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FORREST COUNTY, MISSISSIPPI

**AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS**

Year Ended September 30, 2014

FORREST COUNTY, MISSISSIPPI

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FORREST COUNTY, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Forrest County, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forrest County, Mississippi, (the County) as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Members of the Board of Supervisors
Forrest County, Mississippi

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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

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

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of Forrest County, Mississippi, as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Members of the Board of Supervisors
Forrest County, Mississippi

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Forrest County, Mississippi, as of September 30, 2014, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Forrest County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to

Members of the Board of Supervisors
Forrest County, Mississippi

prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2015, on our consideration of Forrest County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forrest County, Mississippi's internal control over financial reporting and compliance.



Hattiesburg, Mississippi
May 27, 2015

**FORREST COUNTY, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2014**

INTRODUCTION

This discussion and analysis of Forrest County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2014. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in the County's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the County's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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

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

FINANCIAL HIGHLIGHTS

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

Key financial highlights for 2014 were as follows:

- Total net position for 2014, \$83,642,958 increased \$1,902,132, or 2.33% from 2013, as restated, \$81,740,826.
- Total assets of governmental activities for 2014, \$147,010,599 decreased by \$569,963 or 0.39% from 2013, \$147,580,562.
- Total deferred outflows of resources for 2014, \$72,790 increased by \$72,790 or 100.00% from 2013, \$-0-.
- Total liabilities for 2014, \$37,339,281 decreased \$3,158,895 or 7.80% from 2013, \$40,498,176.
- Total deferred inflows of resources for 2014, \$26,101,150 increased \$720,883 or 2.84% from 2013, \$25,380,267.
- In total, equity in cash and cash equivalents for 2014, \$33,381,934 increased \$591,557 or 1.80% from 2013, \$32,790,377.

- Total assessed valuation for 2013 tax year (collected in fiscal year 2014 budget year) increased 19 million from the 2012 tax year (collected in fiscal year 2013 budget year). The 2013 assessed valuations (used to compute fiscal year 2014 collections) for the County also reflect a 69 million increase over the last seven-year period (2006 tax rolls used to compute the 2007 budget) establishing that Forrest County continues to have a healthy tax base for economic stability.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Component units are not included in our basic financial statements.

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. These funds account for various taxes, deposits, and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other governmental units or designated beneficiaries.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position - Net position may serve over time as a useful indicator of the government's financial position. In the case of Forrest County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$83,642,958 as of September 30, 2014.

The largest portion of the County's net position (66.7%) reflects its investment in capital assets (e.g., roads, bridges, land, buildings, mobile equipment, furniture and equipment, and construction in progress) less related outstanding debt used to acquire such assets. The County uses these capital assets to provide services to its citizens.

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

Table 1 presents a summary of the County's net position at September 30, 2014, as compared to net position at September 30, 2013.

(See Table 1 on Next Page)

**Table 1
Net Position**

	Governmental Activities		Total Percentage Change
	2014	2013	
ASSETS			
Current and other assets	\$ 61,845,484	\$ 60,260,106	2.63%
Land and construction in progress	2,137,059	2,137,059	0.00%
Other capital assets, net	83,028,056	85,183,397	-2.53%
Total assets	147,010,599	147,580,562	-0.39%
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charges - bond issuance costs	72,790	-	100.00%
Total deferred outflow of resources	72,790	-	100.00%
LIABILITIES			
Long-term liabilities, outstanding	32,998,445	35,956,664	-8.23%
Other liabilities	4,340,836	4,541,512	-4.42%
Total liabilities	37,339,281	40,498,176	-7.80%
DEFERRED INFLOWS OF RESOURCES			
Unearned revenues - property taxes	26,101,150	25,380,267	2.84%
Total deferred inflow of resources	26,101,150	25,380,267	2.84%
NET POSITION			
Net investment in capital assets	55,748,069	54,929,362	1.49%
Restricted	14,187,052	13,779,032	2.96%
Nonexpendable	222,551	159,745	39.32%
Unrestricted	13,485,286	12,833,980	5.07%
Total net position	\$ 83,642,958	\$ 81,702,119	2.38%

The following are significant current year transactions that have had an impact on the Statement of Net Position: the County had less long-term liabilities at the end of fiscal year 2014, accounting for most of the increase in net position for fiscal year ending September 30, 2014.

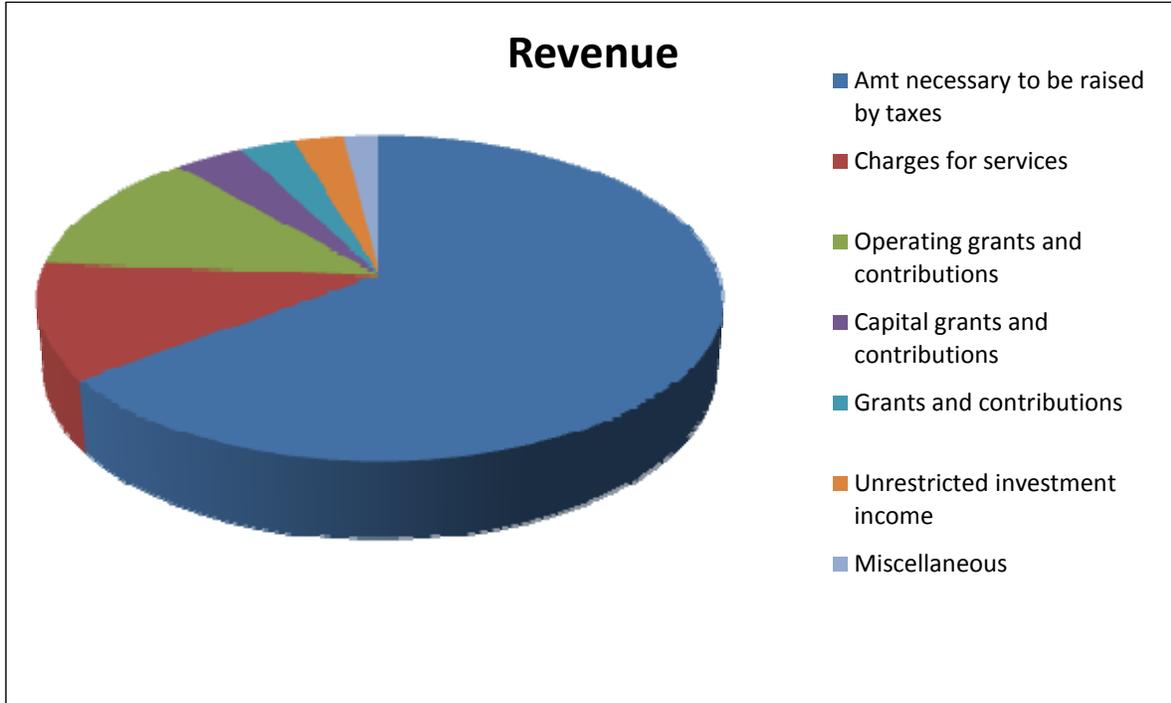
Changes in Net Position - Forrest County's total program and general revenues for the fiscal year ended September 30, 2014 were \$37,609,435. The total cost of all services provided was \$35,707,303. The increase in net position was \$1,902,132. Table 2 presents a summary of the changes in net position for the fiscal year ended September 30, 2014, as compared to the fiscal year ended September 30, 2013.

