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HOLMES COUNTY, MISSISSIPPI

AUDITED FINANCIAL STATEMENTS AND SPECIAL REPORTS

For the Year Ended September 30, 2016

HOLMES COUNTY
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HOLMES COUNTY

FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Holmes County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Holmes County, Mississippi, as of and for the year ended September 30, 2016, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Holmes County, Mississippi, as of September 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Omission of Required Supplementary Information

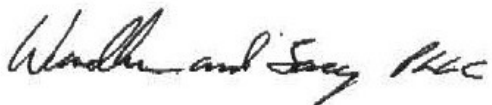
Holmes County, Mississippi, has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, 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

The Schedule of Surety Bonds for County Officials and the Reconciliation of Operating Costs of Solid Waste have 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 November 30, 2018, on our consideration of Holmes County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Holmes County, Mississippi's internal control over financial reporting and compliance.



Windham and Lacey, PLLC
November 30, 2018

HOLMES COUNTY

FINANCIAL STATEMENTS

HOLMES COUNTY
Statement of Net Position
September 30, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 7,194,594	241,958	7,436,552
Investments - restricted		1,722,685	1,722,685
Property tax receivable	7,492,749		7,492,749
Fines receivable (net of allowance for uncollectibles of \$1,930,314)	462,855		462,855
Capital leases receivable	332,479		332,479
Intergovernmental receivables	803,207	226,463	1,029,670
Other receivables	34,611	4,300	38,911
Capital assets:			
Land and construction in progress	3,180,899	120,000	3,300,899
Other capital assets, net	18,163,641	3,798,228	21,961,869
Total Assets	<u>\$ 37,665,035</u>	<u>6,113,634</u>	<u>43,778,669</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred amounts related to pensions	<u>\$ 1,548,727</u>	<u>478,960</u>	<u>2,027,687</u>
LIABILITIES			
Claims payable	\$ 358,131	83,543	441,674
Amounts held in custody for others	74,125		74,125
Intergovernmental payables	168,044	8,293	176,337
Accrued interest payable	15,902	29,380	45,282
Long-term liabilities			
Due within one year:			
Capital debt	1,113,398	425,000	1,538,398
Non-capital debt	28,128		28,128
Due in more than one year:			
Capital debt	4,272,389	1,375,000	5,647,389
Non-capital debt	259,653		259,653
Pension liability	8,461,103	2,618,647	11,079,750
Total Liabilities	<u>\$ 14,750,873</u>	<u>4,539,863</u>	<u>19,290,736</u>
DEFERRED INFLOWS OF RESOURCES			
Property tax for future reporting period	\$ 7,492,749		7,492,749
Interest income on capital lease receivable for future reporting period	41,763		41,763
Total Deferred Inflows of Resources	<u>\$ 7,534,512</u>	<u>0</u>	<u>7,534,512</u>
NET POSITION			
Net investment in capital assets	\$ 15,958,753	2,118,228	18,076,981
Restricted net position:			
Expendable:			
General government	238,101		238,101
Debt service	374,415	433,173	807,588
Public safety	536,195		536,195
Public works	1,686,692		1,686,692
Economic development	185,226		185,226
Health & welfare	34,053		34,053
Unemployment compensation	20,000		20,000
Unrestricted	<u>(2,105,058)</u>	<u>(498,670)</u>	<u>(2,603,728)</u>
Total Net Position	<u>\$ 16,928,377</u>	<u>2,052,731</u>	<u>18,981,108</u>

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

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

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 3,241,001	282,700	23,464		(2,934,837)		(2,934,837)
Public safety	1,809,367	219,649	219,319		(1,370,399)		(1,370,399)
Public works	3,884,780	126,655	718,271	1,950,906	(1,088,948)		(1,088,948)
Health and welfare	360,422		46,688		(313,734)		(313,734)
Culture & recreation	5,000				(5,000)		(5,000)
Conservation of natural resources	82,765				(82,765)		(82,765)
Economic development and assistance	234,631				(234,631)		(234,631)
Interest on long-term debt	186,476				(186,476)		(186,476)
Pension expense	1,161,951				(1,161,951)		(1,161,951)
Total Governmental Activities	10,966,393	629,004	1,007,742	1,950,906	(7,378,741)	0	(7,378,741)
Business-type Activities:							
Regional jail	2,771,672	2,602,804				(168,868)	(168,868)
Total Business-type Activities	2,771,672	2,602,804	0	0	0	(168,868)	(168,868)
Total Primary Government	\$ 13,738,065	3,231,808	1,007,742	1,950,906	(7,378,741)	(168,868)	(7,547,609)
General revenues:							
Taxes:							
Property taxes					\$ 7,321,975		7,321,975
Road & bridge privilege taxes					203,201		203,201
Grants & contributions not restricted to specific programs					930,932		930,932
Unrestricted investment income					193,540	150	193,690
Miscellaneous					539,477	63,825	603,302
Total General Revenues					9,189,125	63,975	9,253,100
Changes in Net Position					1,810,384	(104,893)	1,705,491
Net Position - Beginning					12,788,281	2,157,624	14,945,905
Prior period adjustments					2,329,712		2,329,712
Net position - Beginning, as restated					15,117,993	2,157,624	17,275,617
Net Position - Ending					\$ 16,928,377	2,052,731	18,981,108

