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FORREST COUNTY, MISSISSIPPI

**AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS**

Year Ended September 30, 2012



**Nicholson &
Company, PLLC**

CERTIFIED PUBLIC ACCOUNTANTS/FINANCIAL CONSULTANTS

FORREST COUNTY, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Forrest County, Mississippi

We have audited the accompanying 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, 2012, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

Members of the Board of Supervisors
Forrest County, Mississippi

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 assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Forrest County, Mississippi, as of September 30, 2012, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above 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, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013, 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* and should be considered in assessing the results of our audit.

Members of the Board of Supervisors
Forrest County, Mississippi

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.

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

Members of the Board of Supervisors
Forrest County, Mississippi

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 Surety Bonds for County Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information 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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 20, 2013

**FORREST COUNTY, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2012**

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, 2012. 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 2012 were as follows:

- Total net assets for 2012, \$84,454,563 decreased \$20,800, or .0246% from 2011, as restated, \$84,475,363.
- Total assets of governmental activities for 2012, \$143,194,559 increased by \$7,653,960 or 5.65% from 2011, \$135,540,599.
- Total liabilities for 2012, \$58,739,996 increased \$697,230 or 1.20 % from 2011, \$58,042,766.
- In total, equity in cash and cash equivalents for 2012, \$31,570,287 decreased \$5,851,132 or 15.64% from 2011, \$37,421,419. The cash decrease was mainly attributed to the Public Improvement Proceeds 2008 Fund 208. This fund had a balance of \$4.7 million the previous year and in 2012 ended the year with \$800,735. This construction project had all but ended at the close of fiscal year 2012 with the new jail detention center having been occupied and operating. The General County fund 001 cash balance decreased by \$2.7 million, as was planned, with the local costs involved in setting up the jail detention center with furnishings, equipment, radio systems, computers, etc.
- Total assessed valuation for 2012 tax year increased 14 million from the 2011 tax year. The 2012 assessed valuations for the County also reflect a 42 million increase over the last five-year period (2008 tax rolls) 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 assets presents information on all of the County's assets and liabilities with the difference between the two being reported as net assets. Over time, increases or decreases in net assets 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 assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

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

Component units are not included in our basic financial statements.

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

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - Net assets may serve over time as a useful indicator of the government's financial position. In the case of Forrest County, assets exceeded liabilities by \$84,454,563 as of September 30, 2012.

The largest portion of the County's net assets (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 assets at September 30, 2012, as compared to net assets at September 30, 2011.

**Table 1
Net Assets**

	Governmental Activities		Total Percentage Change
	2012	2011	
ASSETS			
Current and other assets	\$ 56,539,782	\$ 60,944,465	-7.23%
Land and construction in progress	1,441,137	22,795,502	-93.68%
Other capital assets, net	85,213,640	51,800,632	64.50%
Total assets	\$ 143,194,559	\$ 135,540,599	5.65%
LIABILITIES AND DEFERRED REVENUE			
Long-term liabilities, outstanding	\$ 34,095,999	\$ 33,416,704	2.03%
Deferred revenues and other liabilities	24,643,997	24,626,062	0.07%
Total liabilities and deferred revenue	58,739,996	58,042,766	1.20%
NET ASSETS			
Invested in capital assets, net of related debt	56,327,899	42,199,581	33.48%
Restricted	11,163,269	12,805,809	-12.83%
Unrestricted	16,963,395	22,492,443	-24.58%
Total net assets	\$ 84,454,563	\$ 77,497,833	8.98%