(See Table 2 on Next Page)

Table 2
Changes in Net Position

	Governmental Activities		Total Percentage Change
	2014	2013	
REVENUES			
Program revenues:			
Charges for services	\$ 4,262,791	\$ 4,442,202	-4.04%
Operating grants and contributions	2,806,633	3,035,355	-7.54%
Capital grants and contributions	792,524	1,141,705	-30.58%
Total program revenues	7,861,948	8,619,262	-8.79%
General revenues:			
Property taxes	27,260,544	23,079,625	18.12%
Other taxes	783,366	784,464	-0.14%
Other general revenues	1,703,577	709,163	140.22%
Total general revenues	29,747,487	24,573,252	21.06%
Payments to component unit	-	-	
Total	37,609,435	33,192,514	13.31%
PROGRAM EXPENSES			
General government	13,054,074	12,668,262	3.05%
Public safety	11,585,893	12,478,868	-7.16%
Public services	6,187,109	5,670,520	9.11%
Health/Welfare/Education	902,834	1,024,979	-11.92%
Economic development	675,178	384,990	75.38%
Culture and recreation	1,606,034	1,745,859	-8.01%
Conservation natural resources	629,776	275,287	128.77%
Interest and fiscal charges	1,066,405	1,199,075	-11.06%
Total program expenses	35,707,303	35,447,840	0.73%
Increase (Decrease) in net position	1,902,132	(2,255,326)	184.34%
Transfers	-	-	
Increase (Decrease) in net assets after inclusion of transfers	1,902,132	(2,255,326)	-184.34%
Net Position - Beginning	81,702,119	84,454,563	-3.26%
Prior period adjustment	38,707	(497,118)	107.79%
Net Position - Beginning, as restated	81,740,826	83,957,445	-2.64%
Net Position - Ending	\$ 83,642,958	\$ 81,702,119	2.38%

WHERE THE COUNTY GETS ITS REVENUE



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

The financial performance of the County as a whole is reflected in its governmental funds. As the County completed the year, its governmental funds reported a combined fund balance of \$29,867,890, an increase of \$1,002,745.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of September 30, 2014, Forrest County's total capital assets, net was \$85,165,115. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, and furniture and equipment.

Total accumulated depreciation as of September 30, 2014, was \$63,850,694. The balance in total net capital assets was \$85,165,115 at year-end.

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

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

	<u>2014</u>	<u>2013</u>	Total Percentage Change
Land and construction in progress	\$ 2,137,059	\$ 2,137,059	0.00%
Buildings and improvements	50,758,153	51,933,442	-2.26%
Infrastructure	27,257,051	28,105,007	-3.02%
Machinery and equipment	<u>5,012,852</u>	<u>5,144,948</u>	-2.57%
Total	<u>\$ 85,165,115</u>	<u>\$ 87,320,456</u>	-2.47%

Debt Administration - At September 30, 2014, Forrest County had \$32,998,445 in long-term debt outstanding. This includes general obligation bonds and other loans. Of this debt \$3,138,459 is due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15.00% of total assessed value of property. The County's outstanding debt as of September 30, 2014 was equal to 4.47% of the latest property assessments.

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

(See Table 4 on Next Page)

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

	<u>2014</u>	<u>2013</u>	Total Percentage Change
General obligation bonds	\$ 32,325,568	\$ 35,375,004	-8.62%
Other loans	91,478	107,188	-14.66%
Compensated absences	<u>581,399</u>	<u>565,570</u>	2.80%
<i>Total bonded debt and compensated absences</i>	<u>\$ 32,998,445</u>	<u>\$ 36,047,762</u>	-8.46%

CURRENT ISSUES

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

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

The County operates a new Regional Detention Center. During fiscal year 2014, the Sheriff and County officials secured more contracts for housing federal and state prisoners. This, in addition to our being a regional facility for those several counties in our area, enhances our abilities to recover much of the operating costs of the facility with billings to outside counties for housing their inmates. The County has started building a new service center at the site of the jail detention facility. This will house the Sheriff's service center that maintains and services the Forrest County Sheriff Department vehicle fleet. With the County's sound financial planning efforts, most of the work for the construction of the center is being completed by county staff enabling us to keep our costs to a minimum.

The County continues working with the Area Development Partnership (ADP) in developing plans for a new industrial park in the southwest area of the county, located at a major intersection of Interstate 59 and Highway 98. This project has potential and interests of major concerns for our area. We are now in the beginning stages with enormous insight to the area's future growth and development. This new industrial park will keep the County in a position for continued development. The ADP and the County are working with a five-year campaign called "Competitive Edge". The plan is designed to create 2,780 new jobs, bringing in \$100 million in new capital investments and \$103 million in additional payroll throughout the duration of the program. This is our vision for a bright future.

We have already secured a new company, Green Bay Converting, in the current Industrial Park. This company is a converter of specialty paper and tissue products. They are well into their construction phase of a facility that will bring 300 new jobs to this area over the next five years. The company will invest about \$48 million in the venture. It is anticipated that 150 new hires will be made in the first phase of employment with an average annual salary of \$38,000 for each of these new employees. The 400,000 square foot facility will be the second largest industrial building in Hattiesburg. We are excited to have Green Bay Converting in Forrest County.

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

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

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

EXHIBIT 1

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 33,381,934
Cash with fiscal agents	310,192
Property tax receivable	26,101,150
Fines receivable, net of allowance for uncollectibles of \$6,202,990	1,526,989
Intergovernmental receivables	343,586
Other receivables	31,872
Prepaid bond insurance	149,761
Capital assets:	
Land	2,137,059
Other capital assets, net	83,028,056
Total assets	<u>147,010,599</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred amount on refunding	72,790
Total deferred outflows of resources	<u>72,790</u>
LIABILITIES	
Claims payable	2,976,376
Intergovernmental payables	703,478
Accrued interest payable	141,142
Other payables	519,840
Long-term liabilities:	
Due within one year:	
Capital debt	3,138,459
Due in more than one year:	
Capital debt	26,278,587
Non-capital debt	3,581,399
Total liabilities	<u>37,339,281</u>
DEFERRED INFLOWS OF RESOURCES	
Unearned revenues - property taxes	26,101,150
Total deferred inflows of resources	<u>26,101,150</u>

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

EXHIBIT 1
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	Governmental Activities
NET POSITION	
Net investment in capital assets	\$ 55,748,069
Restricted for:	
Expendable:	
General government	35,106
Debt service	2,738,719
Public safety	1,308,925
Public works	9,255,748
Culture and recreation	17,147
Conservation of natural resources	165,633
Unemployment compensation	115,485
Capital projects	550,289
Nonexpendable	222,551
Unrestricted	<u>13,485,286</u>
Total net position	<u><u>\$ 83,642,958</u></u>