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

HOLMES COUNTY
Balance Sheet - Governmental Funds
September 30, 2016

Exhibit 3

	<u>Major Fund</u>			
	<u>General Fund</u>	<u>Engineer State Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash	\$ 4,153,540	27	3,041,027	7,194,594
Property tax receivable	4,640,780		2,851,969	7,492,749
Fines receivable (net of allowance for uncollectibles of \$1,930,314)	462,855			462,855
Capital lease receivable			332,479	332,479
Intergovernmental receivables	90,655		179,359	270,014
Other receivables	7,056		27,555	34,611
Advances to other funds	533,193			533,193
Due from other funds	338,580		50,724	389,304
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	\$ <u>10,226,659</u>	<u>27</u>	<u>6,483,113</u>	<u>16,709,799</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 189,070		169,061	358,131
Amounts held in custody for others	63,401		10,724	74,125
Intergovernmental payables	167,943		101	168,044
Due to other funds	50,724	13,500	325,080	389,304
Total Liabilities	<u>471,138</u>	<u>13,500</u>	<u>504,966</u>	<u>989,604</u>
Deferred Inflows of Resources:				
Unavailable revenue - property tax	4,640,780		2,851,969	7,492,749
Unavailable revenue - capital lease			332,479	332,479
Unavailable revenue - fines	462,855			462,855
Total Deferred Inflows of Resources	<u>5,103,635</u>	<u>0</u>	<u>3,184,448</u>	<u>8,288,083</u>
Fund Balances:				
Nonspendable				
Advances	533,193			533,193
Restricted for:				
General government			238,101	238,101
Public safety			536,195	536,195
Public works			1,686,692	1,686,692
Economic development			185,226	185,226
Health & welfare			34,053	34,053
Debt service			390,317	390,317
Unemployment compensation			20,000	20,000
Unassigned	4,118,693	(13,473)	(296,885)	3,808,335
Total Fund Balances	<u>4,651,886</u>	<u>(13,473)</u>	<u>2,793,699</u>	<u>7,432,112</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances				
	\$ <u>10,226,659</u>	<u>27</u>	<u>6,483,113</u>	<u>16,709,799</u>

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

HOLMES COUNTY

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

Total Fund Balance - Governmental Funds	\$ 7,432,112
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Amounts reported for governmental services in the Statement of Net Position (Exhibit 1) are different because:

Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$10,272,622.	21,344,540
--	------------

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	462,855
--	---------

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(5,673,568)
--	-------------

Capital leases are not available to pay for current period expenditures and, therefore, are deferred in the funds.	290,716
--	---------

Accrued interest payable is not due and payable in the current period, and, therefore, is not reported in the funds.	(15,902)
--	----------

Pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(8,461,103)
--	-------------

Deferred outflows related to pension obligations are applicable to future periods and, therefore, are not reported in the funds.	<u>1,548,727</u>
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Total Net Position - Governmental Activities	\$ <u><u>16,928,377</u></u>
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The notes to the financial statements are an integral part of this statement.

HOLMES COUNTY

Exhibit 4

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

	<u>Major Funds</u>			
	<u>General Fund</u>	<u>Engineer State Aid Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 4,676,027		2,645,948	7,321,975
Road & bridge privilege taxes			203,201	203,201
Licenses, commissions & other revenue	144,665		25,100	169,765
Fines and forfeitures	225,436			225,436
Intergovernmental revenues	319,531	2,562,680	1,007,369	3,889,580
Charges for services	74,568		298,381	372,949
Interest income	185,166		8,374	193,540
Miscellaneous revenues	406,317		51,138	457,455
Total Revenues	<u>6,031,710</u>	<u>2,562,680</u>	<u>4,239,511</u>	<u>12,833,901</u>
EXPENDITURES				
Current:				
General government	3,034,782		474,876	3,509,658
Public safety	1,482,813		390,519	1,873,332
Public works	13,776	2,562,678	2,922,396	5,498,850
Health & welfare	330,089			330,089
Culture & recreation	5,000			5,000
Conservation of natural resources	92,320			92,320
Economic development assistance	143,145		37,604	180,749
Debt service:				
Principal			1,593,586	1,593,586
Interest			188,393	188,393
Total Expenditures	<u>5,101,925</u>	<u>2,562,678</u>	<u>5,607,374</u>	<u>13,271,977</u>
Excess of Revenue Over (Under) Expenditures	<u>929,785</u>	<u>2</u>	<u>(1,367,863)</u>	<u>(438,076)</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued			476,200	476,200
Proceeds from sale of capital assets			653,788	653,788
Transfers in	132		75,232	75,364
Transfers out	(61,028)		(14,336)	(75,364)
Lease principal payments			25,179	25,179
Total Other Financing Sources (Uses)	<u>(60,896)</u>	<u>0</u>	<u>1,216,063</u>	<u>1,155,167</u>
Net Changes in Fund Balance	868,889	2	(151,800)	717,091
Fund Balances - Beginning	<u>3,782,997</u>	<u>(13,475)</u>	<u>2,945,499</u>	<u>6,715,021</u>
Fund Balances - Ending	<u>\$ 4,651,886</u>	<u>(13,473)</u>	<u>2,793,699</u>	<u>7,432,112</u>

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

HOLMES COUNTY

Exhibit 4-1

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

Net Changes in Fund Balances - Governmental Funds \$ 717,091

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 \$2,662,550 exceeded depreciation of \$1,164,641 in the current period. 1,497,909

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss of \$17,425 and the proceeds from the disposition of \$653,788 in the current period. (671,213)

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. (139,146)

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

Recognition of pension expense for the current year	(1,161,951)
Recognition of contributions made subsequent to the measurement date	118,886
Recognition of contributions made prior to the measurement date	354,684

Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus, the change in net position differs from the change in fund balances by the amount that debt repayments of \$1,593,586 exceeded debt proceeds of \$476,200. 1,117,386

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

The amount of decrease in accrued interest payable	1,917
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In the Statement of Activities, only interest income from payments received on capital leases are reported, whereas in the governmental funds, both principal and interest payments received increase financial resources. Thus, the change in net position differs from change in fund balances by the principal collections on the capital leases. (25,179)

Change in Net Position of Governmental Activities (Exhibit 2) \$ 1,810,384

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

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

Exhibit 5

	Business-type Activities - Enterprise Fund Holmes-Humphreys Regional Correctional Facility Fund
ASSETS	
Current Assets:	
Cash	\$ 241,958
Investments - restricted	1,722,685
Other receivables	4,300
Intergovernmental receivables	226,463
Total Current Assets	<u>2,195,406</u>
Noncurrent Assets:	
Capital assets:	
Land and construction in progress	120,000
Other capital assets, net	3,798,228
Total Noncurrent Assets	<u>3,918,228</u>
Total Assets	<u>\$ 6,113,634</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred amount related to pensions	<u>\$ 478,960</u>
LIABILITIES	
Current liabilities:	
Claims payable	\$ 83,543
Intergovernmental payable	8,293
Accrued interest payable	29,380
Capital debt:	
Limited obligations bonds payable	425,000
Total Current Liabilities	<u>546,216</u>
Noncurrent Liabilities:	
Capital debt:	
Limited obligations bonds payable	1,375,000
Pension liability	2,618,647
Total Noncurrent Liabilities	<u>3,993,647</u>
Total Liabilities	<u>\$ 4,539,863</u>
NET POSITION	
Net investment in capital assets	\$ 2,118,228
Restricted for:	
Debt Service	433,173
Unrestricted	<u>(498,670)</u>
Total Net Position	<u>\$ 2,052,731</u>

