709
Furniture and equipment	18,644	3,729		22,373
Property under capital leases	77,354	41,649		119,003
Total accumulated depreciation	572,896	67,272	7,917	648,085
Total depreciable capital assets, net	398,162	69,996	(7,917)	460,241
Business-type activities capital assets, net	\$ <u>398,162</u>	<u>69,996</u>	<u>(7,917)</u>	<u>460,241</u>

Adjustments were made to correctly present capital assets.

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 117,553
Culture and recreation	10,290
Public safety	107,315
Public works	524,570
Health and welfare	27,331
Conservation of Natural Resources	2,970
Total depreciation expense	\$ <u>790,029</u>

Calhoun County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

	<u>Amount</u>
Business-type Activities:	
Solid waste	\$ <u><u>67,272</u></u>

(7) 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, 2016 to January 1, 2017. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The County finances its exposure to risk of loss relating to employee health and accident coverage through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the County retaining the risk of loss on all claims to which the County is exposed. Premium payments to the pool are determined on an actuarial basis.

The County has reinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$35,000 and the aggregate policy covers all submitted claims in excess of \$1,000,000. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The following table provides changes in the balances of claims liabilities for fiscal years 2015 and 2016:

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

		2015	2016
Unpaid claims, Beginning of Fiscal Year	\$	126,668	135,285
Plus: Incurred Claims (Including IBNRs)		1,308,332	1,170,575
Less: Claims Payments		(1,299,715)	(1,174,791)
Unpaid Claims, End of Fiscal Year	\$	<u>135,285</u>	<u>131,069</u>

(8) Operating Leases

As Lessor:

On May 5, 2014, Calhoun County entered into a non-cancellable operating lease agreement with Sabougla Volunteer Fire Department, Inc. for the lease of a building owned by the County for the purpose of operating a fire house. The operating lease stipulated that the lease would pay approximately \$1,161.21 per quarter in lease payments commencing on May 5, 2014, for a term of 10 years.

The County received income from property it leases under non-cancellable operating lease. Total income from such a lease was \$5,791 for the year ended September 30, 2016. The future minimum lease receivables for these leases are as follows:

Year Ending September 30,	Amount
2017	\$ 4,645
2018	4,645
2019	4,645
2020	4,645
2021	4,645
2022-2025	12,790
Total Minimum Payments Required	<u>\$ 36,015</u>

As Lessee:

On December 7, 2015, Calhoun County entered into an operating lease with Three Rivers Planning Development District, Inc., for the lease of a computer system and operating software owned by Three Rivers Planning Development District for the purpose of maintaining County records. The operating lease stipulated the lessee would pay \$11,000 per year in lease payments commencing October 1, 2015 for a term of 5 years. The total cost for this lease was \$11,000 for the year ended September 30, 2016. The future minimum lease payment for these leases is as follows:

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

Year Ending September 30,	Amount
2017	\$ 11,000
2018	11,000
2019	11,000
2020	11,000
Total Minimum Payments Required	<u>\$ 44,000</u>

(9) Capital Leases

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2016:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,007,418	462,762
Other furniture and equipment	267,366	
Less: accumulated depreciation	<u>(337,667)</u>	<u>(119,003)</u>
Leased Property Under Capital Leases	<u>\$ 937,117</u>	<u>343,759</u>

The following is a schedule by years of the total payments due as of September 30, 2016:

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2017	\$ 227,053	12,837	149,221	4,457
2018	245,038	9,142	26,947	1,918
2019	130,740	6,124	27,488	1,377
2020	130,675	3,393	28,040	824
2021	91,233	876	26,198	261
Total	<u>\$ 824,739</u>	<u>32,372</u>	<u>257,894</u>	<u>8,837</u>

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(10) Long-Term Debt

Debt outstanding as of September 30, 2016, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<u>Governmental Activities:</u>			
A. General Obligation Bonds:			
Road bonds, Series 2008	\$ 50,000	3.30%	02/2018
Public improvement bonds, Series 2009	1,505,000	4.00-5.50%	03/2029
Building bonds, Series 2012	<u>1,683,258</u>	3.875%	05/2030
Total General Obligation Bonds	<u>\$ 3,238,258</u>		
B. Capital Leases:			
2 Caterpillar 12M motor graders	\$ 43,916	2.69%	04/2017
John Deere tractor	10,723	2.17%	07/2017
2016 Mack truck	105,870	1.72%	05/2018
911 System	66,157	1.91%	10/2018
Chevy Tahoe	36,764	1.96%	08/2020
E911 database	115,950	2.39%	11/2020
John Deere tractor/Tiger Boom	62,980	1.99%	08/2021
5 backhoes	<u>382,379</u>	1.99%	08/2021
Total Capital Leases	<u>\$ 824,739</u>		
C. Other Loans:			
Fire house loan	<u>\$ 33,890</u>	3.00%	10/2024
<u>Business-type Activities:</u>			
A. Capital Leases:			
2013 Ram garbage truck and side loader	\$ 23,263	2.07%	11/2016
2014 Freightliner truck	99,541	1.91%	08/2017
Freighliner garbage truck	<u>135,090</u>	1.99%	08/2021
Total Capital Leases	<u>\$ 257,894</u>		

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

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

Governmental Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2017	\$ 219,988	133,888	3,656	989
2018	235,019	124,018	3,769	876
2019	220,269	113,960	3,883	762
2020	230,750	104,541	4,002	643
2021	241,470	95,321	4,126	519
2022 - 2026	1,377,309	319,015	14,454	789
2027 - 2030	713,453	46,068		
Total	\$ 3,238,258	936,811	33,890	4,578

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 by 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, 2016, the amount of outstanding debt was equal to 3.47% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2016:

	Balance Oct. 1, 2015	Additions	Reductions	Balance Sept. 30, 2016	Amount due within one year
<u>Governmental Activities:</u>					
General obligation bonds	\$ 3,453,426		215,168	3,238,258	219,988
Capital leases	287,040	740,456	202,757	824,739	227,053
Other loans	37,433		3,543	33,890	3,656
Compensated absences	121,990		1,452	120,538	
Total	\$ 3,899,889	740,456	422,920	4,217,425	450,697

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

	Balance Oct. 1, 2015	Additions	Reductions	Balance Sept. 30, 2016	Amount due within one year
<u>Business-type Activities:</u>					
Capital leases	\$ 185,095	137,268	64,469	257,894	149,221
Compensated absences	23,557	5,003		28,560	
Total	<u>\$ 208,652</u>	<u>142,271</u>	<u>64,469</u>	<u>286,454</u>	<u>149,221</u>

Compensated absences will be paid from the fund from which the employees' salaries were paid which is generally the General Fund, the Road Maintenance Funds, Calhoun Transportation Services, Youth Court, Reappraisal, Volunteer Fire, Bridge Funds, E-911, Emergency Management, and Solid Waste Fund.