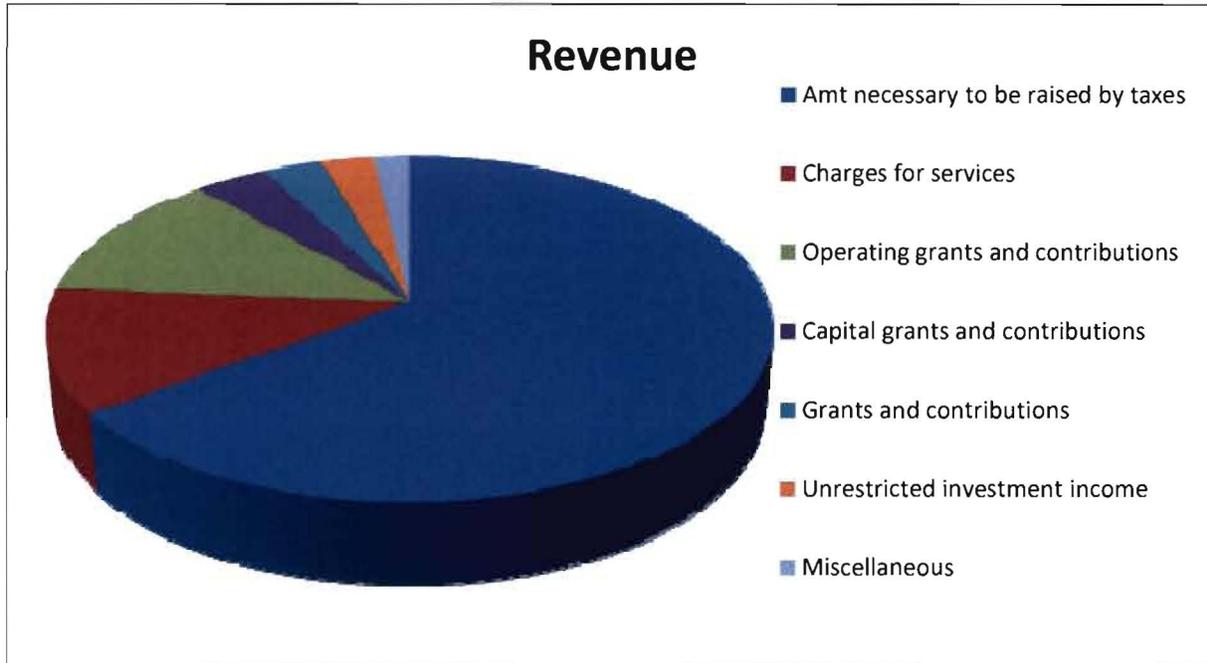
The following are significant current year transactions that have had an impact on the Statement of Net Assets: the County received approximately \$2.5 million less in grants and contributions, accounting for most of the reduction in net assets for the fiscal year ending September 30, 2012.

Changes in Net Assets - Forrest County's total program and general revenues for the fiscal year ended September 30, 2012 were \$33,211,665. The total cost of all services provided was \$30,258,959. The decrease in net assets was \$20,800. Table 2 presents a summary of the changes in net assets for the fiscal year ended September 30, 2012, as compared to the fiscal year ended September 30, 2011.

**Table 2
Changes in Net Assets**

	<u>Governmental Activities</u>		Total
	2012	2011	Percentage Change
REVENUES			
Program revenues:			
Charges for services	\$ 4,407,279	\$ 3,981,991	10.68%
Operating grants and contributions	3,721,396	5,990,604	-37.88%
Capital grants and contributions	1,800,714	1,405,724	28.10%
Total program revenues	9,929,389	11,378,319	-12.73%
General revenues:			
Property taxes	21,488,884	22,519,437	-4.58%
Other taxes	752,527	751,503	0.14%
Grants and contributions not restricted to specific programs	114,682	135,260	-15.21%
Other general revenues	926,183	1,024,416	-9.59%
Total general revenues	23,282,276	24,430,616	-4.70%
Payments to component unit	(2,973,506)	-	
Total	30,238,159	35,808,935	-15.56%
PROGRAM EXPENSES			
General government	11,832,733	11,928,749	-0.80%
Public safety	8,726,876	11,308,697	-22.83%
Public services	4,894,459	9,348,472	-47.64%
Health/Welfare/Education	1,003,940	1,028,060	-2.35%
Economic development	298,270	384,446	-22.42%
Culture and recreation	1,785,140	1,848,078	-3.41%
Conservation natural resources	453,421	200,405	126.25%
Interest and fiscal charges	1,264,120	1,345,597	-6.06%
Total program expenses	30,258,959	37,392,504	-19.08%
Decrease in net assets	(20,800)	(1,583,569)	98.69%
Net Assets - Beginning	77,497,833	85,704,521	-9.58%
Prior period adjustment	6,977,530	(6,623,119)	205.35%
Net Assets - Beginning, as restated	84,475,363	79,081,402	6.82%
Net Assets - Ending	\$ 84,454,563	\$ 77,497,833	8.98%