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

HOLMES COUNTY

Exhibit 6Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
For the Year Ended September 30, 2016

Business-type
Activities -
Enterprise Fund
Holmes-Humphreys
Regional
Correctional
Facility Fund

OPERATING REVENUES

Charges for services	\$ 2,602,804
Miscellaneous	63,825
Total Operating Revenues	<u>2,666,629</u>

OPERATING EXPENSES

Personal services	1,360,155
Contractual services	368,031
Materials and supplies	442,513
Depreciation expense	114,682
Indirect administrative cost	55,948
Pension expense	354,171
Total Operating Expenses	<u>2,695,500</u>

Operating Income (Loss)	<u>(28,871)</u>
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NONOPERATING REVENUES (EXPENSES)

Interest income	150
Interest expense	(76,172)
Net Nonoperating Revenue (Expenses)	<u>(76,022)</u>

Changes in Net Position	(104,893)
Net Position - Beginning	<u>2,157,624</u>

Net Position - Ending	<u>\$ 2,052,731</u>
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The notes to the financial statements are an integral part of this statement.

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

Exhibit 7

	Business-type Activities - Enterprise Fund Holmes-Humphreys Regional Correctional Facility Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,640,073
Payments to suppliers	(811,553)
Payments to employees	(1,504,549)
Payments to General Fund for indirect costs	(55,948)
Other operating cash receipts	59,662
Net Cash Provided (Used) by Operating Activities	<u>327,685</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(415,000)
Interest paid on debt	(82,221)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(497,221)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Sale of investments	33,300
Interest and dividends on investments	150
Net Cash Provided (Used) by Investing Activities	<u>33,450</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(136,086)
Cash and Cash Equivalents at Beginning of Year	<u>378,044</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 241,958</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ <u>(28,871)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	114,682
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivable	37,269
(Increase) decrease in other receivables	(4,163)
(Increase) decrease in deferred outflows of resources	(72,464)
Increase (decrease) in pension liability	282,288
Increase (decrease) in payables	(1,056)
Total Adjustments	<u>356,556</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 327,685</u></u>

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

HOLMES COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2016

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ <u>658,231</u>
Total Assets	\$ <u><u>658,231</u></u>
LIABILITIES	
Amounts held in custody for others	\$ 14,689
Intergovernmental payables	110,349
Advances from other funds	<u>533,193</u>
Total Liabilities	\$ <u><u>658,231</u></u>

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

HOLMES COUNTY

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

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Holmes County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Holmes County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county. There are no outside organizations that should be included as component units of the county's reporting entity.

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

HOLMES COUNTY

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

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

The county reports the following major Governmental Funds:

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

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

The county reports the following major Proprietary Fund:

Holmes-Humphreys Regional Correctional Facility Fund (HHRCF) - This fund is used to account for the county's activities of operating the correctional facility.

HOLMES COUNTY

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

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.

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

HOLMES COUNTY

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

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." 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. 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."

H. Restricted Assets.

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

I. Capital Assets.

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

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

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

HOLMES COUNTY

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

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

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

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

J. 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 and so will not be recognized as an outflow of resources (expenses/expenditure) 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 9 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 that time.

Property tax for future reporting period/unavailable revenue - property taxes - 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 revenues - 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.

Unavailable revenue - capital lease - When a capital lease receivable 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.

HOLMES COUNTY

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

K. 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.

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 in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Position.

M. Equity Classifications.

Government-wide Financial Statements:

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

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

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

Unrestricted net position - All other net positions 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.

HOLMES COUNTY

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

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

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

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

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

Fund Balance Flow Assumptions:

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 the 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.

N. Property Tax Revenues.

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

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

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

HOLMES COUNTY

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

O. Intergovernmental Revenues in Governmental Funds.

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

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities - Governmental Activities

<u>Explanation</u>	<u>Amount</u>
To correct errors in capital assets	\$ (2,325,744)
To correct errors in debt	<u>(3,968)</u>
Total prior period adjustments	<u>\$ (2,329,712)</u>

(3) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2016, was \$8,094,783 and the bank balance was \$8,454,434. 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 FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

Investments:

Investments balances at September 30, 2016, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon Treasury Securities			
Money Market Mutual Funds	Less than one year	\$ <u>1,722,685</u>	AAAm
Total		<u>\$ 1,722,685</u>	

HOLMES COUNTY

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

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

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

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

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

(4) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 325,080
General Fund	Engineer State Aid	13,500
Other Governmental Funds	General Fund	<u>50,724</u>
Total		\$ <u><u>389,304</u></u>

The receivables represent the tax revenue collected but not settled until October, 2016, monies paid to fund projects until grant proceeds are received and to cover operating cost. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Agency Fund	\$ <u><u>533,193</u></u>

The receivable to the Agency Fund from the General Fund represents funds deposited into the county clearing account.

HOLMES COUNTY

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

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 132
Other Governmental Funds	General Fund	61,028
Other Governmental Funds	Other Governmental Funds	<u>14,204</u>
Total		\$ <u>75,364</u>

The principal purpose of interfund transfers was to cover operating cost and close out old funds. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

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

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	\$ 76,180
Timber severance tax	558
Reimbursement for city garbage pickup	5,408
Welfare reimbursement	8,016
Drug Court	10,872
Youth Court	988
Mississippi emergency management	71,235
Motor vehicle license	4,952
Motor vehicle fuel tax	63,154
Heavy duty truck tax	814
Harvest permits	1,284
Homeland Security Block Grant Match	20,226
Law Library reimbursement	1,578
Election assistance	4,749
Fiduciary fund	<u>533,193</u>
Total Governmental Activities	\$ <u>803,207</u>
Business-type Activities:	
Reimbursement for housing city inmates	\$ 5,013
Reimbursement for housing county inmates	6,250
Reimbursement for housing state inmates	<u>215,200</u>
Total Business-type Activities	\$ <u>226,463</u>