(11) Contingencies

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

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

Solid Waste Revenue Refunding Bonds - In 1998, Solid Waste Revenue Refunding Bonds were issued by the Three Rivers Solid Waste Management Authority for \$8,210,000. In 2011, Three Rivers Solid Waste Management Authority issued \$4,235,000 of Solid Waste Revenue Bonds to refund the 1998 bonds and to finance the other landfill projects. As part of the solid waste disposal service agreement between Calhoun County and Three Rivers Solid Waste Management Authority, the County has agreed to pay its pro rata share of any obligations of the Authority that are not covered by fees generated from solid waste disposal services. The County's pro rata share (6.02%) of the \$4,235,000 refunding bonds balance at September 30, 2016, is \$162,239.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(12) Deficit Fund Balances of Individual Funds

The following fund reported deficits in fund balance at September 30, 2016:

Fund	Deficit amount
Multipurpose Grant	\$ (4,803)
County Airport Maintenance	(19,216)
Horse Arena Maintenance	(467)
Emergency Management	(5,616)
Countywide Road	(71,643)
\$900,000 HUD Grant	(30,000)

(13) Joint Venture

The County participates in the following joint venture:

Calhoun County is a participant with Chickasaw and Pontotoc Counties in a joint venture, authorized by Section 39-3-11, Miss. Code Ann. (1972), to operate the Dixie Regional Library System. The Regional Library is governed by a five member board appointed by the Boards of Supervisors: two from the Library Board of Calhoun County, one from the Library Board of Chickasaw County, and two from the Library Board of Pontotoc County. The County appropriated \$78,851 for the joint venture in fiscal year 2016. Complete financial statements for the Dixie Regional Library can be obtained from the Dixie Regional Library System, 111 North Main Street, Pontotoc, Mississippi, 38863.

(14) Jointly Governed Organizations

The County participates in the following jointly governed organizations:

Three Rivers Planning and Development District operated in a district composed of the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union. The Calhoun County Board of Supervisors appoints five of the forty members of the board of directors. The County appropriated \$18,086 for support of the district in fiscal year 2016.

Communicare operates in a district composed of the counties of Calhoun, Lafayette, Marshall, Panola, Tate, and Yalobusha. The Calhoun County Board of Supervisors appoints one of the six members of the board of commissioners. The County appropriated \$25,057 for Communicare in fiscal year 2016.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

Northwest Mississippi Community College operates in a district composed of the counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The Calhoun County Board of Supervisors appoints two of the twenty three members of the college board of trustees. The County appropriated \$167,584 for maintenance and support of the college in fiscal year 2016.

Three Rivers Solid Waste Management Authority operates in a district composed of the counties of Calhoun, Itawamba, Lafayette, Lee, Monroe, Pontotoc, and Union. The Calhoun County Board of Supervisors appoints one of the seven members of the board. The entity is fiscally independent of the members. Members are billed based on the volume of solid waste disposal.

(15) Related Organizations

The Calhoun County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Loosacoona 1 Drainage District, but the County's accountability for this organization does not extend beyond making appointments. During the tax year, the County levied a 50 cent per acre tax for the district.

The Calhoun County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Loosacoona 2 Drainage District, but the County's accountability for this organization does not extend beyond making appointments. During the year, the County levied a 50 cent per acre tax for the district.

The Calhoun County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Topashaw Drainage District, but the County's accountability for this organization does not extend beyond making appointments. During the tax year, the County levied a 20 cent per acre tax for the district.

The Calhoun County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Yalobusha Drainage District, but the County's accountability for this organization does not extend beyond making appointments. During the tax year, the County levied a 13 cent per acre tax for the district.

The Calhoun County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Persimmon Creek Drainage District, but the County's accountability for this organization does not extend beyond making appointments. During the tax year, the County levied a 25 cent per acre tax for the district.

The Calhoun County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Otoucalofa Drainage District, but the County's accountability for this organization does not extend beyond making appointments. During the tax year, the County levied a 50 cent per acre tax for the district.

Calhoun County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(16) Defined Benefit Pension Plan

General Information about the Pension Plan

Plan Description. Calhoun County, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who became members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2016, 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 employer's rate at September 30, 2016 was 15.75% of annual

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2016, 2015 and 2014 were \$317,971, \$341,593 and \$325,615, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the County reported a liability of \$6,123,624 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The County's proportionate share used to calculate the September 30, 2016 net pension liability was .034282 percent, which was based on a measurement date of June 30, 2016. This was a decrease of .000025 percent from its proportionate share used to calculate the September 30, 2015 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended September 30, 2016, the County recognized pension expense of \$881,934. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	\$ 182,634
Net difference between projected and actual earnings on pension plan investments	794,186
Changes in proportion and differences between County contributions and proportionate share of contributions	164,257
County contributions subsequent to the measurement date	87,096
Total	<u>\$ 1,228,173</u>

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

\$87,096 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2017	\$	431,312
2018		375,020
2019		213,769
2020		120,976
Total	\$	<u>1,141,077</u>

Actuarial Assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.0 percent
Salary increases	3.75 - 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

Calhoun County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34%	5.20%
International Equity	19%	5.00%
Emerging Markets Equity	8%	5.45%
Fixed Income	20%	0.25%
Real Assets	10%	4.00%
Private Equity	8%	6.15%
Cash	1%	-0.50%
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1- percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$ 7,851,855	\$ 6,123,624	\$ 4,689,747

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(17) Effect of Deferred Amounts on Net Position

The governmental activities' unrestricted net position amount of (\$3,499,943) includes the effect of deferred outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$80,120 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$1,048,449 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next 4 years.

The business-type activities' unrestricted net position amount of (\$69,536) includes the effect of deferred outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$6,976 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$92,628 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next 4 years.

The governmental activities' unrestricted net position amount of (\$3,499,943) includes the effect of recognition of deferring the recognition of unearned revenues. The \$175,000 balance of deferred inflows of resources at September 30, 2016, will be recognized as revenue and will increase the unrestricted net position over the next few years.

The business-type activities' unrestricted net position amount of (\$69,536) includes the effect of recognition of deferring the recognition of unearned revenues for future reporting period. The \$51,821 balance of deferred inflows of resources at September 30, 2016, will be recognized as revenue and will increase the unrestricted net position over the next few years.

(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 Calhoun County evaluated the activity of the County, through the date the financial statements were available to be issued, and determined that the following subsequent events have occurred that require disclosure in the notes to the financial statements.

Calhoun County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

The County issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
10/27/2016	2-2.50%	\$ 3,140,000	G.O. Refunding Bond	Ad valorem tax
04/17/2017	2.69%	27,248	Capital lease	Ad valorem tax
12/14/2017	2.82%	117,220	Capital lease	Ad valorem tax
01/02/2018	3.20%	69,610	Capital lease	Ad valorem tax
04/02/2018	3.07%	25,548	Capital lease	Ad valorem tax
04/02/2018	3.07%	28,937	Capital lease	Ad valorem tax
12/14/2018	3.71%	88,230	Capital lease	Ad valorem tax

Component Unit
Calhoun Health Services

Notes to the Financial Statements
For the Year Ended September 30, 2016

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity - Calhoun Health Services was created on October 1, 2000, with the combination of Calhoun County Nursing Home which was owned by Calhoun County, Mississippi, and Hillcrest Hospital which was owned by Calhoun City, Mississippi. The facility consists of a 21-bed acute short-term care hospital, 9 bed geriatric psychiatric unit and a 120-bed long-term care facility which is owned by Calhoun County, Mississippi (85.72%) and Calhoun City, Mississippi (14.48%). The facility provides inpatient, psychiatric, outpatient, emergency care and long-term care services for residents of Calhoun County, Mississippi and surrounding areas. The facility is governed by a Board of Trustees appointed by the Board of Supervisors of Calhoun County, Mississippi, and the Board of Aldermen of Calhoun City, Mississippi.