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

EXHIBIT 2

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 13,054,074	\$ 1,543,474	\$ 619,036	\$ 33,658	\$ (10,857,906)
Public safety	11,585,893	2,495,298	731,654	206,117	(8,152,824)
Public works	6,187,109	-	1,285,871	-	(4,901,238)
Health and welfare	894,306	-	170,072	-	(724,234)
Culture and recreation	1,606,034	224,019	-	552,749	(829,266)
Education	8,528	-	-	-	(8,528)
Conservation of natural resources	629,776	-	-	-	(629,776)
Economic development and assistance	675,178	-	-	-	(675,178)
Interest on long-term debt	1,066,405	-	-	-	(1,066,405)
Total governmental activities	<u>35,707,303</u>	<u>4,262,791</u>	<u>2,806,633</u>	<u>792,524</u>	<u>(27,845,355)</u>
Total primary government	<u>\$ 35,707,303</u>	<u>\$ 4,262,791</u>	<u>\$ 2,806,633</u>	<u>\$ 792,524</u>	<u>(27,845,355)</u>
General revenues:					
Property taxes					27,260,544
Road and bridge privilege taxes					783,366
Unrestricted interest income					45,404
Loss on sale of capital assets					(12,885)
Miscellaneous					1,671,058
Total general revenues					<u>29,747,487</u>
CHANGES IN NET POSITION					<u>1,902,132</u>
NET POSITION - BEGINNING, AS PREVIOUSLY REPORTED					81,702,119
Prior period adjustment					38,707
NET POSITION - BEGINNING, AS RESTATED					<u>81,740,826</u>
NET POSITION - ENDING					<u>\$ 83,642,958</u>

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

EXHIBIT 3

FORREST COUNTY, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2014**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund		
ASSETS				
Cash and cash equivalents	\$ 18,720,823	\$ 7,396,578	\$ 7,264,533	\$ 33,381,934
Cash with fiscal agents	43,094	-	267,098	310,192
Property tax receivable	18,684,970	2,243,241	5,172,939	26,101,150
Fines receivable (net of allowance for uncollectibles of \$5,507,922)	1,526,979	-	-	1,526,979
Intergovernmental receivables	343,586	-	-	343,586
Other receivables	31,872	-	-	31,872
Due from other funds	-	100,717	69,708	170,425
Total assets	\$ 39,351,324	\$ 9,740,536	\$ 12,774,278	\$ 61,866,138
LIABILITIES				
Claims payable	\$ 2,181,167	\$ 283,740	\$ 511,469	\$ 2,976,376
Intergovernmental payables	692,919	-	-	692,919
Due to other funds	180,984	-	-	180,984
Other payables	519,840	-	-	519,840
Total liabilities	3,574,910	283,740	511,469	4,370,119
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	18,684,970	2,243,241	5,172,939	26,101,150
Unavailable revenue - fines	1,526,979	-	-	1,526,979
Total deferred inflows of resources	20,211,949	2,243,241	5,172,939	27,628,129
FUND BALANCES				
Restricted for:				
General government	-	-	35,106	35,106
Public safety	-	-	1,765,019	1,765,019
Public works	-	7,213,555	2,042,183	9,255,738
Conservation of natural resources	-	-	165,633	165,633
Debt service	-	-	2,879,861	2,879,861
Unemployment compensation	-	-	115,485	115,485
Committed to:				
Public safety	-	-	94,195	94,195
Culture and recreation	-	-	17,147	17,147
Unassigned	15,564,465	-	(24,759)	15,539,706
Total fund balances	15,564,465	7,213,555	7,089,870	29,867,890
Total liabilities and fund balances	\$ 39,351,324	\$ 9,740,536	\$ 12,774,278	\$ 61,866,138

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

EXHIBIT 3-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2014**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 29,867,890
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$63,850,694.	85,165,115
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,526,989
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.	(32,998,445)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(141,142)
Deferred outflows - refunding	72,790
Prepaid bond insurance	<u>149,761</u>
<i>Total net position - governmental activities (Exhibit 1)</i>	<u>\$ 83,642,958</u>

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

EXHIBIT 4

FORREST COUNTY, MISSISSIPPI

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2014

	Major Funds			Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 18,706,569	\$ 3,151,991	\$ 5,401,977	\$ 27,260,537
Road and bridge privilege taxes	16,003	767,363	-	783,366
Licenses, commissions and other revenue	1,524,080	-	19,309	1,543,389
Fines and forfeitures	668,236	-	123,465	791,701
Intergovernmental revenues	1,992,254	848,735	758,168	3,599,157
Charges for services	1,874,854	-	-	1,874,854
Interest income	27,839	7,072	10,493	45,404
Miscellaneous revenues	983,534	11,234	457,276	1,452,044
Total revenues	<u>25,793,369</u>	<u>4,786,395</u>	<u>6,770,688</u>	<u>37,350,452</u>
EXPENDITURES				
Current:				
General government	11,924,648	-	632,312	12,556,960
Public safety	9,935,717	-	828,103	10,763,820
Public works	222,618	3,179,062	1,969,342	5,371,022
Health and welfare	887,089	-	-	887,089
Culture and recreation	651,096	-	961,906	1,613,002
Education	8,528	-	-	8,528
Conservation of natural resources	532,112	-	76,790	608,902
Economic development and assistance	675,178	-	-	675,178
Debt Service:				
Principal	-	-	3,080,098	3,080,098
Interest	-	-	1,112,784	1,112,784
Other debt service costs	-	-	5,656	5,656
Total expenditures	<u>24,836,986</u>	<u>3,179,062</u>	<u>8,666,991</u>	<u>36,683,039</u>
Excess of revenues over (under) expenditures	<u>956,383</u>	<u>1,607,333</u>	<u>(1,896,303)</u>	<u>667,413</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	-	-	57,418	57,418
Proceeds from sale of capital assets	54,224	3,491	7,683	65,398
Compensation for loss of capital assets	293,188	-	-	293,188
Transfers in	13,000	-	610,000	623,000
Transfers out	(560,000)	-	(63,000)	(623,000)
Other uses	(80,672)	-	-	(80,672)
Total other financing sources and uses	<u>(280,260)</u>	<u>3,491</u>	<u>612,101</u>	<u>335,332</u>
Net changes in fund balances	676,123	1,610,824	(1,284,202)	1,002,745
FUND BALANCES - BEGINNING	<u>14,888,342</u>	<u>5,602,731</u>	<u>8,374,072</u>	<u>28,865,145</u>
FUND BALANCES - ENDING	<u>\$ 15,564,465</u>	<u>\$ 7,213,555</u>	<u>\$ 7,089,870</u>	<u>\$ 29,867,890</u>