HOLMES COUNTY

Notes to 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	Deletions	Adjustments *	Balance Sept. 30, 2016
Capital assets, not being depreciated:					
Land	\$ 349,949			70,000	419,949
Construction in progress	764,556	1,996,394			2,760,950
Total capital assets, not being depreciated	<u>1,114,505</u>	<u>1,996,394</u>	<u>0</u>	<u>70,000</u>	<u>3,180,899</u>
Capital assets, being depreciated:					
Infrastructure	10,455,400				10,455,400
Buildings	7,441,190			2,380,000	9,821,190
Mobile equipment	4,226,226	277,796	149,728	144,382	4,498,676
Furniture and equipment	1,017,954	37,160	286,154		768,960
Leased property under capital leases	3,758,097	351,200	1,072,878	(144,382)	2,892,037
Total capital assets, being depreciated	<u>26,898,867</u>	<u>666,156</u>	<u>1,508,760</u>	<u>2,380,000</u>	<u>28,436,263</u>
Less: Accumulated depreciation for:					
Infrastructure	2,472,009	288,355		(113,744)	2,646,620
Buildings	2,305,973	173,875		238,000	2,717,848
Mobile equipment	3,216,226	235,934	134,755	51,978	3,369,383
Furniture and equipment	650,262	93,573	271,201		472,634
Leased property under capital leases	1,176,802	372,904	431,591	(51,978)	1,066,137
Total accumulated depreciation	<u>9,821,272</u>	<u>1,164,641</u>	<u>837,547</u>	<u>124,256</u>	<u>10,272,622</u>
Total capital assets being depreciated, net	<u>17,077,595</u>	<u>(498,485)</u>	<u>671,213</u>	<u>2,255,744</u>	<u>18,163,641</u>
Governmental activities capital assets, net	\$ <u>18,192,100</u>	<u>1,497,909</u>	<u>671,213</u>	<u>2,325,744</u>	<u>21,344,540</u>

Business-type Activities:

	Balance Oct. 1, 2015	Additions	Deletions	Adjustments *	Balance Sept.30, 2016
Capital assets, not being depreciated:					
Land	\$ 120,000				120,000
Total capital assets, not being depreciated	<u>120,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>120,000</u>
Capital assets, being depreciated:					
Buildings	5,333,915				5,333,915
Improvements other than buildings	36,149				36,149
Mobile equipment	134,933				134,933
Furniture and equipment	72,211				72,211
Total capital assets, being depreciated	<u>5,577,208</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,577,208</u>

(Continued)

HOLMES COUNTY

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

	Balance Oct. 1, 2015	Additions	Deletions	Adjustments *	Balance Sept. 30, 2016
Less: Accumulated depreciation for:					
Buildings	1,473,902	106,678			1,580,580
Improvements other than buildings	11,388	1,627			13,015
Mobile equipment	121,441				121,441
Furniture and equipment	57,567	6,377			63,944
Total accumulated depreciation	<u>1,664,298</u>	<u>114,682</u>	<u>0</u>	<u>0</u>	<u>1,778,980</u>
Total capital assets, being depreciated, net	<u>3,912,910</u>	<u>(114,682)</u>	<u>0</u>	<u>0</u>	<u>3,798,228</u>
Business-type activities capital assets, net \$	<u>4,032,910</u>	<u>(114,682)</u>	<u>0</u>	<u>0</u>	<u>3,918,228</u>

* The adjustments are for the MDEZA land and building donated to the county in 2014, but not put on the county inventory, and errors in prior years accumulated depreciation of roads.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 155,669
Public safety	124,846
Public works	788,047
Health and welfare	39,629
Economic development	<u>56,450</u>
Total governmental activities depreciation expense	\$ <u>1,164,641</u>
Business-type Activities:	
Correctional facility	\$ <u>114,682</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.

HOLMES COUNTY

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

(8) Capital Leases.

As Lessor:

On November 1, 2005, Holmes County entered into a capital lease agreement with Lexington Homes for the lease of a building. The capital lease stipulated that the lease would pay approximately \$3,050 per month in lease payments for a term of 20 years. At the end of the lease term, the building becomes the property of Lexington Homes.

The county leases the following property as of September 30, 2016:

<u>Classes of Property</u>	<u>Amount</u>
Land	\$ 53,000
Buildings	<u>495,000</u>
Total	<u>\$ 548,000</u>

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2016, are as follows:

<u>Year Ending September 30:</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 25,880	7,677
2018	29,056	7,548
2019	29,939	6,664
2020	30,850	5,753
2021	31,788	4,815
2022-2026	<u>143,203</u>	<u>9,306</u>
Total	<u>\$ 290,716</u>	<u>41,763</u>

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 2,713,574
Other furniture and equipment	<u>178,463</u>
Total	2,892,037
Less: Accumulated depreciation	<u>(1,066,137)</u>
Leased Property under Capital Leases	<u>\$ 1,825,900</u>

HOLMES COUNTY

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

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

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2017	\$ 648,416	25,660
2018	382,518	15,900
2019	232,885	9,376
2020	<u>253,986</u>	<u>4,163</u>
Total	<u>\$ 1,517,805</u>	<u>55,099</u>

(9) Defined Benefit Pension Plan.

Plan Description. Holmes County, Mississippi, contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publically 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 share at September 30, 2016 was 15.75% of annual 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 ended September 30, 2016, 2015 and 2014 were \$617,917, \$624,911 and \$627,240 respectively, equal to the required contribution for each year.

HOLMES COUNTY

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

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 \$11,079,750 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 .062028 percent, which was based on a measurement date of June 30, 2016. This was a decrease of .001831 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 \$1,516,122. At September 30, 2016, the county reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Differences between expected and actual experience	\$ 279,826
Net difference between projected and actual earnings on pension plan investments	1,311,260
Changes of assumptions	513,807
Changes in the county's proportion and differences between the county's contributions and proportionate share of contributions	(232,329)
County contributions subsequent to the measurement date	<u>155,123</u>
Total	<u>\$ 2,027,687</u>

\$155,123 reported as deferred outflows of resources related to pension 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:

2016	\$ 700,792
2017	600,143
2018	352,745
2019	<u>218,884</u>
Total	<u>\$ 1,872,564</u>

HOLMES COUNTY

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

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

Inflation	3.00 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 male 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 estimated future real rates of return (expected nominal returns, net of pension plan investments 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
U.S. Broad	34.00 %	5.20 %
International Equity	19.00	5.00
Emerging Markets Equity	8.00	5.45
Fixed Income	20.00	0.25
Real Assets	10.00	4.00
Private Equity	8.00	6.15
Cash	1.00	(0.50)
Total	<u>100.00 %</u>	

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.