Under *Governmental Accounting Standards Board (GASB) Statement Number 14: The Financial Reporting Entity*, the facility is defined as a component unit of Calhoun County, Mississippi. These financial statements present only the financial position and results of operations and cash flows of Calhoun Health Services.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include allowance for uncollectibles and third-party settlements.

Proprietary Fund Accounting - The facility utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual. Based on *Governmental Accounting Standards Board (GASB) Statement No. 20: Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, the facility has elected to apply the provisions and all pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict or contradict GASB pronouncements.

Cash and Cash Equivalents - Cash and cash equivalents include all cash and restricted cash of the facility.

Accounts Receivable - Patient receivables are reduced by an allowance for uncollectible accounts. The allowance for uncollectible accounts is based upon management's assessment of historical and expected net collections considering historical and economic conditions, trends in healthcare coverage, major payor sources and other collection indicators. Periodically throughout the year, management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make modifications to the provision for uncollectible accounts to establish an appropriate allowance for uncollectible receivables. After satisfaction of amounts due from insurance, established guidelines are used for placing certain past-due patient balances with collection agencies, subject to the terms of certain restrictions on collection efforts.

Capital Assets - The facility's policy is to capitalize acquisition and construction costs greater than \$5,000 which will provide benefit to future periods. Capital assets are reported at historical cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation, using the following asset lives:

Land improvements	5 to 20 years
Buildings and building improvements	20 to 40 years
Equipment, computers, and furniture	3 to 7 years

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Grants and Contributions - From time to time, Calhoun Health Services receives grants from Calhoun County and the State of Mississippi, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Net Position - Net position of Calhoun Health Services is classified in two components. *Net position invested in capital assets net of related debt* consists of capital assets net of accumulated depreciation and is reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Unrestricted net position* is the remaining net position that does not meet the definition of *invested in capital assets net of related debt*.

Net Patient Services Revenue - The facility has agreements with third-party payors that provide for payments to the facility at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Operating Revenues and Expenses - Calhoun Health Services' statements of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - Calhoun Health Services' principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital assets acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Cost of Borrowing - Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. None of the hospital's interest cost was capitalized in either 2016 or 2015.

Restricted Resources - When the hospital has both restricted and unrestricted resources available to finance a particular program, it is the hospital's policy to use restricted resources before unrestricted resources.

Compensated Absences - Calhoun Health Services' employees earn vacation days at varying rates depending on years of service. Vacation days are earned in the current year of employment and are taken the following year. Vacation days are intended to be taken and cannot be accumulated from one year to the next. Employees also earn sick leave benefits based on varying rates depending on years of service. Employees may accumulate sick leave up to a specified maximum. Employees are not paid for accumulated sick leave.

Risk Management - The facility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The facility purchases coverage of risks of loss related to torts and malpractice up to \$500,000 per case from the Healthcare Providers Insurance Company. The facility purchases coverage of risks of loss related to theft of, damage to and destruction of assets from various commercial insurance carriers. The facility purchases coverage of risks of loss related to workers' compensation claims from Healthcare Employers Resources Exchange.

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 1: Description of Reporting Entity and Summary of Significant Accounting Policies (Continued)

Risk Management (Continued) - Under *Governmental Accounting Standards Board Statement Number 10: Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, a liability for claim must be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and that the amount of the loss can be reasonably estimated. The facility has not been exposed to any risk of loss above the applicable insurance coverage amounts at September 30, 2016; therefore, no liability has been accrued at this time.

Investments in Equity Securities - Investments in equity securities are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in equity securities are included in nonoperating income currently.

Income Taxes - As a political subdivision of the State of Mississippi, the facility qualifies as a tax-exempt organization under existing provisions of the Internal Revenue Code, and its income is not subject to federal or state income taxes.

Inventories of Supplies and Drugs - Inventories of supplies and drugs are stated at the lower of cost (first-in, first-out) or market.

Excess of Revenues Over Expenses - The statements of revenues, expenses, and changes in net position includes excess of revenues over expenses. Changes in net position which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Note 2: Cash and Other Deposits

The facility deposits funds in financial institutions selected by the Board of Trustees and invests excess funds in investment instruments that are allowed by statutes. Various restrictions on deposits and investments are imposed by statutes.

The collateral for public entities' deposits in financial institutions is now 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. All hospital funds eligible to be included in the state's collateral pool program were properly included and were fully collateralized as of September 30, 2016.

Note 3: Fair Value Measurements

Financial Accounting Standards Board (FASB) Accounting Standards Codifications (ASC) 820, Fair Value Measurements and Disclosures, provide the framework for measuring fair value. That framework provides a fair value hierarchy that provides the inputs to valuation techniques used to measure fair value. Investments with readily available active quoted prices for which fair value can be measured from actively quoted prices generally will have a higher degree of market prices observability and a lesser degree of judgement used in measuring fair value. In the absence of actively quoted prices and observable inputs, the hospital estimates prices based on available historical data and near term future pricing information that reflects its market assumptions.

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 3: Fair Value Measurements (Continued)

The statement requires that assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 - Quoted market prices in active markets for identical assets and liabilities.
- Level 2 - Observable market based inputs or unobservable inputs that are corroborated by market data.
- Level 3 - Unobservable inputs that are not corroborated by market data.

Fair value of assets measured on a recurring basis at September 30, 2016, and 2015 are as follows:

<u>September 30, 2016</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
MHA Investment Pool	\$ <u>48</u>	\$ <u>-</u>	\$ <u>48</u>	\$ <u>-</u>
<u>September 30, 2015</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
MHA Investment Pool	\$ <u>5,666,910</u>	\$ <u>-</u>	\$ <u>5,666,910</u>	\$ <u>-</u>

Mississippi Hospital Association Investment Pool

The facility participates in the Mississippi Hospital Associates Investment Pool program. The funds are invested for the benefit of the facility by a third-party investment company which is responsible for the management of the pool. A summary of the investments at September 30, 2016, and 2015 follows:

	<u>2016</u>	<u>2015</u>
MHA Investment Pool	\$ <u>48</u>	\$ <u>5,640,095</u>
Unrealized gain on investments	<u>-</u>	<u>26,815</u>
Net Investment	\$ <u>48</u>	\$ <u>5,666,910</u>

The hospital has funds invested in the Mississippi Hospital Association Investment Pool program, which are not collateralized. However, the funds are invested in accordance with Section 27-105-365 Miss. Code Ann. (1972).