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 \$30,089,390, a decrease of \$4,530,282. The primary reason for this significant decrease in fund balance is in Fund 302 the Public Improvement Proceeds for the construction of the new detention center (regional jail). With this being the final year of this construction project, the cash flow of the bond proceeds to build the jail detention facility have been expended.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

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

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of September 30, 2012, Forrest County's total capital assets, net was \$86,654,777. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, and furniture and equipment.

Total accumulated depreciation as of September 30, 2012, was \$58,507,322. The balance in total net capital assets was \$86,654,777 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>2012</u>	<u>2011</u>	<u>Total Percentage Change</u>
Land and construction in progress	\$ 1,441,137	\$ 22,795,502	-93.68%
Buildings and improvements	53,133,973	24,694,908	115.16%
Infrastructure	26,274,639	21,543,691	21.96%
Machinery and equipment	5,805,028	5,562,033	4.37%
Total	<u>\$ 86,654,777</u>	<u>\$ 74,596,134</u>	16.17%

The major change being that Construction in Progress in 2011 included major projects such as the regional jail complex, community shelter, and several safe rooms. Those projects closed to Building and Improvements during fiscal year 2012.

Debt Administration - At September 30, 2012, Forrest County had \$34,095,999 in long-term debt outstanding. This includes general obligation bonds and other loans. Of this debt \$2,393,715 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, 2012 was equal to 4.93% of the latest property assessments.

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

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

	<u>2012</u>	<u>2011</u>	<u>Total Percentage Change</u>
General obligation bonds	\$ 33,283,758	\$ 32,329,615	2.95%
Other loans	265,903	588,497	-54.82%
Compensated absences	546,338	498,592	9.58%
<i>Total bonded debt and compensated absences</i>	<u>\$ 34,095,999</u>	<u>\$ 33,416,704</u>	2.03%

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 2013, Forrest County has continued to meet the challenges of current day financial obstacles.

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

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

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

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

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

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

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

FINANCIAL STATEMENTS

EXHIBIT 1

FORREST COUNTY, MISSISSIPPI

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 31,570,287
Property tax receivable	21,955,570
Fines receivable, net of allowance for uncollectibles of \$4,878,181	1,340,528
Intergovernmental receivables	1,043,160
Other receivables	29,903
Deferred charges - bond issuance costs	600,334
Capital assets:	
Land and construction in progress	1,441,137
Other capital assets, net	85,213,640
Total assets	<u>143,194,559</u>
LIABILITIES	
Claims payable	1,588,975
Intergovernmental payables	630,217
Accrued interest payable	134,467
Deferred revenue	21,955,570
Other payables	334,768
Long-term liabilities:	
Due within one year:	
Capital debt	2,170,933
Non-capital debt	222,782
Due in more than one year:	
Capital debt	28,155,945
Non-capital debt	3,546,339
Total liabilities	<u>58,739,996</u>
NET ASSETS	
Invested in capital assets, net of related debt	56,327,899
Restricted:	
Expendable:	
General government	35,012
Debt service	2,045,088
Public safety	1,780,151
Public works	6,851,446
Conservation of natural resources	165,205
Unemployment compensation	115,176
Capital projects	171,191
Unrestricted	16,963,395
Total net assets	<u>\$ 84,454,563</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, 2012