HOLMES COUNTY

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

Sensitivity to the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following table 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%)	Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$ 14,206,723	11,079,750	8,485,375

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

(10) Long-term Debt.

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
County building bond	\$ 1,405,000	3.75/5.125%	09-2028
County road and building	1,335,000	3.10/4.25%	08-2025
District 3 road and bridge	41,704	2.13%	06-2017
District 4 road and bridge	31,278	2.13%	06-2017
District 4 road and bridge	440,000	2.30/3.20%	08-2023
District 2 R&B Bonds Series 2014	206,000	1.90%	09-2024
District 3 R&B Bonds Series 2014	165,000	1.90%	09-2024
District 4 R&B Bonds Series 2014	154,000	1.63%	09-2019
Total General Obligation Bonds	\$ 3,777,982		
B. Capital Leases:			
Kubota tractor and bush hog	\$ 9,229	2.19%	08-2017
Caterpillar motor grader	9,432	2.12%	06-2017
Caterpillar motor grader	111,234	2.12%	07-2017
E-911 System	59,968	2.51%	12-2018
JD tractor w/tiger boom	9,135	1.96%	02-2017
JD tractor w/tiger boom	9,135	1.96%	02-2017
JD tractor w/tiger boom	9,135	1.96%	02-2017
Kobelco excavator	34,961	2.24%	09-2018
Volvo motor grader	125,840	2.06%	12-2016

(Continued)

HOLMES COUNTY

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Volvo motor grader	125,840	2.06%	12-2016
2 Mack trucks	183,493	2.26%	03-2019
Volvo motor grader	103,788	1.90%	09-2019
Volvo motor grader	103,788	2.24%	09-2019
Case extendahoe	35,520	2.27%	04-2020
Kobelco excavator	39,430	2.29%	12-2018
JD utility tractor 5100E	41,582	1.96%	05-2018
Case extendahoe 580 SN	35,785	2.19%	03-2020
JD tractor	28,424	2.22%	03-2019
2 garbage trucks	330,945	1.96%	02-2016
2012 Volvo motor grader	111,141	2.24%	12-2019
Total Capital Leases	\$ <u>1,517,805</u>		
C. Other Loans:			
Negotiable Note - road repairs	\$ 90,000	1.48%	09-2019
Capital improvement loan	<u>287,781</u>	3.00%	11-2025
Total Other Loans	\$ <u>377,781</u>		
Business-type Activities:			
Limited Obligation Bonds:			
Urban renewal revenue bonds	\$ <u>1,800,000</u> *	3.00/4.00%	06-2020
Total Limited Obligation Bonds	\$ <u>1,800,000</u>		

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

HOLMES COUNTY

Notes to Financial Statements For the Year Ended September 30, 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	\$ 434,982	123,431	58,128	9,808
2018	379,000	109,607	58,983	8,508
2019	393,000	97,343	59,865	7,183
2020	355,000	85,351	30,773	5,830
2021	372,000	73,972	31,709	4,894
2022-2026	1,559,000	186,024	138,323	9,680
2027-2031	285,000	16,124		
Total	\$ 3,777,982	691,852	377,781	45,903

Business-type Activities:

Year Ending September 30:	Limited Obligation Bonds	
	Principal	Interest
2017		
2018	\$ 425,000	62,756
2019	440,000	46,200
2020	460,000	28,200
	475,000	9,500
Total	\$ 1,800,000	146,656

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2016, the amount of outstanding debt was equal to 3.04% 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	Adjustments	Balance Sept. 30, 2016	Amount due within one year
Governmental Activities:						
General obligation bonds	\$ 4,228,441		450,459		3,777,982	434,982
Capital leases	2,129,020	476,200	1,083,447	(3,968)	1,517,805	648,416
Other loans	437,461		59,680		377,781	58,128
Total	\$ 6,794,922	476,200	1,593,586	(3,968)	5,673,568	1,141,526
Business-type Activities:						
Limited obligation bonds	\$ 2,215,000		415,000		1,800,000	425,000
Total	\$ 2,215,000	0	415,000	0	1,800,000	425,000

HOLMES COUNTY

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

(11) Deficit Fund Balances of Individual Funds.

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

<u>Fund</u>	<u>Deficit Amount</u>
AOC/Drug - DUI Fund	\$ 50,832
Rural Development Vehicle Fund	22,468
Small Municipalities & Limited Population Fund	3,320
Law Library	3,444
Municipal Solid Waste	30,818
District 3 Road Fund	75,324
District 3 Bridge Fund	100,147
2010 District 5 Road Fund	2,500
Lexington Homes I&S Fund	8,032

(12) Contingencies.

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

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings.

(13) Related Organizations.

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

(14) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Holmes Community College operates in a district composed of the Counties of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo. The Holmes County Board of Supervisors appoints six of the 22 members of the board of trustees. The county appropriated \$536,113 for maintenance and support of the college in fiscal year 2016.

The Mid-Mississippi Regional Library System operates in a district composed of the Counties of Attala, Holmes, Leake, Montgomery and Winston. The Holmes County Board of Supervisors appoints one of the five members of the Library board of directors. The county appropriated \$193,602 for maintenance and support of the library in fiscal year 2016.

HOLMES COUNTY

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

North Central Planning and Development District operates in a district composed of the Counties of Attala, Carroll, Grenada, Holmes, Leflore, Montgomery and Yalobusha. The Holmes County Board of Supervisors appoints four of the 28 members of the board of directors. The county appropriated \$58,500 to the district in fiscal year 2016.

Region Six Mental Health/Mental Retardation Center Life Help operates in a district composed of the Counties of Attala, Carroll, Grenada, Holmes, Humphreys, Leflore, Montgomery and Sunflower. The Holmes County Board of Supervisors appoints one of the eight members of the district board of commissioners. Holmes County appropriated \$26,800 for maintenance and support of the center in fiscal year 2016.

The Yazoo-Mississippi Water Management District operates in a district composed of the Counties of Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, Leflore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Washington and Yazoo. The Holmes County Board of Supervisors appoints one of the 21 members of the district board of commissioners. The county levied a .71 mill tax in support of the district in fiscal year 2016.