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

EXHIBIT 4-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2014**

	<u>Amount</u>
Net changes in fund balances - governmental funds (Exhibit 4)	\$ 1,002,745
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net position differs from the change in fund balances by the amount that depreciation (\$3,219,621) exceeded capital outlays (\$1,097,361) in the current period.	(2,122,260)
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 \$12,885 and the proceeds from the sale of \$65,398 in the current period.	(71,788)
Fine revenue recognized on the modified accrual basis in the funds during the current year decreased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	52,857
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 \$3,080,098 exceeded debt proceeds of \$57,418.	3,022,680

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2014**

	<u>Amount</u>
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
The amount of (increase) decrease in:	
Compensated absences	\$ (15,829)
Accrued interest payable	19,553
Amortization of deferred charges	(18,308)
Amortization of prepaid insurance	(9,984)
Premium on refunding bond	<u>42,466</u>
Change in net position of governmental activities (Exhibit 2)	<u><u>\$ 1,902,132</u></u>

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

EXHIBIT 5

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2014**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 940,169
Due from other funds	<u>10,559</u>
Total assets	<u><u>\$ 950,728</u></u>
LIABILITIES	
Amounts held in custody for others	\$ 196,647
Other liabilities	709,553
Intergovernmental payables	<u>44,528</u>
Total liabilities	<u><u>\$ 950,728</u></u>

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

NOTES TO FINANCIAL STATEMENTS

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - Forrest County is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Forrest County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

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

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

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

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

B. Individual Component Unit Disclosure:

Blended Component Units

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2014

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

Forrest County Public Improvement Corporation was incorporated as a nonprofit under Section 31-8-3, Miss. Code Ann. (1972), which allows counties to enter into lease agreements with any corporation. The corporation's three-member board of directors is appointed by the Board of Supervisors. Although legally separate from the primary government, the corporation's balances and transactions are blended with the balances and transactions of the primary government. The corporation produces a financial benefit through its ability to finance the construction, acquisition and renovation of capital facilities for the primary government and imposes a financial burden on the primary government by obligating funds to repay the debt pursuant to a lease agreement. See Note 10 for further disclosure concerning the issuance of certificates of participation (COPs) and related capital facilities construction, acquisition and renovation.

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

Government-wide Financial Statements:

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2014

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

Fund Financial Statements:

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

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

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

The County reports the following major Governmental Funds:

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2014

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

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUND TYPES

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2014

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

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

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

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

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

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

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2014

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

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

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

K. Deferred Outflows/Inflows of Resources - In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. For fiscal year 2014, deferred outflows of resources consist of deferred charges on refunding.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. For fiscal year 2014, deferred inflows of resources consist of unearned revenues from property taxes.

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2014

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

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 and regulations of other governments; or law through constitutional provisions or enabling legislation.

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

Fund Financial Statements:

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2014

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

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.

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

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.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

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

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.

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

NOTE 2 - FUND RECLASSIFICATION

For the year ended September 30, 2014, the Negotiable Note Proceeds, 2013 Fund was reclassified from a Major Fund to Other Governmental Funds. This resulted in an increase to the Other Governmental Funds beginning fund balance of \$1,432,941.

NOTE 3 - PRIOR PERIOD ADJUSTMENT

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

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To adjust beginning balances of capital assets	\$ 38,707
<i>Total prior period adjustment</i>	<u>\$ 38,707</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 4 - DEPOSITS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2014, was \$34,299,476, and the bank balance was \$34,385,361. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

Cash with Fiscal Agents - The carrying amount of the County's cash with fiscal agents held by financial institutions was \$310,192 at September 30, 2014. Included in this amount is \$267,098 in County's 2012 Qualified School Construction Bond Sinking Fund.

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

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2014:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Maintenance Fund	General Fund	\$ 100,717
Other Governmental Funds	General Fund	69,708
Agency Funds	General Fund	10,559
Total		<u><u>\$ 180,984</u></u>

The receivables represent the tax revenue collected but not settled until October 2014. All interfund balances are expected to be repaid within one year from the date of the financial statements.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES (cont.)

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 13,000
Other Governmental Funds	General Fund	560,000
Other Governmental Funds	Other Governmental Funds	<u>50,000</u>
Total		<u><u>\$ 623,000</u></u>

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

NOTE 6 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2014, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	<u>\$ 343,586</u>
Total governmental activities	<u><u>\$ 343,586</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 7 - OTHER RECEIVABLES

Other receivables at September 30, 2014, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
General Fund:	
Tax Collector bad checks	\$ 31,872
Total general fund	<u>31,872</u>
Total governmental activities	<u>\$ 31,872</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 8 - CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2014:

	<u>Balance Oct. 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance Sep. 30, 2014</u>
Non-depreciable capital assets:					
Land	\$ 2,137,059	\$ -	\$ -	\$ -	\$ 2,137,059
Total non-depreciable capital assets	<u>2,137,059</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,137,059</u>
Depreciable capital assets:					
Infrastructure	64,085,169	-	-	-	64,085,169
Buildings	65,518,903	-	89,000	89,000	65,518,903
Improvements other than buildings	1,396,104	105,533	-	-	1,501,637
Mobile equipment	13,051,427	659,725	237,443	33,446	13,507,155
Furniture and equipment	2,191,213	332,103	257,430	-	2,265,886
Total depreciable capital assets	<u>146,242,816</u>	<u>1,097,361</u>	<u>583,873</u>	<u>122,446</u>	<u>146,878,750</u>
Less accumulated depreciation for:					
Infrastructure	35,980,162	847,956	-	-	36,828,118
Buildings	14,442,241	1,224,192	55,069	53,400	15,664,764
Improvements other than buildings	539,324	58,299	-	-	597,623
Mobile equipment	8,533,648	868,775	208,014	30,339	9,224,748
Furniture and equipment	1,564,044	220,399	249,002	-	1,535,441
Total accumulated depreciation	<u>61,059,419</u>	<u>3,219,621</u>	<u>512,085</u>	<u>83,739</u>	<u>63,850,694</u>
Total depreciable capital assets, net	<u>85,183,397</u>	<u>(2,122,260)</u>	<u>71,788</u>	<u>38,707</u>	<u>83,028,056</u>
Governmental activities capital assets, net	<u>\$ 87,320,456</u>	<u>\$ (2,122,260)</u>	<u>\$ 71,788</u>	<u>\$ 38,707</u>	<u>\$ 85,165,115</u>

The adjustments to capital assets are due to the reclassification made between capital asset categories and to adjust for understatement of prior year balances as contained in the detailed subsidiary records.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 8 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	Amount
General government	\$ 815,792
Public safety	1,081,218
Public works	1,193,089
Health and welfare	7,269
Culture and recreation	101,379
Conservation of natural resources	20,874
Total governmental activities depreciation expense	\$ 3,219,621

NOTE 9 - 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, 2014, to January 1, 2015. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 10 - LONG-TERM DEBT

Debt outstanding as of September 30, 2014, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General obligation bonds:			
Multi-purpose center project refinancing, Series 2012	\$ 1,800,000	2.00%	12/2016
G.O. refunding bond, Series 2011	1,940,000	1.00% - 2.00%	03/2020
Public improvement bond, Series 2009	19,770,000	3.50 - 5.00%	03/2029
G.O. refunding bond, Series 2009B	2,185,000	3.00 - 3.50%	01/2019
G.O. negotiable notes, Series 2013	3,383,030	1.39%	12/2017
G.O. bond, Series 2012 (Qualified School Construction Bond)	<u>3,000,000</u>	0.00%	08/2027
Total general obligation bonds	<u>\$ 32,078,030</u>		
B. Other loans:			
Brooklyn Volunteer Fire Department	\$ 12,772	3.22%	02/2015
Dixie Volunteer Fire Department	21,288	3.22%	02/2015
Carnes Volunteer Fire Department	<u>57,418</u>	1.82%	12/2018
Total other loans	<u>\$ 91,478</u>		

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 10 - LONG-TERM DEBT (Cont.)