Note 4: Accounts Receivable - Estimated Uncollectibles and Allowances

The balance in the estimated uncollectibles and allowances account at September 30, 2016, and 2015 is composed of the following:

	<u>2016</u>	<u>2015</u>
Provision for uncollectible accounts	\$ <u>802,950</u>	\$ <u>1,668,923</u>
Allowance for Medicare adjustment	<u>698,000</u>	<u>725,000</u>
Allowance for Medicaid adjustment	<u>37,000</u>	<u>150,000</u>
	\$ <u>1,537,950</u>	\$ <u>2,543,923</u>

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 5: Capital Assets

Capital asset additions, retirements, and balances for the years ended September 30, 2016, and 2015 were as follows:

	Balance September 30, 2014		Balance September 30, 2015		Balance September 30, 2016	
	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014	September 30, 2015
Land	\$ 24,800	\$ 24,800	\$ 24,800	\$ 24,800	\$ 24,800	\$ 24,800
Land improvements	287,475	287,475	287,475	287,475	287,475	287,475
Buildings and improvements	4,586,199	4,586,199	4,586,199	4,586,199	4,586,199	4,586,199
Fixed equipment	654,145	654,145	654,145	654,145	654,145	654,145
Major movable equipment:						
Under capital lease	148,277	148,277	148,277	148,277	148,277	148,277
Other	2,712,307	2,712,307	2,712,307	2,712,307	2,712,307	2,712,307
Minor equipment	2,849	2,849	2,849	2,849	2,849	2,849
Automobiles:						
Under capital lease	74,175	74,175	74,175	74,175	74,175	74,175
Other	381,062	381,062	381,062	381,062	381,062	381,062
Total Historical Cost	8,871,289	8,871,289	8,871,289	8,871,289	8,871,289	8,871,289
Less Accumulated Depreciation and Amortization for:						
Land improvements	(283,831)	(283,831)	(283,831)	(283,831)	(283,831)	(283,831)
Buildings and improvements	(3,426,619)	(3,426,619)	(3,426,619)	(3,426,619)	(3,426,619)	(3,426,619)
Fixed equipment	(462,376)	(462,376)	(462,376)	(462,376)	(462,376)	(462,376)
Major movable equipment:						
Under capital lease	(30,979)	(30,979)	(30,979)	(30,979)	(30,979)	(30,979)
Other	(2,441,960)	(2,441,960)	(2,441,960)	(2,441,960)	(2,441,960)	(2,441,960)
Automobiles:						
Under capital lease	(39,827)	(39,827)	(39,827)	(39,827)	(39,827)	(39,827)
Other	(348,298)	(348,298)	(348,298)	(348,298)	(348,298)	(348,298)
Total Accumulated Depreciation and Amortization	(7,033,890)	(7,033,890)	(7,033,890)	(7,033,890)	(7,033,890)	(7,033,890)
Construction in Progress	147,324	147,324	147,324	147,324	147,324	147,324
Capital Assets, Net	\$ 1,984,723	\$ 1,984,723	\$ 1,984,723	\$ 1,984,723	\$ 1,984,723	\$ 1,984,723

Notes to Financial Statements

Note 6: Long-Term Debts

A schedule of changes in Calhoun Health Services' noncurrent liabilities for 2016, and 2015 follows:

Note Payable:	Balance September 30,		Balance September 30,		Additions	Reductions	Balance September 30, 2016	Amounts Due Within One Year
	2014		2015					
Capital improvement loan	\$	-	\$	-	909,173	-	\$ 909,173	\$ 909,173
Capital Lease Obligations	152,217	31,881 (47,153)	136,945	-	(90,360)	-	46,585	17,700
Total Noncurrent Liabilities	\$ 152,217	31,881 (47,153) \$	136,945	909,173 (90,360) \$			955,758	\$ 926,873

Long-Term Debt – The terms and due dates of Calhoun Health Services' long-term debt, including capital lease obligations at September 30, 2016, and 2015 follows:

- Capital lease obligations with varying rates of interest of 3.19 to 5.30 percent collateralized by leased equipment with a cost of \$89,881 at September 30, 2016.
- Note payable to Mississippi Development Authority for a Capital Improvement (CAP) Loan. The note is not to exceed \$2,250,000. The note payable is to be paid back over 180 months at 2% interest with an estimated monthly payment of \$14,478.95 per month. The note was issued to Calhoun County, Mississippi, for the construction of a building for Calhoun Health Services. Calhoun Health Services has agreed to assume the payback of the note payable and intends to pay the note payable back in full during the fiscal year ending September 30, 2017 as soon as the building is complete. The note is collateralized by sales tax and/or homestead exemption reimbursements.

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 6: Long-Term Debts (Continued)

Scheduled payments of note payable and capital lease obligations are as follows:

Year Ended September 30,	Note Payable		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2017	\$ 909,173	\$ -	\$ 17,700	\$ 1,208
2018	-	-	18,847	632
2019	-	-	6,645	197
2020	-	-	3,393	28
2021	-	-	-	-
Thereafter	-	-	-	-
Total	<u>\$ 909,173</u>	<u>\$ -</u>	<u>\$ 46,585</u>	<u>\$ 2,065</u>

Note 7: Net Patient Service Revenue

The facility has agreements with third-party payors that provide for payment to the facility at amounts different from its established rates. A summary of the payment arrangements with major third party payors follows:

Medicare - Inpatient acute care services, outpatient services and nonacute inpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The facility is paid for inpatient senior care psychiatric services based on prospectively determined rates. The facility is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the facility and audits thereof by the Medicare fiscal intermediary. The facility's Medicare cost reports have been audited by the Medicare fiscal intermediary through September 30, 2014.

Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The facility is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the facility and audits thereof by the Medicaid fiscal intermediary. The facility is reimbursed for outpatient services under a cost reimbursement methodology that is updated annually. Nursing home services are reimbursed under a cost based case mix reimbursement system.

WATKINS, WARD AND STAFFORD, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 7: Net Patient Service Revenue (Continued)

Medicaid Mississippi Hospital Access Payments, Upper Payment Limit Payments, and Medicaid Disproportionate Share Payments – During fiscal year ending September 30, 2016, the Mississippi Division of Medicaid phased out the upper payment limit program as it relates to hospitals and replaced it with the Medicaid Mississippi hospital access program. The hospital received Medicaid Mississippi hospital access payments and Medicaid disproportionate share payments of \$1,506,455 for the year ending September 30, 2016. The hospital received Medicaid upper payment limit and Medicaid disproportionate share payments of \$1,301,844 for the year ended September 30, 2015.

The Medicaid Mississippi hospital access program is a program whereby the hospital qualifies for Mississippi hospital access program funds in addition to regular funds. The Mississippi Division of Medicaid administers the program through the MississippiCAN coordinated care organizations, and the continuation of the program rests with the federal government. The Medicaid upper payment limit program was a program whereby the hospital qualified for upper payment limit funds in addition to regular funds. The Mississippi Division of Medicaid controls the disproportionate share program and the continuation of the program rest with the agency.

Note 8: Lease Commitments

The facility leased major movable equipment under operating leases expiring at various dates during the year. Rental expense under all operating leases for the years ended September 30, 2016, and 2015 was \$395,038, and \$302,470, respectively. There were no future minimum pending lease payments as of September 30, 2016.