HOLMES COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY
 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	\$ 4,615,146	4,670,859	4,670,859	
Licenses, commissions and other revenue	156,900	139,724	139,724	
Fines and forfeitures	186,000	218,098	218,098	
Intergovernmental revenues	398,856	579,551	579,551	
Charges for services	80,000	79,282	79,282	
Interest income	135,000	185,557	185,557	
Miscellaneous revenues	161,010	163,765	163,765	
Total Revenues	<u>5,732,912</u>	<u>6,036,836</u>	<u>6,036,836</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	3,298,025	3,204,124	3,204,124	
Public safety	1,652,963	1,470,027	1,470,027	
Public works	34,856	13,711	13,711	
Health and welfare	372,078	322,668	322,668	
		5,000	5,000	
Conservation of natural resources	109,865	92,080	92,080	
Economic development and assistance	172,125	143,105	143,105	
Total Expenditures	<u>5,639,912</u>	<u>5,250,715</u>	<u>5,250,715</u>	<u>0</u>
Excess of Revenues				
Over (Under) Expenditures	<u>93,000</u>	<u>786,121</u>	<u>786,121</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources	323,000	50,325	50,325	
Other financing uses	<u>(433,000)</u>	<u>(61,028)</u>	<u>(61,028)</u>	
Total Other Financing Sources and Uses	<u>(110,000)</u>	<u>(10,703)</u>	<u>(10,703)</u>	<u>0</u>
Net Change in Fund Balance	(17,000)	775,418	775,418	0
Fund Balances - Beginning	<u>1,775,000</u>	<u>3,356,348</u>	<u>3,356,348</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,758,000</u>	<u>4,131,766</u>	<u>4,131,766</u>	<u>0</u>

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

HOLMES COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Engineer State Aid
 For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 310,000	287,255	287,255	0
Total Revenues	<u>310,000</u>	<u>287,255</u>	<u>287,255</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	242,000	287,253	287,253	0
Total Expenditures	<u>242,000</u>	<u>287,253</u>	<u>287,253</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>68,000</u>	<u>2</u>	<u>2</u>	<u>0</u>
Net Change in Fund Balance	68,000	2	2	0
Fund Balances - Beginning	<u>0</u>	<u>(13,475)</u>	<u>(13,475)</u>	<u>0</u>
Fund Balances - Ending	\$ <u>68,000</u>	<u>(13,473)</u>	<u>(13,473)</u>	<u>0</u>

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

HOLMES COUNTY
Schedule of the County's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset)	11,079,750	9,871,342	7,776,925
County's proportionate share of the net pension liability (asset)	0.062028 %	0.063859 %	0.064070 %
County's covered-employee payroll	3,968,063	3,989,537	3,914,997
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	279.223131 %	247.430767 %	198.644469 %
Plan fiduciary net position as a percentage of the total pension liability	57.467727 %	61.703983 %	67.207687 %

* The amounts presented for each fiscal year were determined as of the twelve months ended at the measurement date of June 30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the year ended September 30, 2015, and until a full 10-year trend is compiled, the county has only presented information for the years in which information was available.

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

HOLMES COUNTY
Schedule of the County's Contributions
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 617,917	624,911
Contributions in relation to the contractually required contribution	<u>617,917</u>	<u>624,911</u>
Contribution deficiency (excess)	\$ <u>0</u>	<u>0</u>
County covered-employee payroll	3,923,276	3,967,683
Contributions as a percentage of covered-employee payroll	15.75 %	15.75 %

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the year ended September 30, 2015, and until a full 10-year trend is compiled, the county has only presented information for the years in which information was available.

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

HOLMES COUNTY

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

(1) Budget.

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and the Engineer State Aid Fund.

	Governmental Fund Types	
	General Fund	Engineer State Aid Fund
Budget (Cash Basis)	\$ 775,418	2
Increase (Decrease)		
Net adjustments for revenue accruals	(55,319)	
Net adjustments for expenditure accruals	148,790	
GAAP Basis	\$ 868,889	2

HOLMES COUNTY

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

- (2) Schedule of the County's Proportionate share of the Net Pension Liability and Schedule of the County's Contributions.

Changes in Benefit Provisions.

None

Changes of Assumptions.

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

HOLMES COUNTY

SUPPLEMENTAL INFORMATION

HOLMES COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2016

Operating Expenditures, Cash Basis:

Salaries	\$	219,726
Expendable Commodities:		
Gasoline and petroleum products		41,902
Tires and tubes		9,076
Repair parts		42,623
Supplies		2,355
Contractual services		1,700
Solid waste disposal fees		96,265
Other misc.		10,601
Telephone		2,327
Principal retirement and interest		319,928
Solid Waste Cash Basis Operating Expenditures	s	746,503
Full Cost Expenses:		
Indirect administrative costs		13,662
Depreciation on equipment		27,274
Net effect of other accrued expenses		(55)
Solid Waste Full Cost Operating Expenses	\$	787,384

HOLMES COUNTY

OTHER INFORMATION

HOLMES COUNTY
Schedule of Official Bonds - UNAUDITED
For the Year Ended September 30, 2016