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

Governmental Activities:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 3,093,326	\$ 1,033,106
2016	3,174,840	954,142
2017	3,271,514	870,094
2018	2,728,350	788,458
2019	1,945,000	709,763
2020 - 2024	6,780,000	2,702,969
2025 - 2029	11,085,000 *	1,041,622
Total	\$ 32,078,030	\$ 8,100,154

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

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 45,133	\$ 2,142
2016	11,275	843
2017	11,480	638
2018	11,689	429
2019	11,901	217
Total	\$ 91,478	\$ 4,269

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 10 - LONG-TERM DEBT (Cont.)

As more fully explained in Note 11, debt has been issued by the County that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

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

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

Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a County issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2014, the amount of outstanding debt was equal to 4.47% of the latest property assessments.

FORREST COUNTY, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2014**

NOTE 10 - LONG-TERM DEBT (Cont.)

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2014:

	<u>Balance Oct. 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Sep. 30, 2014</u>	<u>Amount Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 565,570	\$ 15,829	\$ -	\$ 581,399	\$ -
General obligation bonds	32,085,000	-	3,006,970	29,078,030	3,093,326
General obligation bonds - qualified school construction bond	3,000,000	-	-	3,000,000	-
Add:					
Premiums	290,004	-	42,466	247,538	-
Total general obligation bonds	35,375,004	-	3,049,436	32,325,568	3,093,326
Other loans	107,188	57,418	73,128	91,478	45,133
Total governmental activities	<u>\$ 36,047,762</u>	<u>\$ 73,247</u>	<u>\$ 3,122,564</u>	<u>\$ 32,998,445</u>	<u>\$ 3,138,459</u>

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 11 - QUALIFIED SCHOOL CONSTRUCTION BONDS

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

On August 1, 2012, the County issued G.O. Bond, Series 2012 (Qualified School Construction Bonds) on behalf of Forrest County Agricultural High School (FCAHS) in the amount of \$3,000,000. The stated interest rate on the bonds is 0% with an applicable tax credit rate of 4.41%. The County remitted the entire amount of the bond proceeds, net of \$26,494 issuance costs, to FCAHS for capital improvement projects.

Pursuant to the bond documents, these bonds are to be repaid in full on August 1, 2027, from the proceeds of the annual minimum sinking fund deposit schedule. The County was originally scheduled to make 15 equal annual payments of \$200,000 into a sinking fund, with a maximum permitted yield of 3.34%. These sinking fund requirements were adjusted during fiscal year 2013 to reflect annual payments of \$210,000 for years 2014 – 2022 and \$211,000 for years 2023 – 2027. The amount accumulated in the sinking fund at the end of the 15-year period will be sufficient to retire the debt. The amount on deposit at September 30, 2014 was \$267,098.

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

<u>Year Ending September 30,</u>	<u>Amount</u>
2015	\$ 210,000
2016	210,000
2017	210,000
2018	210,000
2019	210,000
2020-2024	1,052,000
2025-2027	633,000
Total	\$ 2,735,000

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 12 - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

The following fund reported a deficit in net position at September 30, 2014:

<u>Fund</u>	<u>Deficit Amount</u>
Multipurpose Center	\$ 24,759

NOTE 13 - CONTINGENCIES

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

Litigation - The County is a defendant in a case that has been filed in the United States District Court for the Southern District of Mississippi that involves claims against the County by three former inmates, their families, and/or estates for wrongful arrest, conviction, and incarceration in connection with a capital murder committed in 1979. A companion case has also been filed to determine the duties of the County's former insurer to defend and/or indemnify the County against the plaintiffs' claims in the above-noted wrongful arrest, conviction, and incarceration litigation. Both cases are in the preliminary, pre-discovery stage, and their respective outcomes are considered to be uncertain as of May 27, 2015, which is the date the financial statements were available to be issued. Legal counsel also noted that both cases will involve significant defense costs that may be recoverable depending upon the resolution of the case involving the County's former insurer. To the extent that the wrongful arrest, conviction, and incarceration case may also involve a substantial settlement or judgment, the amount and structure of the same would be determined by several currently unknown factors, including but not limited to the resolution of the case involving the County's former insurer.

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 14 - JOINT VENTURES

The County participates in the following joint ventures:

Forrest County is a participant with the City of Hattiesburg in a joint venture, authorized by Chapter 956, House Bill 1865, of the Local and Private Laws of 1994, to operate the Forrest County Industrial Park Commission. The joint venture was created to develop and operate an industrial park complex for the citizens of Forrest County and the City of Hattiesburg. The Forrest County Board of Supervisors appoints five of ten members of the board. By contractual agreement, the County's appropriation to the joint venture was \$130,000 in fiscal year 2014. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from Post Office Box 1898, Hattiesburg, Mississippi 39403.

Forrest County is a participant with Jones County, the Cities of Hattiesburg and Laurel, and the State of Mississippi in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1971), to operate the Hattiesburg-Laurel Regional Airport Authority. The joint venture was created to develop and maintain the airport for the members of the authority. The Forrest County Board of Supervisors appoints one of the five members of the board of commissioners. By contractual agreement, the County's appropriation to the joint venture was \$220,369 in fiscal year 2014. Complete financial statements for the Hattiesburg-Laurel Regional Airport Authority can be obtained from 1002 Terminal Drive, Moselle, Mississippi 39459.

Forrest County is a participant with the Cities of Hattiesburg and Petal in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Library of Hattiesburg, Petal and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The Forrest County Board of Supervisors appoints six of the fifteen members of the board of directors. By contractual agreement, the County's appropriation to the joint venture was \$733,053 in fiscal year 2014. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS

The County participates in the following jointly governed organizations:

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Forrest County Board of Supervisors appoints two of the sixteen members of the college board of trustees. The County appropriated \$1,256,292 for maintenance and support of the college in fiscal year 2014.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Forrest County Board of Supervisors appoints one of the nine members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The County contributed \$269,317 for support of the district in fiscal year 2014.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone, and Wayne. The Forrest County Board of Supervisors appoints one of the twenty-seven members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$59,827 to the agency in fiscal year 2014.