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 11,832,733	\$ 1,859,322	\$ 763,658	\$ 642,543	\$ (8,567,210)
Public safety	8,726,876	2,547,957	937,460	273,994	(4,967,465)
Public works	4,894,459	-	870,775	-	(4,023,684)
Health and welfare	994,464	-	957,933	-	(36,531)
Culture and recreation	1,785,140	-	191,570	884,177	(709,393)
Education	9,476	-	-	-	(9,476)
Conservation of natural resources	453,421	-	-	-	(453,421)
Economic development and assistance	298,270	-	-	-	(298,270)
Interest on long-term debt	1,264,120	-	-	-	(1,264,120)
Total governmental activities	<u>30,258,959</u>	<u>4,407,279</u>	<u>3,721,396</u>	<u>1,800,714</u>	<u>(20,329,570)</u>
Total primary government	\$ 30,258,959	\$ 4,407,279	\$ 3,721,396	\$ 1,800,714	(20,329,570)
General revenues:					
Property taxes					21,488,884
Road and bridge privilege taxes					752,527
Grants and contributions not restricted to specific programs					114,682
Unrestricted interest income					101,061
Loss on sale of capital assets					(6,964)
Miscellaneous					832,086
Total general revenues					<u>23,282,276</u>
Payments to component unit					<u>(2,973,506)</u>
Total general revenues and payments to component unit					<u>20,308,770</u>
CHANGES IN NET ASSETS					<u>(20,800)</u>
NET ASSETS - BEGINNING					77,497,833
Prior period adjustment					<u>6,977,530</u>
NET ASSETS - BEGINNING, AS RESTATED					<u>84,475,363</u>
NET ASSETS - ENDING					<u>\$ 84,454,563</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, 2012

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Series 2009 Bond & Interest Fund - Jail	Public Improvement Proceeds, 2008 Fund		
ASSETS						
Cash and cash equivalents	\$ 19,608,010	\$ 3,985,834	\$ 806,994	\$ 800,735	\$ 6,368,714	\$ 31,570,287
Property tax receivable	14,745,295	2,765,171	1,840,000	-	2,605,104	21,955,570
Fines receivable (net of allowance for uncollectibles of \$4,169,066)	1,340,528	-	-	-	-	1,340,528
Intergovernmental receivables	938,138	-	-	-	105,022	1,043,160
Other receivables	29,903	-	-	-	-	29,903
Due from other funds	-	90,657	19,478	-	29,584	139,719
Total assets	\$ 36,661,874	\$ 6,841,662	\$ 2,666,472	\$ 800,735	\$ 9,108,424	\$ 56,079,167
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Claims payable	\$ 799,583	\$ 81,719	\$ -	\$ 629,544	\$ 78,129	\$ 1,588,975
Intergovernmental payables	620,840	-	-	-	-	620,840
Due to other funds	149,096	-	-	-	-	149,096
Deferred revenue	16,085,823	2,765,171	1,840,000	-	2,605,104	23,296,098
Other payables	334,768	-	-	-	-	334,768
Total liabilities	17,990,110	2,846,890	1,840,000	629,544	2,683,233	25,989,777
FUND BALANCES						
Restricted for:						
General government	-	-	-	-	35,012	35,012
Public safety	-	-	-	171,191	1,780,151	1,951,342
Public works	-	3,994,772	-	-	2,856,674	6,851,446
Conservation of natural resources	-	-	-	-	165,205	165,205
Debt service	-	-	826,472	-	1,353,083	2,179,555
Unemployment compensation	-	-	-	-	115,176	115,176
Committed to:						
Public safety	-	-	-	-	52,638	52,638
Culture and recreation	-	-	-	-	67,252	67,252
Unassigned	18,671,764	-	-	-	-	18,671,764
Total fund balances	18,671,764	3,994,772	826,472	171,191	6,425,191	30,089,390
Total liabilities and fund balances	\$ 36,661,874	\$ 6,841,662	\$ 2,666,472	\$ 800,735	\$ 9,108,424	\$ 56,079,167