Name	Position	Company	Bond Amount
Henry Anderson	Supervisor - District 1	Nationwide	\$ 100,000
James Young	Supervisor - District 2	Nationwide	\$ 100,000
Debra Mabry	Supervisor - District 3	Nationwide	\$ 100,000
Larry Davis	Supervisor - District 4	Nationwide	\$ 100,000
Eddie Carthan	Supervisor - District 5	Nationwide	\$ 100,000
Henry Lockett	Chancery Clerk	Nationwide	\$ 100,000
Charlie Lockett	Deputy Chancery Clerk	Nationwide	\$ 50,000
Carolyn Pepper	Deputy Chancery Clerk	Nationwide	\$ 50,000
Annie Green	Deputy Chancery Clerk	RLI	\$ 50,000
Earline Wright-Hart	Circuit Clerk	Hartford Insurance	\$ 100,000
Debra Randle	Deputy Circuit Clerk	RLI	\$ 50,000
Brenda Travis	Deputy Circuit Clerk	RLI	\$ 50,000
Willie Anderson	Constable	Nationwide	\$ 50,000
Sharkey Ford	Constable	Nationwide	\$ 50,000
Charlie M. Joiner	County Administrator	Western Surety	\$ 100,000
Caldonia Wiley	Bookkeeper	Nationwide	\$ 50,000
Wayne Morrison	County Engineer	Nationwide	\$ 50,000
Gyrone Granderson	Emergency Management	Nationwide	\$ 10,000
Charlie M. Joiner	Inventory Control Clerk	Western Surety	\$ 75,000
Stella D. Ross	Justice Court Clerk	Nationwide	\$ 50,000
Lillie A. Simmons	Deputy Justice Court Clerk	Nationwide	\$ 50,000
Patricia Watts	Deputy Justice Court Clerk	Western Surety	\$ 50,000
Marcus Fisher	Justice Court Judge	RLI	\$ 50,000
Shirley Neal, III	Justice Court Judge	Western Surety	\$ 50,000
Charlie M. Joiner	Purchase Clerk	Western Surety	\$ 75,000
Vanessa Truss	Assistant Purchase Clerk	Nationwide	\$ 50,000
Alanda Taylor	Assistant Purchase Clerk	RLI	\$ 50,000
Charlie Lockett	Receiving Clerk	RLI	\$ 75,000
Alphonzo Greer	Assistant Receiving Clerk	Western Surety	\$ 50,000
Wilma P. Jones	Assistant Receiving Clerk	Nationwide	\$ 20,000
Willie E. March	Assistant Receiving Clerk	Nationwide	\$ 50,000
Alphonso Mayfield	Assistant Receiving Clerk	Nationwide	\$ 50,000
Linda Rollins	Assistant Receiving Clerk	Nationwide	\$ 50,000
David Montgomery	Assistant Receiving Clerk	Nationwide	\$ 50,000
Betsy K. Padgett	Assistant Receiving Clerk	Nationwide	\$ 50,000
Jeressia D. Quinn	Assistant Receiving Clerk	Travelers, Inc.	\$ 50,000
Roosevelt Stroud	Assistant Receiving Clerk	Nationwide	\$ 50,000
L. C. Tate	Assistant Receiving Clerk	Nationwide	\$ 50,000
Brenda P. Travis	Assistant Receiving Clerk	Nationwide	\$ 50,000
Verkeisha Wilkes	Assistant Receiving Clerk	Nationwide	\$ 50,000
Vickie Andrews	Assistant Receiving Clerk	Nationwide	\$ 10,000

(Continued)

HOLMES COUNTY
Schedule of Official Bonds - UNAUDITED
For the Year Ended September 30, 2016

<u>Name</u>	<u>Position</u>	<u>Company</u>	<u>Bond Amount</u>
Willie March	Sheriff	RLI	\$ 100,000
Verlinda Alexander	Sheriff	RLI	\$ 50,000
Barry W. Rule	Warden	RLI	\$ 25,000
Linda Rollins	Tax Assessor/Collector	Western Surety	\$ 100,000
Kahaliah Cook	Deputy Tax Assessor/Collector	RLI	\$ 50,000
Sandra Green	Deputy Tax Assessor/Collector	RLI	\$ 50,000
Wanda S. Harrell	Deputy Tax Assessor/Collector	RLI	\$ 50,000
Myra Meeks	Deputy Tax Assessor/Collector	RLI	\$ 50,000
Tina K. Upchurch	Deputy Tax Assessor/Collector	Western Surety	\$ 50,000
Jacqueline Wilson	Deputy Tax Assessor/Collector	Western Surety	\$ 10,000

HOLMES COUNTY

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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

Members of the Board of Supervisors
Holmes County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Holmes County, Mississippi, as of and for the year ended September 30, 2016, which collectively comprise the county's basic financial statements and have issued our report thereon dated November 30, 2018. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the county'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 county'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.



Windham and Lacey, PLLC
November 30, 2018

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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
Holmes County, Mississippi

We have examined Holmes County, Mississippi's compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972), and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972), during the year ended September 30, 2016. The Board of Supervisors of Holmes County, Mississippi, is responsible for the county's compliance with those requirements. Our responsibility is to express an opinion on the county's compliance based on our examination.

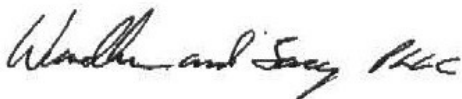
Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly included examining, on a test basis, evidence about the county's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the county's compliance with specified requirements. The Board of Supervisors of Holmes County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

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

This report is intended for use in evaluating Holmes 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.



Windham and Lacey, PLLC
November 30, 2018

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

Schedule 1

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

HOLMES COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2016

Schedule 2

<u>Date</u>	<u>Item Purchased</u>		<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
08/01/2016	Mallory Road bridge repair	\$	11,653	BRV Equipment, Inc.	Safety concerns

HOLMES COUNTY

Schedule 3Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2016

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Sole Source</u>
10/05/2016	Hot mix asphalt	\$ 2,972	APAC-Mississippi	The only supplier within reason.
11/02/2015	Hot mix asphalt	1,466	APAC-Mississippi	The only supplier within reason.
12/07/2015	Hot mix asphalt	4,417	APAC-Mississippi	The only supplier within reason.
01/04/2016	Hot mix asphalt	6,225	APAC-Mississippi	The only supplier within reason.
05/02/2016	Hot mix asphalt	3,884	APAC-Mississippi	The only supplier within reason.
06/06/2016	Hot mix asphalt	4,232	APAC-Mississippi	The only supplier within reason.
07/05/2016	Hot mix asphalt	1,168	APAC-Mississippi	The only supplier within reason.
08/01/2016	Hot mix asphalt	1,027	APAC-Mississippi	The only supplier within reason.
09/06/2016	Hot mix asphalt	1,349	APAC-Mississippi	The only supplier within reason.

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Holmes County, Mississippi

In planning and performing our audit of the financial statements of Holmes County, Mississippi, for the year ended September 30, 2016, we considered Holmes County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Holmes County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated November 30, 2018, on the financial statements of Holmes County, Mississippi.

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

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

Circuit Clerk.

1. Finding

Sound accounting procedures and controls are fundamental in establishing financial accountability. Good internal accounting controls are necessary for recording, compiling, reconciling and reporting receipts and expenditures in all offices, including the Circuit Court Clerk's Office.