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River, and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Forrest County Board of Supervisors appoints one of the twenty-four members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each County provides a modest amount of financial support when matching funds are required for federal grants. Contributions for fiscal year 2014 totaled \$25,000.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Forrest County Board of Supervisors appoints one of the nine members of the board of commissioners. The County appropriated \$16,562 for support of the agency in fiscal year 2014.

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

Pearl and Leaf Rivers Rails-to-Trails Recreational District operates in a district composed of the Counties of Forrest, Jefferson Davis and Lamar and the Cities of Bassfield, Hattiesburg, Prentiss and Sumrall. The Forrest County Board of Supervisors appoints one of seven members of the board of directors. The County appropriated \$132,021 for the support of the district in fiscal year 2014.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 15 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

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

NOTE 16 - DEFINED BENEFIT PENSION PLAN

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

Funding Policy - At September 30, 2014, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2014 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ended September 30, 2014, 2013, and 2012 were \$1,855,270, \$1,768,026, and \$1,342,313 respectively, equal to the required contributions for each year.

NOTE 17 - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Forrest County evaluated the activity of the County through May 27, 2015, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2014

NOTE 17 - SUBSEQUENT EVENTS (Cont.)

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

In October, 2014 the County closed on an \$8,960,000, General Obligation Refunding Bond, Series 2014 (dated October 21, 2014) for the purpose of providing funds for the refunding of certain outstanding maturities of the County's General Obligation Public Improvement Bonds, Series 2009, dated March 26, 2009. The Series 2014 bonds are to be amortized with interest only payments payable on the first of March and September beginning on March 1, 2015 and continuing through September 1, 2024. Principal payments begin on March 1, 2025 and continue through the final payment due on March 1, 2029. The average coupon rate on the bonds is approximately 5.00%.

The MDA Development Infrastructure Program ("Project SPOKE") will be completed in fiscal year 2015. This is a grading and erosion control project at the Industrial Park with a total cost of \$762,000. This is the site area for the new Green Bay Converting Plant in the Industrial Park.

The County received federal funding for the Transportation Alternatives Program (TAP) Grant for Rawls Springs Recreation Center Walking Path Expansion through the Mississippi Department of Transportation. The total cost of the project is \$871,451 of which \$625,161 will be federally funded.

The Board of Supervisors has made a commitment of \$1,000,000 to a TIGER grant in support of the Mid-Town Project with the City of Hattiesburg. They have made an additional \$1,000,000 commitment to a TIGER grant in support of the Over Pass Project with the City of Hattiesburg. Both of these grants are subject to Federal approval of the grants.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2014**

	Original Budget
REVENUES	
Property taxes	\$ 17,945,013
Licenses, commissions and other revenue	1,294,900
Fines and forfeitures	507,500
Intergovernmental revenues	1,469,500
Charges for services	1,700,000
Interest income	28,285
Miscellaneous revenues	681,000
<i>Total revenues</i>	<u>23,626,198</u>
EXPENDITURES	
Current:	
General government	13,218,504
Public safety	10,265,503
Public works	220,369
Health and welfare	1,013,351
Culture and recreation	1,530,869
Education	8,528
Conservation of natural resources	101,250
Economic development and assistance	260,109
Debt service	102,912
<i>Total expenditures</i>	<u>26,721,395</u>
Excess of revenues over (under) expenditures	<u>(3,095,197)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	534,000
Transfers out	(339,000)
Other financing sources	-
Other financing uses	5,000
<i>Total other financing sources and uses</i>	<u>200,000</u>
NET CHANGE IN FUND BALANCES	(2,895,197)
Fund balances - beginning	<u>16,059,346</u>
Fund balances - ending	<u><u>\$ 13,164,149</u></u>

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

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 18,092,691	\$ 18,662,761	\$ 570,070
1,307,900	1,528,642	220,742
596,000	658,657	62,657
2,113,000	2,018,563	(94,437)
1,935,000	1,874,854	(60,146)
28,405	28,360	(45)
990,385	981,238	(9,147)
<u>25,063,381</u>	<u>25,753,075</u>	<u>689,694</u>
14,369,934	11,874,249	2,495,685
10,815,850	9,855,105	960,745
220,369	220,369	-
1,017,351	882,395	134,956
1,574,112	1,206,771	367,341
8,528	8,528	-
101,250	110,723	(9,473)
1,187,934	713,458	474,476
102,912	5,210	97,702
<u>29,398,240</u>	<u>24,876,808</u>	<u>4,521,432</u>
<u>(4,334,859)</u>	<u>876,267</u>	<u>5,211,126</u>
562,000	13,000	(549,000)
(373,729)	(74,975)	298,754
360,000	347,412	(12,588)
6,025	(13,008)	(19,033)
<u>554,296</u>	<u>272,429</u>	<u>(281,867)</u>
(3,780,563)	1,148,696	4,929,259
<u>16,213,283</u>	<u>16,213,283</u>	<u>-</u>
<u>\$ 12,432,720</u>	<u>\$ 17,361,979</u>	<u>\$ 4,929,259</u>

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2014**

	Original Budget
REVENUES	
Property taxes	\$ 2,879,484
Road and bridge privilege taxes	530,000
Intergovernmental revenues	540,000
Interest income	3,000
Miscellaneous revenues	100
Total revenues	<u>3,952,584</u>
EXPENDITURES	
Current:	
Public works	<u>4,444,487</u>
Total expenditures	<u>4,444,487</u>
Excess of revenues over (under) expenditures	<u>(491,903)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	<u>-</u>
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(491,903)
Fund balances - beginning	<u>5,100,000</u>
Fund balances - ending	<u>\$ 4,608,097</u>

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

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 2,879,484	\$ 3,148,554	\$ 269,070
763,500	763,268	(232)
858,125	848,735	(9,390)
7,150	7,072	(78)
14,760	11,234	(3,526)
<u>4,523,019</u>	<u>4,778,863</u>	<u>255,844</u>
<u>4,519,487</u>	<u>3,238,764</u>	<u>1,280,723</u>
<u>4,519,487</u>	<u>3,238,764</u>	<u>1,280,723</u>
<u>3,532</u>	<u>1,540,099</u>	<u>1,536,567</u>
<u>-</u>	<u>3,491</u>	<u>3,491</u>
<u>-</u>	<u>3,491</u>	<u>3,491</u>
3,532	1,543,590	1,540,058
<u>5,852,946</u>	<u>5,852,946</u>	<u>-</u>
<u>\$ 5,856,478</u>	<u>\$ 7,396,536</u>	<u>\$ 1,540,058</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED SEPTEMBER 30, 2014