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

EXHIBIT 3-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 30,089,390
Amounts reported for governmental activities in the Statement of Net Assets 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 \$58,507,322.	86,654,777
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,340,528
Long-term liabilities are not due and payable in the current period and, therefore is not reported in the funds.	(34,095,999)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(134,467)
Deferred charges - issuance costs	<u>600,334</u>
<i>Total net assets - governmental activities (Exhibit 1)</i>	<u><u>\$ 84,454,563</u></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, 2012

	Major Funds					Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Series 2009 Bond & Interest Fund - Jail	Public Improvement Proceeds, 2008 Fund			
REVENUES							
Property taxes	\$ 14,007,445	\$ 2,926,544	\$ 1,921,747	\$ -	\$ 2,633,148	\$ 21,488,884	
Road and bridge privilege taxes	7,116	739,401	14,739	-	-	761,256	
Licenses, commissions and other revenue	1,453,155	-	-	-	20,775	1,473,930	
Fines and forfeitures	583,254	-	-	-	132,152	715,406	
Intergovernmental revenues	2,791,527	914,742	-	-	1,328,730	5,034,999	
Charges for services	2,005,706	-	-	-	-	2,005,706	
Interest income	66,910	8,780	2,303	6,727	16,341	101,061	
Miscellaneous revenues	279,673	790	-	-	444,377	724,840	
Total revenues	<u>21,194,786</u>	<u>4,590,257</u>	<u>1,938,789</u>	<u>6,727</u>	<u>4,575,523</u>	<u>32,306,082</u>	
EXPENDITURES							
Current:							
General government	11,419,179	-	-	-	724,016	12,143,195	
Public safety	9,091,044	-	-	2,880,260	563,207	12,534,511	
Public works	317,879	3,140,917	-	-	1,587,849	5,046,645	
Health and welfare	978,228	-	-	-	-	978,228	
Culture and recreation	826,105	-	-	-	1,023,471	1,849,576	
Education	9,476	-	-	-	-	9,476	
Conservation of natural resources	99,427	-	-	-	333,119	432,546	
Economic development and assistance	298,270	-	-	-	-	298,270	
Debt Service:							
Principal	168,776	-	860,000	-	1,433,818	2,462,594	
Interest	7,743	-	964,644	-	317,246	1,289,633	
Other debt service costs	-	-	1,850	-	92,053	93,903	
Total expenditures	<u>23,216,127</u>	<u>3,140,917</u>	<u>1,826,494</u>	<u>2,880,260</u>	<u>6,074,779</u>	<u>37,138,577</u>	
Excess of revenues over (under) expenditures	(2,021,341)	1,449,340	112,295	(2,873,533)	(1,499,256)	(4,832,495)	
OTHER FINANCING SOURCES (USES)							
Long-term non-capital debt issued	-	-	-	-	3,000,000	3,000,000	
Refunding bonds issued	-	-	-	-	2,530,000	2,530,000	
Proceeds from sale of capital assets	1,520	1,260	-	-	47,254	50,034	
Premiums on bonds issued	-	-	-	-	61,350	61,350	
Compensation for loss of capital assets	14,556	-	-	-	267,724	282,280	
Transfers in	25	-	-	-	474,620	474,645	
Transfers out	(467,274)	-	-	-	(7,371)	(474,645)	
Other uses	(161,320)	-	-	-	-	(161,320)	
Payments to bond refunding escrow agent	-	-	-	-	(2,486,625)	(2,486,625)	
Payments to component unit from long-term non-capital debt	-	-	-	-	(2,973,506)	(2,973,506)	
Total other financing sources (uses)	<u>(612,493)</u>	<u>1,260</u>	<u>-</u>	<u>-</u>	<u>913,446</u>	<u>302,213</u>	
Net changes in fund balances	(2,633,834)	1,450,600	112,295	(2,873,533)	(585,810)	(4,530,282)	
FUND BALANCES - BEGINNING	<u>21,305,598</u>	<u>2,544,172</u>	<u>714,177</u>	<u>3,044,724</u>	<u>7,011,001</u>	<u>34,619,672</u>	
FUND BALANCES - ENDING	<u>\$ 18,671,764</u>	<u>\$ 3,994,772</u>	<u>\$ 826,472</u>	<u>\$ 171,191</u>	<u>\$ 6,425,191</u>	<u>\$ 30,089,390</u>	