Note 9: Concentrations of Credit Risk

The facility grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2016, and 2015, were as follows:

	2016	2015
Medicare	32%	35%
Medicaid	14%	13%
Patients and other third-party payors	54%	52%
	<u>100%</u>	<u>100%</u>

The facility has funds invested in the Mississippi Hospital Association pool investment program which are not collateralized. However, the funds are invested in accordance with Section 27-105-365 Miss. Code Ann. (1972)

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 10: Management Agreement

On October 1, 2000, the facility entered into a management agreement, including key personnel, with North Mississippi Management Services, Inc. The annual expenses for the services were \$189,538, and \$338,767, for the years ended September 30, 2016, and 2015, respectively.

In addition to the management services expense, the facility purchased other services and leases equipment from various companies associated with North Mississippi Management Services, Inc., of \$275,633, and \$320,295, for the years ended September 30, 2016, and 2015, respectively. The amount due to NMMS and associated companies was \$126,303, and \$17,967, as of September 30, 2016, and 2015, respectively.

Note 11: Retirement Plan

The facility, through the Public Employees' Retirement System of Mississippi (PERS), offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all facility employees, permits them to defer a portion of their salary until future years. The facility offers a voluntary match plan of deferred compensation for employees with one year of service through the Mississippi Public Employees' Retirement Systems. The facility will match up to three percent of the employee's contribution. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The total employee contribution to the deferred compensation plan for the years ended September 30, 2016, and 2015, amounted to \$137,452, and \$186,529, respectively. The total deferred compensation expense incurred by the facility for the years ended September 30, 2016, and 2015, amounted to \$89,749, and \$113,234, respectively.

Note 12: Litigation

The hospital is a defendant in lawsuits arising from normal business activities. Management and attorneys for the facility do not expect any significant liability to result from these matters in excess of the insurance coverage.

Note 13: Other Assets

Included in Other Assets on the statements of net position is an investment in the Healthcare Providers Insurance Company. The Hospital is a subscriber in the insurance company. The amount of the hospital's investment was \$229,633 for 2016, and \$229,633 for 2015. The hospital has elected to report this investment at cost since there is not a market for the ownership interest in the company.

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 14: 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 Calhoun Health Services evaluated the activity of the hospital through April 6, 2017, (the date the financial statements were available to be issued), and determined that there were no subsequent events with the exception of the subsequent events disclosed in the following paragraphs requiring disclosures in the notes to financial statements.

Effective October 1, 2016, a Lease Agreement for the Hospital and Nursing Home was made between Calhoun Health Services Board of Trustees, Calhoun County Board of Supervisors, and Calhoun City Board of Alderman (collectively the Lessors) and Baptist Memorial Hospital-Calhoun Inc. and Baptist Nursing Home-Calhoun Inc. (together the Lessees). The Lessors have determined that it is in the best interest of the citizens of the area served by the Hospital and Nursing Home to lease the Hospital to BMH-Calhoun and the Nursing Home to BNH-Calhoun and that this lease will safeguard community health interests and enhance the public health and general welfare of such citizens.

The initial (primary) term of the lease is for thirty (30) years, expiring on September 30, 2046. The lessees shall have the option to extend the lease for two (2) consecutive ten (10) year terms. In regard to the continued operation of the Hospital and Nursing Home, the parties agree that (a) the hospital shall be operated as a critical access hospital; (b) the Nursing Home shall be operated as an institution for the aged or infirmed; and (c) both the Hospital and the Nursing Home shall be operated at all times by BMH-Calhoun and BNH-Calhoun, respectively, to meet the minimum standards set forth by the Mississippi State Department of Health for the operation of a hospital and institution for the aged and infirmed, as applicable.

BMH-Calhoun shall at all times during the Lease Term provide the following services (the "Minimum Requirements"): 24-hour emergency department services; the Ambulance Service stationed in Calhoun County; outpatient clinics; physical, speech, and occupational therapy outpatient services; radiology services; respiratory therapy services; swing beds; and laboratory services. Should the Lessors determine a Minimum Requirements in no longer met, Lessors shall give BMH-Calhoun thirty (30) days advance written notice to cure its failure to meet the Minimum Requirement(s) in question. If BMH-Calhoun fails to meet the Minimum Requirements during said thirty (30) day period, the same shall be considered a Material Event of Default and Lessors shall have the option to terminate the Lease.

At any time during the lease term, if lessees reasonably determine that it is no longer financially feasible for BMH-Calhoun to operate the hospital and/or for BNH-Calhoun to operate the Nursing Home due to a change in any law, regulation, or Medicare or Medicaid reimbursement or due to continued operating losses or other financial consideration, the lessees shall provide written notice of such determination to the lessors. The parties shall then negotiate in good faith a modification of the terms of the lease. Additionally, the lessees shall have the right to terminate the lease at any time in the event that BMH-Calhoun is unable to maintain the Hospital's designation or status as a critical access hospital.

The Lessees will make and the Lessors will accept, in lieu of rent for the leased assets, capital improvements. During the primary term, the lessees shall make capital improvements to the hospital and nursing home totaling, in the aggregate, thirty million dollars (\$30,000,000). In the event that the lessees exercise the option to extend the lease for one or two extension terms, the lessees shall make capital improvements to the hospital and nursing home totaling, in the aggregate, ten million dollars (\$10,000,000) over the course of each extension term.

The Lease Agreement details those assets and liabilities that have been maintained by the Lessors and the other assets and liabilities that have been assumed by the Lessees.

CALHOUN HEALTH SERVICES
Notes to Financial Statements

Note 14: Subsequent Events (Continued)

Within 90 days of the closing date (October 1, 2016) all remaining cash of Calhoun Health Services, which includes the hospital, nursing home and ambulance service, shall be deposited into an escrow account. The funds in the escrow account shall be used for the payment and settlement of claims, debts, and liabilities for which the Lessors and/or Calhoun Health Services are responsible and liable for pursuant to the terms of the Lease Agreement. On the date that is sixty (60) months from and after the closing date, the remaining escrow funds will be distributed to Calhoun County and Calhoun City based upon their Interlocal Agreement dated July 19, 2000, which established Calhoun Health Services.