Separate cash journals should be utilized for criminal and civil collections. Receipts and checks are recorded in the "Cash" column and the appropriate fine, fee or assessment column. The journals are totaled at the end of each month, and settlements are made. The total of all debits should be compared to the total of all credits to determine they equal. This proves that the journals are in balance. Bank statements are to be reconciled monthly to the journals.

Receipt numbers should be listed on deposit slips to identify which receipts are included in each deposit. As reported in previous years' audit reports, the Circuit Clerk's Office does not properly maintain Criminal, Civil and Fee Journals:

- No checks were posted to the Criminal and Civil Journals, the total debits and credits did not always equal, there was no reconciliation of the Journals to the bank statements and monthly settlements to the County were not made timely. Additionally, receipt numbers were not listed on deposit slips.
- The Fee Journal's entries had no check numbers, receipts were not posted individually with receipt numbers, and the reconciled bank statements did not equal the Journal.

Failure to properly account for and document revenues and expenses could result in loss or misappropriation of public funds.

Recommendation

We recommend the Circuit Clerk prepare proper Criminal, Civil and Fee Journals, listing each receipt by receipt number, and listing each check by check number or other disbursement, with the proper corresponding entries in the appropriate columns with debits and credits that equal when totaled. Receipt numbers should be recorded on deposit slips for purposes of comparison to journal entries. Bank statements should be reconciled to the Cash Journals and differences in balances investigated and resolved. Monthly settlements to the County for fines and fees should be remitted on a timely basis.

Circuit Clerk's Response

The fee journal had a check register when my audit was done. The register was created by Mr. Weathers and entered by Mrs. Travis and is almost identical to the Chancery Clerk check register when compared. The check nos. will be added to the fee journal and a check register will be created for the Civil and Criminal Cash Journal. All receipts are already recorded in the Cash Journal for Civil and Criminal I will comply.

2. Finding

Section 9-1-45, Miss. Code Ann. (1972), requires the Circuit Clerk to file "a true and accurate annual report..." of revenues and expenses, not later than April 15 of each year. The Circuit Clerk's Annual Financial Report contained expenses that were not included in the Fee Journal. During our testing of the Fee Journal, we noted many expenses with no explanation of the business purpose and/or documentation substantiating the legitimacy of the payment. Several expenses listed as office expense appeared to be personal in nature, including donations, gasoline and vehicle service expenses, Sam's Club and Wells Fargo payments with no receipts, and payments to the Circuit Clerk with no explanation or supporting documentation. Failure to properly account for and document revenues and expenses, and failure to file accurate annual reports according to statute could result in loss or misappropriation of public funds.

Recommendation

The Circuit Clerk should maintain Fee Journals that accurately account for revenues and expenses of the office, should maintain proper documentation of those revenues and expenses, and should reconcile the Fee Journal to the Fee Journal bank account. Travel vouchers should be prepared to document travel related expenses and reimbursements for mileage should be requested at the prevailing rate per business mile. Extreme care should be taken to ensure that only expenses with a bona fide business purpose, as determined by IRS regulations, be charged as deductible expenses. Each deductible expense should be identified by its business purpose and supporting documentation should be maintained and available for audit purposes. Fee Journal revenues and expenses should equal amounts reported on the annual financial report.

Circuit Clerk's Response

My annual report is normally filed on April 15 or the next business day if that date falls on the weekend but in 2016 my annual report was not filed timely. I was on leave for 7.5 months with my brother in the brain care unit and I informed the audit department. Next, we do not have a petit cash fund in the Clerk's Office, all funds received are recorded in the receipt book, to-wit: Civil, Criminal or Drug Court. Travel: In the past, we have always attached receipts to the check stubs for travel with explanation but in the future, we will use the County travel reimbursement voucher form and attach it to the check stub along with Google map as proof for mileage for IRS compliance. Next, only expenses that are necessary for the operation of the Circuit Clerk's Office are recorded in the Fee Journal and included in my annual report and no personal expenses can be recorded in the Fee Journal. They are considered not necessary according to our training. Next, I was never told to record receipt numbers in deposit book. I will comply.

Justice Court Clerk.

1. Finding

The Justice Court Clerk did not properly maintain Cash Journals for Criminal, Civil and Clearing accounts for the fiscal year. Settlements to the County were made from receipts printouts. However, there was no reconciliation of receipts and disbursements from the bank statements to a Cash Journal.

Recommendation

The Justice Court Clerk should maintain Cash Journals for Criminal, Civil and Clearing accounts to insure proper internal controls over collections and settlements.

Justice Court Clerk's Response

I have taken steps to improve the problem through my software company by having new software that has been installed.

Sheriff.

1. Finding

The Sheriff's Office did not properly maintain a Cash Journal and settle all receipts for the fiscal year. Checks were not posted to the Cash Journal and we found instances of missing receipts that were not settled to the County and the absence of the missing receipts could not be explained. The bank statements were not reconciled to the Cash Journal. Failure to properly record transactions in the Cash Journal and reconcile bank accounts promptly results in poor internal controls over cash, and could lead to loss or misappropriations of public funds.

Recommendation

The Sheriff's Office should record all cash transactions in the Cash Journal and reconcile bank accounts promptly to insure proper internal controls over cash. All receipts should be accounted for and maintained for proper control over cash collections and settlements. The reconciled bank account balance should equal the cash balance in the Cash Journal and any differences should be investigated and resolved.

Sheriff's Response

We will comply with all recommendations.

2. Finding

The Sheriff's Office did not make timely deposits during the fiscal year. Failure to make timely deposits could result in poor internal controls over cash and could lead to loss or misappropriations of public funds.

Recommendation

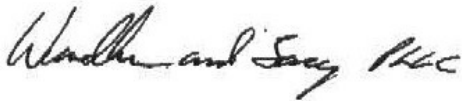
The Sheriff's Office should make daily deposits to insure proper internal controls over cash.

Sheriff's Response

We will comply with all recommendations.

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

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the county 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.

A handwritten signature in black ink, appearing to read "Windham and Lacey, PLLC".

Windham and Lacey, PLLC
November 30, 2018

HOLMES COUNTY

SCHEDULE OF FINDINGS AND RESPONSES

HOLMES COUNTY

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

Section 1: 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 weakness identified? | No |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.