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

EXHIBIT 4-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Amount</u>
Net changes in fund balances - governmental funds (Exhibit 4)	\$ (4,530,282)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays (\$7,774,677) exceeded depreciation of (\$3,373,748) in the current period.	4,400,929
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss \$6,964 and the proceeds from the sale of \$50,034 in the current period.	(20,526)
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.	54,404
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$5,559,725 exceeded debt repayments of \$4,917,594.	(642,131)
Contributions of capital assets not recognized on the governmental funds and recorded as program revenues in the Statement of Activities.	700,710

EXHIBIT 4-1
PAGE TWO

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, 2012**

	<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 assets differs from the change in fund balances by a combination of the following items:	
The amount of (increase) decrease in:	
Compensated absences	\$ (47,746)
Accrued interest payable	14,022
Deferred charge - issuance cost incurred in current year	83,925
Amortization of deferred charges	(10,885)
Premium on refunding bond	21,468
Unamortized charge - refunding bond	<u>(44,688)</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ (20,800)</u>

EXHIBIT 5

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2012**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 843,003
Due from other funds	9,377
	<hr/>
Total assets	\$ 852,380
	<hr/> <hr/>
LIABILITIES	
Amounts held in custody for others	\$ 486,791
Other liabilities	355,706
Intergovernmental payables	9,883
	<hr/>
Total liabilities	\$ 852,380
	<hr/> <hr/>

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, 2012

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 conformity with accounting principles generally accepted in the United States of America.

- Forrest General Hospital
- Rawls Springs Volunteer Fire Department
- Macedonia Fire Protection District
- 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 Unit

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, 2012

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 9 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 Assets 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 Assets 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 Assets 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, 2012

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 as Other Governmental Funds in a single column.

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, 2012

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

Public Improvement Proceeds, 2008 Fund - This fund is used to account for monies from specific revenue sources that are restricted for the construction of the correctional facility.

Series 2009 Bond and Interest Fund - Jail - This fund is used to account for the payment of scheduled principal and interest attributable to the County's Series 2009 General Obligation Bonds.

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 2005 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.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2012

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

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

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

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

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

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

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2012

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.

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

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 Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

K. Equity Classifications

Government-wide Financial Statements:

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2012

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

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

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

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

Fund Financial Statements:

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

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2012

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

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

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

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

N. 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 - 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	\$ 6,977,530
<i>Total prior period adjustment</i>	<u>\$ 6,977,530</u>

NOTE 3 - DEPOSITS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2012, was \$32,392,460, and the bank balance was \$32,625,946. 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).

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 3 - DEPOSITS (Cont.)

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 4 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2012:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Maintenance Fund	General Fund	\$ 90,657
Series 2009 Bond and Interest Fund - Jail	General Fund	19,478
Other Governmental Funds	General Fund	29,584
Agency Funds	General Fund	9,377
Total		<u><u>\$ 149,096</u></u>

The receivables represent the tax revenue collected but not settled until October 2012. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 25
Other Governmental Funds	General Fund	467,274
Other Governmental Funds	Other Governmental Funds	7,346
Total		<u><u>\$ 474,645</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.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2012, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	\$ 289,313
Edward Byrne Memorial Justice Assistance Grant Program	14,688
Renewable Energy Research and Development Grant	181,086
Substance Abuse and Mental Health Services Grant	10,150
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	138,449
Hazard Mitigation Grant	304,452
Emergency Watershed Protection Program	105,022
<i>Total governmental activities</i>	<u><u>\$ 1,043,160</u></u>

NOTE 6 - OTHER RECEIVABLES

Other receivables at September 30, 2012, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
General Fund:	
Tax Collector bad checks	\$ 29,903
Total General Fund	<u>29,903</u>
<i>Total governmental activities</i>	<u><u>\$ 29,903</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEAR ENDED SEPTEMBER 30, 2012