REQUIRED SUPPLEMENTARY INFORMATION

CALHOUN COUNTY, MISSISSIPPI

Budgetary Comparison Schedule -

Budget and Actual (Non-GAAP Basis)

General Fund

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
Property taxes	\$ 2,772,132	2,972,132	3,176,388	204,256
Licenses, commissions and other revenue	51,000	111,808	135,921	24,113
Fines and forfeitures	280,000	280,000	213,378	(66,622)
Intergovernmental revenues	520,000	520,000	600,968	80,968
Charges for services			66,610	66,610
Interest income	7,500	7,500	6,515	(985)
Miscellaneous revenues	75,000	75,600	154,911	79,311
Total Revenues	<u>3,705,632</u>	<u>3,967,040</u>	<u>4,354,691</u>	<u>387,651</u>
Expenditures				
Current:				
General government	2,943,402	2,752,425	2,716,379	36,046
Public safety	928,677	895,012	890,397	4,615
Health and Welfare	151,751	146,021	145,354	667
Culture & Recreation	1,000	1,000		1,000
Education	209,000	277,500	277,497	3
Conservation of natural resources	76,460	80,700	79,762	938
Economic development and assistance	23,342	26,642	21,374	5,268
Total Expenditures	<u>4,333,632</u>	<u>4,179,300</u>	<u>4,130,763</u>	<u>48,537</u>
Excess of Revenues Over (Under) Expenditures	<u>(628,000)</u>	<u>(212,260)</u>	<u>223,928</u>	<u>436,188</u>
Other Financing Sources (Uses)				
Other financing sources			227,288	227,288
Other financing uses	<u>(72,000)</u>	<u>(487,740)</u>	<u>(494,735)</u>	<u>(6,995)</u>
Total Other Financing Sources (Uses)	<u>(72,000)</u>	<u>(487,740)</u>	<u>(267,447)</u>	<u>220,293</u>
Net Changes in Fund Balance	<u>(700,000)</u>	<u>(700,000)</u>	<u>(43,519)</u>	<u>656,481</u>
Fund Balances - Beginning			970,815	970,815
Fund Balances - Ending	\$ <u><u>(700,000)</u></u>	<u><u>(700,000)</u></u>	<u><u>927,296</u></u>	<u><u>1,627,296</u></u>

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

CALHOUN COUNTY, MISSISSIPPI

Budgetary Comparison Schedule -

Budget and Actual (Non-GAAP Basis)

State Aid Fund

For the Year Ended September 30, 2016

		Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues					
Intergovernmental revenues	\$	70,000	82,895	99,290	16,395
Total Revenues		70,000	82,895	99,290	16,395
Expenditures					
Current:					
Public Works		70,000	82,895	82,891	4
Total Expenditures		70,000	82,895	82,891	4
Net Changes in Fund Balance		-	-	16,399	16,399
Fund Balances - Beginning				29,571	29,571
Fund Balances - Ending	\$	-	-	45,970	45,970

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

CALHOUN COUNTY, MISSISSIPPISchedule of the County's Proportionate Share of the Net Pension Liability
PERS

Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset)	0.034282%	0.034307%	0.034177%
County's proportionate share of the new pension liability (asset)	\$ 6,123,624	5,303,186	4,148,462
County's covered-employee payroll	2,193,124	2,143,283	2,088,381
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	279.22%	247.43%	198.64%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%	67.21%

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the fiscal year presented.

This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and until a full 10-year trend is compiled, the entity has only presented information for the years in which information was available.

The notes to the required supplementary information are an integral part of this schedule.

CALHOUN COUNTY, MISSISSIPPI
Schedule of the County's Contributions
PERS
Last 10 Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 317,971	\$ 341,593	\$ 325,615
Contributions in relation to the contractually required contribution	<u>317,971</u>	<u>341,593</u>	<u>325,615</u>
Contribution deficiency (excess)	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
County covered-employee payroll	\$ 2,018,863	\$ 2,168,844	\$ 2,067,397
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%

This schedule is presented is illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 6/30/15, and until a full 10-year trend is compiled, the entity has only presented information for the years in which information was available.

The notes to the required supplementary information are an integral part of this schedule.

Calhoun County, Mississippi

Notes to the Required Supplementary Information
For the year ended September 30, 2016

(1) Budgetary Comparison Schedules

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

Calhoun County, Mississippi

Notes to the Required Supplementary Information For the Year Ended September 30, 2016

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>State Aid Fund</u>
Budget (Cash Basis)	\$ (43,519)	16,399
Increase (Decrease)		
Net adjustments for revenue accruals	(118,181)	1,117,905
Net adjustments for expenditure accruals	218,125	(1,128,523)
GAAP Basis	<u>\$ 56,425</u>	<u>5,781</u>

(2) Pension Schedules

A. Change in benefit provisions

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

B. Change of Assumptions

In 2015 and later, the expectation of retired life mortality was changed to the RP-2014 Health Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015. In 2015, the expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015. Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience. In 2015, assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. Finally, the price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75%, respectively.

In 2016, the assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

OTHER INFORMATION

CALHOUN COUNTY, MISSISSIPPI
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2016
UNAUDITED

Name	Position	Company	Bond
Earnest M Fox	Supervisor District 1	Western Surety Company	\$100,000
Charles Bobo	Supervisor District 1	Western Surety Company	\$100,000
James Brooks Rodger, Jr.	Supervisor District 2	FCCI Insurance Company	\$125,000
Jennifer Rodger	Supervisor District 2	State Farm	\$100,000
Homer Moore	Supervisor District 2	Western Surety Company	\$100,000
David Gwin Longest	Supervisor District 3	FCCI Insurance Company	\$100,000
Barney J. Wade	Supervisor District 4	Western Surety Company	\$100,000
Tony Morgan	Supervisor District 5	Western Surety Company	\$100,000
Romona Tillman	Chancery Clerk	Western Surety Company	\$100,000
Sheryl Flemming	Purchase Clerk	Western Surety Company	\$75,000
Jenny Hill	Purchase Clerk	Western Surety Company	\$75,000
Romona Tillman	Receiving Clerk	Western Surety Company	\$75,000
Patricia Patterson	Receiving Clerk	Western Surety Company	\$50,000
Charles W. Jones	Receiving Clerk	Western Surety Company	\$50,000
Tony Moore	Receiving Clerk	RLI Insurance	\$50,000
Graig Gillis	Receiving Clerk	RLI Insurance	\$50,000
Larry D Bailey	Receiving Clerk	Western Surety Company	\$50,000
Cassie F James	Inventory Control Clerk	Western Surety Company	\$75,000
Benny R Langford	Constable	Western Surety Company	\$50,000
James Vanlandingham	Constable	FCCI Insurance Company	\$50,000
Carlton Baker	Circuit Clerk	State Farm	\$100,000
Sinatra Cruthirds	Deputy Circuit Clerk	Western Surety Company	\$75,000
Penny D Nichols	Deputy Circuit Clerk	Western Surety Company	\$75,000
Deborah Harrelson	Deputy Circuit Clerk	Western Surety Company	\$75,000
Greg Pollan	Sheriff	Western Surety Company	\$100,000
Jimmy Vance	Justice Court Judge	Western Surety Company	\$50,000
Mark Ferguson	Justice Court Judge	Western Surety Company	\$50,000
Tracy McGuirt	Justice Court Clerk	Western Surety Company	\$50,000
Teresa Warner	Deputy Justice Court Clerk	Western Surety Company	\$50,000
Bill Malone	Tax Assessor-Collector	Travelers	\$100,000
Shelia Winter	Deputy Tax Assessor	Western Surety Company	\$10,000
Sherry Hardin White	Deputy Tax Collector	Western Surety Company	\$50,000
Peggy Neese	Deputy Tax Collector	Western Surety Company	\$50,000
Wanda Harrison	Deputy Tax Collector	Western Surety Company	\$50,000
Andrea Howell	Deputy Tax Collector	Western Surety Company	\$50,000

SPECIAL REPORTS

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors
Calhoun County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Calhoun County, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 26, 2019. Our report includes a reference to other auditors. Other auditors audited the financial statements of the Calhoun County Health Services, as described in our audit on Calhoun County, Mississippi's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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. 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 with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2016-001, 2016-002, 2016-003 and 2016-004 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Calhoun County, Mississippi's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as Finding 2016-001.