NOTE 1 - BUDGETARY INFORMATION

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

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

NOTE 2 - BASIS OF PRESENTATION

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

NOTE 3 - BUDGET/GAAP RECONCILIATION

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2014

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

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

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Road and Bridge Maintenance Fund</u>
Budget (cash basis)	\$ 1,148,696	\$ 1,543,590
Increase (decrease):		
Net adjustments for revenue accruals	40,294	7,532
Net adjustments for expenditure accruals	<u>(520,178)</u>	<u>59,702</u>
GAAP Basis	<u>\$ 668,812</u>	<u>\$ 1,610,824</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Agriculture:</i>			
Passed-through Mississippi Office of State Treasurer Schools and Roads - Grants to States	10.665	N/A	<u>\$ 205,535</u>
<i>U.S. Department of Housing and Urban Development:</i>			
Passed-through the Mississippi Development Authority HOME Investment Partnerships Program	14.239	DSR-280350524	<u>50,000</u>
<i>U.S. Department of the Interior:</i>			
Payments in Lieu of Taxes (Direct Program)	15.226	N/A	<u>18,327</u>
<i>U.S. Department of Justice:</i>			
Passed-through the Mississippi Department of Public Safety Edward Byrne Memorial Justice Assistance Grant Program	16.738	11NM1181	5,775
Edward Byrne Memorial Justice Assistance Grant Program	16.738	12NM1181	<u>13,174</u>
Total U.S. Department of Justice			<u>18,949</u>
<i>U.S. Department of Transportation:</i>			
Federal Highway Administration/Passed-through the Mississippi Department of Transportation: Highway Planning and Construction	20.205	N/A	<u>44,462</u>

SCHEDULE 3
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2014**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
<i>U.S. Department of Health and Human Services:</i>			
Substance Abuse and Mental Health Services Administration Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Direct Program)	93.243	N/A	\$ 115,209
Passed-through the Mississippi Department of Public Safety Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Indirect Program)	93.243	N/A	<u>70,515</u>
Total U.S. Department of Justice			<u>185,724</u>
<i>Mississippi Department of Public Safety</i>			
High Intensity Drug Trafficking Areas Program	95.001	N/A	<u>16,059</u>
<i>U.S. Department of Homeland Security:</i>			
Passed-through the Mississippi Emergency Management Agency Hazard Mitigation Grant	97.039	N/A	<u>69,666</u>
<i>Total Expenditures of Federal Awards</i>			<u>\$ 608,722</u>

FORREST COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2014**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

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

Of the federal expenditures presented in the schedule, the County provided federal awards totaling \$129,630 to subrecipients during the year ended September 30, 2014.

OTHER INFORMATION

SCHEDULE 4

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

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

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

Members of the Board of Supervisors
Forrest County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated MAY 27, 2015. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units.

Internal Control Over Financial Reporting

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2014-001 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as 2014-002 to be a significant deficiency.

Compliance and Other Matters

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

However, we noted certain matters that we reported to the management of Forrest County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules, and the Limited Internal Control and Compliance Review Management Report dated MAY 27, 2015, included within this document.

Members of the Board of Supervisors
Forrest County, Mississippi

Purpose of this Report

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 27, 2015

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

Members of the Board of Supervisors
Forrest County, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Forrest County, Mississippi's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014. Forrest County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

Opinion on Each Major Federal Program

In our opinion, Forrest County, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2014-003. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 27, 2015

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

Members of the Board of Supervisors
Forrest County, Mississippi

We have examined Forrest County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2014. The Board of Supervisors of Forrest County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

The results of our audit procedures disclosed a certain instance of noncompliance with the aforementioned code sections. This instance of noncompliance was considered in forming our opinion on compliance. Our finding and recommendation and your response is disclosed below:

Purchase Clerk.

1. The lowest bid was not selected during the purchase of construction equipment.

Finding

According to the Mississippi Code subsection 31-7-13, purchases may be made from the lowest and best bidder. If any governing authority accepts a bid other than the lowest bid actually submitted, it shall place on its minutes detailed calculations and narrative summary showing that the accepted bid was determined to be the lowest and best bid, including the dollar amount of the accepted bid and the dollar amount of the lowest bid. No agency or governing authority shall accept a bid based on items not included in the specifications.

Recommendation

We recommend that in the case of the lowest bid not being selected, the County include detailed calculations and narrative summary in its minutes.

Purchase Clerk's Response

The County will ensure that detailed calculations and information is documented in the Board minutes in the event a lowest bid is not selected. The Board entered an order amending its original order nunc pro tunc to include detailed calculations and a narrative summary explaining that the bid accepted was in fact the lowest and best bid.

Chancery Clerk.

2. The Chancery Clerk made purchases during the year for the County that circumvented the central purchasing system.

Finding

Central purchasing system, as prescribed by the Office of the State Auditor, should be utilized when making all County purchases.

Recommendation

We recommend that the central purchasing system be utilized when purchases are made for other County departments.

Chancery Clerk's Response

The central purchasing system will be utilized on all future purchases for the County.

Members of the Board of Supervisors
Forrest County, Mississippi

In our opinion, except for the noncompliance referred to in the preceding paragraph, Forrest County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2014.

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

Forrest County, Mississippi's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

This report is intended for use in evaluating the central purchasing system and inventory control system of Forrest County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 27, 2015

SCHEDULE 5

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2014**

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other than the Lowest Bid</u>
7/7/2014	Backhoe	\$92,418	Puckett Machinery	\$81,600	Recommendation from Road Manager

SCHEDULE 6

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2014**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
11/18/13	Emergency repairs to Carnes VFD fire truck	\$ 4,885	Deep South Truck & Equipment	The fire truck is the first line response truck for structure fires in the southern areas of Forrest County. The truck's pump had to be repaired immediately so it could be put back into service.
12/16/13	New Cassette Tape Recorder	\$ 87	Lewis Printing	The commitment hearings are recorded in the Evaluation Center, so the tape recorder had to be purchase immediately so hearings could continue.
01/21/14	Registration fees for road and bridge employees	\$ 200	Retroreflectivity workshop	Road and bridge employees are required to attend the MDOT workshop to stay certified. There was no board meeting before the event, so an emergency purchase had to be made for the registration fees.
07/21/14	Emergency repairs Carnes VFD Fire Truck	\$ 8,135	Deep South Truck & Equipment	The fire truck is the first line response truck for structure fires in the southern areas of Forrest County. The truck suffered an electronic short and burned several wiring harnesses, putting the truck out of service.
07/21/14	Air conditioning unit	\$ 1,096	Coburns Supply	Previous unit was stolen from Rawl Spring Community Center.
08/18/14	Car battery	\$ 93	NAPA Auto	Battery died when employee was out of town in his county vehicle (2007 Chevy Impala). Battery had to be replaced immediately.
08/18/14	Laminator	\$ 138	Commercial Stationary	Laminator quit working while preparing backstage passes for the Great Southern Stampede.