NOTE 7 - CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2012

Governmental activities:

	Balance Oct. 1, 2011	Additions	Deletions	Adjustments	Balance Sep. 30, 2012
Non-depreciable capital assets:					
Land	\$ 1,385,183	\$ 29,000	\$ -	\$ -	\$ 1,414,183
Construction in progress	21,410,319	6,002,152	30,800,155	3,414,638	26,954
Total non-depreciable capital assets	<u>22,795,502</u>	<u>6,031,152</u>	<u>30,800,155</u>	<u>3,414,638</u>	<u>1,441,137</u>
Depreciable capital assets:					
Infrastructure	55,539,301	2,088,720	-	3,749,836	61,377,857
Buildings	35,867,725	29,651,178	-	-	65,518,903
Improvements other than buildings	1,123,325	129,709	-	-	1,253,034
Mobile equipment	12,598,140	1,186,703	396,843	(125,575)	13,262,425
Furniture and equipment	1,995,589	188,080	5,999	131,073	2,308,743
Total depreciable capital assets	<u>107,124,080</u>	<u>33,244,390</u>	<u>402,842</u>	<u>3,755,334</u>	<u>143,720,962</u>
Less accumulated depreciation for:					
Infrastructure	33,995,610	920,116	-	187,492	35,103,218
Buildings	11,858,022	1,292,137	-	-	13,150,159
Improvements other than buildings	438,120	49,685	-	-	487,805
Mobile equipment	7,693,920	963,287	376,917	(113,014)	8,167,276
Furniture and equipment	1,337,776	148,523	5,399	117,964	1,598,864
Total accumulated depreciation	<u>55,323,448</u>	<u>3,373,748</u>	<u>382,316</u>	<u>192,442</u>	<u>58,507,322</u>
Total depreciable capital assets, net	<u>51,800,632</u>	<u>29,870,642</u>	<u>20,526</u>	<u>3,562,892</u>	<u>85,213,640</u>
Governmental activities capital assets, net	<u>\$ 74,596,134</u>	<u>\$ 35,901,794</u>	<u>\$ 30,820,681</u>	<u>\$ 6,977,530</u>	<u>\$ 86,654,777</u>

The adjustments to capital assets are due to the inadvertent omission of components of infrastructure assets and construction in progress from prior years and related accumulated depreciation and reclassifications made between capital asset categories.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2012

NOTE 7 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	Amount
General government	\$ 825,915
Public safety	1,118,646
Public works	1,298,520
Health and welfare	15,950
Culture and recreation	93,842
Conservation of natural resources	20,875
Total governmental activities depreciation expense	\$ 3,373,748

Commitments with respect to unfinished capital projects at September 30, 2012, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Construction of the correctional facility	\$ 50,000	October 2012

NOTE 8 - CLAIMS AND JUDGMENTS

Risk Financing - The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2012, to January 1, 2013. 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, 2012

NOTE 9 - LONG-TERM DEBT

Debt outstanding as of September 30, 2012, 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 2004	\$ 2,915,000	4.60%	09/2017
School bonds, Series 1998	135,000	4.90%	03/2013
G.O. refunding bond, Series 2011	2,520,000	1.00% - 2.00%	03/2020
Public improvement bond, Series 2009	21,600,000	3.50 - 5.00%	03/2029
G.O. refunding bond, Series 2009B	2,945,000	3.00 - 3.50%	01/2019
G.O. bond, Series 2012 (Qualified School Construction Bond)	<u>3,000,000</u>	0.00%	08/2027
Total general obligation bonds	<u>\$ 33,115,000</u>		
B. Other loans:			
MS Development Authority revolving loan	\$ 44,751	4.00%	04/2013
MS Development Authority revolving loan	43,032	4.00%	04/2013
Sunrise Volunteer Fire Department	26,318	2.99%	03/2014
Rawls Springs Volunteer Fire Department	27,773	2.99%	03/2014
Macedonia Volunteer Fire Department	25,005	2.99%	03/2014
Brooklyn Volunteer Fire Department	37,134	3.22%	02/2015
Dixie Volunteer Fire Department	<u>61,890</u>	3.22%	02/2015
Total other loans	<u>\$ 265,903</u>		

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 - LONG-TERM DEBT (Cont.)