We also noted certain matters which we have reported to the management of the Calhoun County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated February 26, 2019, included within this document.

Calhoun County's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard PC
February 26, 2019

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors
Calhoun County, Mississippi

We have examined Calhoun 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, 2016. The Board of Supervisors of Calhoun 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 Calhoun County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk.

1. Capital asset records were not maintained during the fiscal year.

Finding:

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish County assets from one another, thereby safeguarding County assets from loss or misappropriation. The information is also very important to the financial reporting process. Numerous errors in the capital asset records were caused by failure to implement internal control procedures to ensure that all items are recorded, valued properly, and classified properly in the county's capital asset records. As reported in the prior three years' audit reports, deficiencies were noted in the capital asset records. These deficiencies are repeated due to the capital assets not being maintained since fiscal year 2014:

- A. The County does not maintain a depreciation schedule within their inventory system. Discrepancies such as the following were noted between the County's inventory system and the depreciation schedule provided to the auditors:
 - 1. Asset classifications such as construction in progress, infrastructure, improvements and leased property under capital leases are not maintained on the County's inventory system.
 - 2. Several items listed on the depreciation schedule are not listed on the County's inventory system.
 - 3. Several items listed on the County's inventory system are not listed on the depreciation schedule despite still being in use by the County.

Recommendation:

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the County's capital asset records. The information listed in the County's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete. Audit adjustments have been proposed to management to correct these discrepancies. They have been made to the financial statements with management's approval.

Inventory Control Clerk's Response:

I will comply.

Purchase Clerk.

2. Purchase clerk shall be responsible for the maintenance of the central purchasing system.

Finding:

Section 31-7-103, Miss. Code Ann. (1972), requires the Purchase Clerk to maintain the County's central purchasing system. Purchasing guidelines require Board approval for purchases requiring quotes. During the audit, the following exceptions were noted:

1. Two instances where purchasing documentation for equipment showed it was purchased on state contract. However, the state contract information in relation to the equipment purchased was not present, and therefore, could not be verified.
2. Instances were noted where equipment repair work was performed where documentation provided little information as to the actual work performed.
3. An instance where the purchase order was dated after the invoice date.
4. Three instances where bid/quote information for competitors was not provided in conjunction with the selected bid/quote.

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

Recommendation:

The Purchase Clerk should ensure that purchasing documents are in the proper order providing descriptive detail as to the purpose of the purchased good or service and that state contract purchases have the appropriate supporting documentation authorizing such a purchase.

Purchase Clerk's Response:

I will comply.

In our opinion, because of the non compliance referred in the preceding paragraph, Calhoun County, Mississippi, did not comply, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2016.

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.

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

This report is intended for use in evaluating Calhoun County, Mississippi's, compliance with the aforementioned requirements, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 26, 2019

Certified Public Accountants

Calhoun County, Mississippi

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2016

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

Calhoun County, Mississippi
Schedule of Emergency Purchases
For the Year Ended September 30, 2016

Schedule 2

Date	Item Purchased	Amount Paid	Vendor	Reason for Emergency Purchase
08-15-16	Engine / Transmission	\$ 15,377	Parker Brothers	No other vendor would have an equivalent because it was already disassembled.

Calhoun County, Mississippi

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2016

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

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

LIMITED INTERNAL CONTROL
AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Calhoun County, Mississippi

In planning and performing our audit of the financial statements of Calhoun County, Mississippi for the year ended September 30, 2016, we considered Calhoun 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 Calhoun 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 February 26, 2019, on the financial statements of Calhoun 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 the internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

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

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Board of Supervisors.

1. Calhoun County Should Establish and Test a Disaster Recovery Process.

Criteria:

Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions.

Condition:

As reported in the prior three years' audit, the County has not established a disaster recovery process.

Cause:

Calhoun County is currently using an automated system to perform daily back-ups of the AS400, but is not restoring such files as part of a formal, documented disaster recovery exercise.

Effect:

As a result, Calhoun County cannot fully ensure that the County's information systems can be restored in a timely manner.

Recommendation:

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

Board of Supervisors' Response:

The County is coordinating the disaster recovery plan with Three Rivers Planning and Development District.

2. Calhoun County should perform a network security assessment.

Criteria:

Best business practices as well as standards for information technology provide various guidelines for frequency and criteria for performing network reviews. The Mississippi

Enterprise Security Policy requires network reviews be performed, at minimum, every three years or more frequently whenever business situations change that might raise the level of risk for unauthorized access to an entity's data assets. Examples of such change criteria would be:

- A major change in the network topology
- Implementation of new financial applications
- Length of time since the last network review
- Recent network penetration or malware infection (and possible data loss) due to the activity of unauthorized parties
- Changes in support levels for hardware and software
- Lack of security event monitoring
- Insufficient anti-virus

Network reviews should include vulnerability scans as well as penetration tests. A vulnerability scan or assessment looks for known vulnerabilities in your systems and reports potential exposures, many times in the form of a risk assessment. A penetration test is designed to actually exploit weaknesses in the architecture of systems.

Condition:

As reported in the prior two years' audit report, factors noted during the Information Technology General Control (ITGC) assessment at the County indicate a network assessment is warranted.

Cause:

Lack of a good monitoring system as part of the controls surrounding information technology.

Effect:

Hacks into networks, especially internet facing networks, are a common occurrence in today's information technology environment. Data breaches can cost breached entities fines, regulatory oversight, bad public relations, customer distrust and personnel time to correct issues caused by unauthorized access. Consequences can be both short-term (e.g., notification of breached parties) and long-term (e.g., lawsuits).

Recommendation:

It is recommended that the County perform a network security assessment as soon as possible. All factors that might increase the risk of unauthorized access to an entity's data

assets should be considered when determining the exact scope of the network review to be performed. This review should consist of risk assessments, vulnerability scans and penetration tests. These type tests should be conducted by qualified personnel that specialize in such assessments.

Board of Supervisor's Response:

The County will comply.

3. Calhoun County Should Implement a Formal Information Security Policy.

Criteria:

A robust set of information technology policies should cover at least the following areas:

1. Acceptable Use
2. Portable Computing
3. Change Management
4. Encryption
5. Security Incident Response
6. Risk Management
7. Backup and Recovery
8. Business Continuity/Disaster Recovery

Condition:

As reported in the prior three years' audit reports, the County has not adopted a formal Information Security Policy or Enterprise Security Plan.

Cause:

Lack of a robust documented information security plan.

Effect:

The County is in noncompliance with industry standards by not having a documented formal plan.

Recommendation:

We recommend that Calhoun County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by the County Board of Supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

Board of Supervisors' Response:

The County will comply.