SCHEDULE 7

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2014**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
3/11/2014	Election Software	\$ 266,119.60	Election Systems & Software

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

Members of the Board of Supervisors
Forrest County, Mississippi

In planning and performing our audit of the financial statements of Forrest County, Mississippi, for the year ended September 30, 2014, we considered Forrest County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Forrest County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated May 27, 2015 on the financial statements of Forrest County, Mississippi.

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

Sheriff

1. Finding

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

Recommendation

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

Sheriff's Response

On May 4, 2015, the Board, on the recommendation of the Sheriff, accepted proposals and awarded to CMB Managed Services the contract to furnish food services at the Law Enforcement Complex.

2. Finding

According to the Mississippi Code subsection 19-25-13, all fees and charges for services heretofore collected by sheriffs shall be collected by said sheriff and paid monthly into the general fund of the concerned county.

Recommendation

The Sherriff's office should remit receipts to the Chancery Clerk on a monthly basis.

Sheriff's Response

The Sheriff will remit receipts to the Chancery Clerk on a monthly basis.

Members of the Board of Supervisors
Forrest County, Mississippi

3. Finding

According to the Mississippi Code subsection 9-7-123, each deputy clerk of the circuit court shall take the oath of office, and shall give bond, with sufficient surety, to be payable, conditioned and approved as provided by law, in a penalty equal to three percent (3%) of the sum of all the state and county taxes shown by the assessment rolls and the levies to have been collectible in the county for the year immediately preceding the commencement of the term of office for the circuit clerk. However, the amount of such bond shall not be less than Fifty Thousand Dollars (\$50,000) nor more than One Hundred Thousand Dollars (\$100,000). The bond shall cover all monies coming into the hands of the deputy clerk by law or order of the court. The board of supervisors, in its discretion, may pay the bond on behalf of the deputy clerk.

Recommendation

We recommend that the deputy clerk give bond upon date of employment.

Response

The Circuit Clerk will make sure that the County Administrator is made aware of new hires and that they are bonded upon date of hire.

4. Finding

According to the Mississippi Code subsection 31-7-13, purchases may be made from the lowest and best bidder. If any governing authority accepts a bid other than the lowest bid actually submitted, it shall place on its minutes detailed calculations and narrative summary showing that the accepted bid was determined to be the lowest and best bid, including the dollar amount of the accepted bid and the dollar amount of the lowest bid. No agency or governing authority shall accept a bid based on items not included in the specifications.

Recommendation

We recommend that in the case of the lowest bid not being selected, the County include detailed calculations and narrative summary in its minutes.

Response

The County will ensure that detailed calculations and information is documented in the Board minutes in the event a lowest bid is not selected. The Board entered an order amending its original order nunc pro tunc to include detailed calculations and a narrative summary explaining that the bid accepted was in fact the lowest and best bid.

Members of the Board of Supervisors
Forrest County, Mississippi

5. Finding

According to the Mississippi Code subsection 27-39-321, with respect to ad valorem taxes levied for each fiscal year, no political subdivision may levy ad valorem taxes in any fiscal year which would render in total receipts from all levies an amount more than the receipts from that source during any one (1) of the immediately preceding three (3) fiscal years, as determined by the levying governing authority, plus, at the option of the taxing authority, an increase not to exceed ten percent (10%) of such receipts.

Recommendation

We recommend that the County does not levy ad valorem taxes in any fiscal year which would render in total receipts from all levies an amount more than the receipts from the previous three years, plus an increase not to exceed 10%.

Response

The County will make sure that the ad valorem taxes levied will not cause receipts to exceed the 10% cap.

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 27, 2015

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

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES
YEAR ENDED SEPTEMBER 30, 2014**

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|----|---|------------|
| 1. | Type of auditor's report issued: | |
| | Governmental activities | Unmodified |
| | Each major fund | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | A. Material weaknesses identified? | Yes |
| | B. Significant deficiencies identified? | Yes |
| 3. | Noncompliance material to financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | A. Material weaknesses identified? | No |
| | B. Significant deficiency identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major federal programs | Unmodified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section_510(a) of Circular A-133? | Yes |
| 7. | Identification of major federal programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
10.665	Schools and Roads – Grants to States
93.243	Substance Abuse and Mental Health Services – Projects of Regional and National Significance

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2014

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

Federal Awards Continued:

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

SECTION 2: FINANCIAL STATEMENT FINDINGS

Material Weakness

- 2014-001 The financial statements do not include the financial data for the County's legally separate component units.

Finding

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

Recommendation

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

Board of Supervisor's Response

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

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2014

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Significant Deficiency

2014-002 The Sheriff's Office is not reconciling the monthly bank reconciliations on the Sheriff's clearing account.

Finding

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

Recommendation

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

Sheriff's Response

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

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2014-003 Reporting deficiencies were found for the Substance Abuse and Mental Health Services Project.

Finding

Program:

CFDA No. 93.243 Substance Abuse and Mental Health Services Projects of
Regional and National Significance
U.S. Department of Health and Human Services – Substance
Abuse and Mental Health Services Administration

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2014

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont.)

Compliance Requirement:

Per the grant agreement, the County must comply with the Government Performance and Results Act requirements that include the collection and periodic reporting of performance data. This information is needed in order to comply with PL 102-62 which requires that SAMHSA report evaluation data to ensure the effectiveness and efficiency of its programs.

During fiscal year ended September 30, 2014, it was noted that the County did not submit all of the quarterly performance reports required for this grant.

Performance reporting requirements are included in: federal law and regulations and standards identified in 2 CFR parts 215.51 – Monitoring and Reporting Program, Federal awarding agency regulations, and the terms and conditions of award documents pertaining to performance reporting requirements applicable to federal grant programs.

Failure to implement reliable performance reporting review procedures could result in additional inaccurate or incomplete reporting of grant activities.

Questioned Cost:

None.

Recommendation:

The County should implement documented procedures that would allow for complete performance reporting of grant activities, including documentation of personnel responsible for filing the required reports.

Auditee's Response:

The County's Corrective Action Plan is presented on page 81.

**Forrest County, Mississippi
AUDITEE'S CORRECTIVE ACTION PLAN
Year Ended September 30, 2014**

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BETTY CARLISLE
COUNTY ADMINISTRATOR

AUDITEE'S CORRECTIVE ACTION PLAN
Year Ended September 30, 2014

Finding 2014-009

Program:	Substance Abuse and Mental Health Services – Projects of Regional and National Significance
CFDA No.:	93.243
Federal Agency:	U.S. Department of Health and Human Services
Award Year:	Fiscal Year 2013-2014
Compliance Requirement:	Performance Reporting
Questioned Costs:	None

Department's Response:

The County administrator concurs with the finding.

Corrective Action Plan:

Response from the Department of Administration:

The County will implement documented procedures that would allow for complete performance reporting of grant activities, including documentation of person responsible for filing required reports. Responsible personnel will have regular discussions regarding reporting compliance.

Name of Responsible Person: Betty Carlisle, County Administrator

Name of Department Contact: Jackie Williams, Project Director

Expected Date of Completion: June 1, 2015