4. Calhoun County should perform periodic access reviews.

Criteria:

A strong and effective system of internal control includes control activities, which implies there should be a strong security system.

Condition:

As noted in the prior years' audit report, the County does not have a formal process for removing logical access for terminated employees. Also noted, the County does not periodically review the levels of access that active users have and determine if the access is appropriate.

Cause:

Lack of a formal process in place.

Effect:

The County may be in danger of granting access to individual who should not have access to County's records.

Recommendation:

We recommend that Calhoun County implement a periodic review of logical access for all individual users.

Board of Supervisors' Response:

The County will comply.

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

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

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
February 26, 2019

Certified Public Accountants

SCHEDULE OF FINDINGS AND RESPONSES

Calhoun County, Mississippi

Schedule of Findings and Responses For the Year Ended September 30, 2016

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes.
 - b. Significant deficiency identified? None reported.
3. Noncompliance material to financial statements noted? Yes.

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Board of Supervisors

Material Weaknesses and Material Non Compliance

2016 - 001 - Calhoun County should implement controls to ensure tax levies are within imposed statutory limits.

Criteria:

Section 19-9-109, Miss. Code Ann. (1972) states that in order to fund such expenditures as may arise pursuant to the authority granted by Section 19-5-97 to Boards of Supervisors of any county to purchase, operate, and maintain fire trucks and other firefighting equipment, such Boards of Supervisors are empowered to levy an annual ad valorem tax not to exceed one-fourth (1/4) of one mill tax levy.

Condition:

As reported in the prior three audit reports, the tax levy adopted by the Board of Supervisors for fiscal year 2013 through 2016 included a 1.00 mill tax levy for fire protection services under the authority of the above referenced statute.

Cause:

Improper citation of state statute.

Effect:

This adoption resulted in the collection of \$47,039 of ad valorem taxes in excess of the statutory limit and places the County in violation of the state statute for fiscal year 2016. Additionally, for fiscal years 2013, 2014 and 2015, \$42,001, \$43,193 and \$56,229 respectively of ad valorem taxes in excess of the statutory limit was collected.

Recommendation:

The Board of Supervisors should establish internal controls to ensure all tax levies are within prescribed statutory limits.

Response:

Acknowledged. The statute that was cited was erroneous. The tax that was levied was actually allowed under Section 83-1-39 (County Volunteer Fire Department Fund) as was intended by the Board of Supervisors. This erroneous cite was corrected for the current budget (fiscal year 2017).

Tax Assessor-Collector

Material Weakness

Finding 2016 - 002 - Controls over cash collections and disbursements in the Tax Assessor/Collector's office should be strengthened.

Criteria:

An effective system of internal control over cash should include an adequate segregation of duties.

Condition:

As reported in the prior two period audit, it was noted that cash collection and disbursement functions in the Tax Assessor-Collector's office are not adequately segregated for effective internal control and therefore, controls over cash are inadequate.

Cause:

Deficiencies noted include:

1. Bookkeeper adds receipts to check-up daily collections, prepares the deposit slip and physically carries the deposit to the bank.
2. Bookkeeper post receipts to the computer for real, personal, mobile homes, public utility and garbage collections from manual receipts prepared by the Tax Assessor-Collector and deputy tax collectors after reconciling cash to the daily sheets.

3. Daily collections are given to the bookkeeper at 5:00 PM each day and cash is locked in a filing cabinet until the deposit is made.
4. Deposits are not made on a daily basis.
5. Bookkeeper posts all transactions, daily collections and settlements to the manual cash journal.
6. Bookkeeper prepares settlements and posts them to the cash journal. Tax Assessor-Collector usually signs the checks for settlement. However, the bookkeeper is also an authorized signor on the bank account.
7. Bookkeeper reconciles the bank statements.
8. As of September 30, 2016, the Tax Assessor-Collector's cash journal is reporting an unidentified cash shortage of \$23,617.
9. A cash count performed October 1, 2016 during a previous audit resulted in a cash shortage of \$39,961.
10. Bookkeeper reconciles the land sale listing from the computer to the real property receipts for the August land sale.
11. Bookkeeper writes the receipts, collects the cash and posts receipts to the computer for the August land sale.
12. Legislative tag credit is not properly posted to the cash journal.
13. Some real property tax collections are not listed on the daily manual cash sheet, recorded in the cash journal, deposited into the bank account or included on the monthly settlement report.

Effect:

Failure to implement controls over cash in the Tax Assessor-Collector's office could result in the loss or misappropriation of public funds.

Recommendation:

The Tax Assessor-Collector should ensure there is adequate segregation of duties in the receipting/collecting, recording and settlement functions, as well as implement a system to properly safeguard cash collections. The Tax Assessor-Collector should make restitution in the amount of the shortage noted in the cash journal as of September 30, 2015.

Management's Response:

The Tax Assessor-Collector will comply.

Auditor's Note:

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

Justice Court Clerk

Material Weakness

Finding 2016 - 003 - Controls over cash collections and disbursements in the Justice Court Clerk's office should be strengthened.

Criteria:

An effective system of internal control over cash should include an adequate segregation of duties.

Condition:

As reported in the prior two period audit, it was noted that cash collection and disbursement functions in the Justice Court Clerk's office are not adequately segregated for effective internal control and therefore, controls over cash are inadequate.

Cause:

The Justice Court Clerk receipts cash, prepares all bank deposits, maintains the cash journals, reconciles the bank statements, calculates the monthly settlements and disburses all funds.

Effect/Possible Effect:

Failure to implement controls over cash in the Justice Court Clerk's office could result in the loss or misappropriation of public funds.

Recommendation:

The Justice Court Clerk should ensure there is adequate segregation of duties in the collecting, recording and settlement functions.

Management's Response:

The Justice Court Clerk will comply.

Inventory Control Clerk

Material Weakness

Finding 2016 - 004 - Capital asset records were not maintained during the fiscal year.

Criteria:

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help identify and distinguish County assets from one another, thereby safeguarding County assets from loss or misappropriation. The information is also very important to the financial reporting process.

Condition:

As reported in the prior four years' audit reports, deficiencies were noted in the capital asset records. These deficiencies are repeated from the prior period audit report due to the capital assets not being maintained in fiscal year 2016:

1. The County does not maintain a depreciation schedule within their inventory system. Discrepancies such as the following were noted between the County's inventory system and the depreciation schedule provided to the auditors:
 - a. Asset classifications such as construction in progress - non depreciable, infrastructure, improvements and leased property under capital leases are not maintained on the County's inventory system.
 - b. Several items listed on the depreciation schedule are not listed on the County's inventory system.
 - c. Several items listed on the County's inventory system are not listed on the depreciation schedule despite still being in use by the County.

Cause:

These errors in the capital asset records were caused by failure to implement internal control procedures to ensure that all items are recorded, valued properly, and classified properly in the County's capital asset records.

Effect/Possible Effect:

Failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation:

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the County's capital asset records. The information listed in the County's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete. Audit adjustments have been proposed to management to correct these discrepancies. They have been made to the financial statements with management's approval.

Management's Response:

I will comply.