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

Governmental Activities:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 2,235,000	\$ 1,153,072
2014	2,175,000	1,078,970
2015	2,255,000	1,007,395
2016	2,340,000	932,279
2017	2,435,000	850,938
2018 - 2022	7,850,000	3,275,539
2023 - 2027	10,350,000 *	1,779,397
2028 - 2029	3,475,000	175,875
Total	\$ 33,115,000	\$ 10,253,465

*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>
2013	\$ 158,715	\$ 6,913
2014	73,128	3,358
2015	34,060	1,097
Total	\$ 265,903	\$ 11,368

As more fully explained in Note 10, debt has been issued by the County that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 - LONG-TERM DEBT (Cont.)

Certificates of Participation (COPs) designated as "qualified tax exempt obligations" for purposes of Section 265 of the Internal Revenue Code of 1986, as amended, were issued during the fiscal year ended September 30, 1995, for the purpose of financing the construction of a youth detention facility and for the acquisition and renovations of a shopping center to be used for a welfare building. The COPs are not general obligations of the County and, therefore, are not secured by the County's full faith and credit. However, the County, as lessee, is obligated as the sole source of payment pursuant to a 15-year lease purchase agreement for the youth detention facility and a 20-year lease purchase agreement for the public facilities project with the lessor, Forrest County Public Improvements Corporation, a blended component unit of Forrest County. Because the County's obligation to make lease payments is also the sole source of payment for the COPs, the lease obligation is not recorded. Instead the COPs are considered, in substance, limited debt obligations of the County, and accordingly, are reflected in the Statement of Net Assets. 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, 2012, the amount of outstanding debt was equal to 4.93% of the latest property assessments.

Advance Refunding

On October 6, 2011, the County issued \$2,530,000 in general obligation refunding bonds with an average interest rate of 1.49% to advance refund \$2,455,000 of the following outstanding bond issue:

<u>Issue</u>	<u>Average Interest</u>	<u>Outstanding Amount Refunded</u>
G.O. Public Improvement Bonds, Series 2005	3.73%	\$ 2,455,000

The G.O. Public Improvement Bonds, Series 2005 had an outstanding balance of \$2,705,000 at the time of refunding, but only \$2,455,000 of the bond was refunded, leaving a remaining principal balance of \$250,000, of which \$250,000 was redeemed during fiscal year 2012.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 - LONG-TERM DEBT (Cont.)

The net proceeds of \$2,500,303 (after payment of \$91,048 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Assets.

The County advance refunded the above bonds to reduce its total debt service payments over the next nine years by almost \$151,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$140,646.

Prior Year Defeasance of Debt

In prior years, the County defeased certain limited obligation and general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. On September 30, 2012, \$2,840,000 bonds outstanding were considered defeased.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2012:

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
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YEAR ENDED SEPTEMBER 30, 2012

NOTE 9 - LONG-TERM DEBT (Cont.)

	<u>Balance</u> <u>Oct. 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments*</u>	<u>Balance</u> <u>Sep. 30, 2012</u>	<u>Amount Due</u> <u>Within One Year</u>
Governmental Activities:						
Compensated absences	\$ 498,592	\$ 47,746	\$ -	\$ -	\$ 546,338	\$ -
General obligation bonds	32,180,000	2,530,000	2,140,000	(2,455,000)	30,115,000	2,235,000
General obligation bonds - qualified school construction bond	-	3,000,000	-	-	3,000,000	-
Less:						
Deferred amount on refunding	(58,979)	(31,625)	(10,886)	-	(79,718)	-
Add:						
Premiums	208,594	61,350	21,468	-	248,476	-
Total general obligation bonds	<u>32,329,615</u>	<u>5,559,725</u>	<u>2,150,582</u>	<u>(2,455,000)</u>	<u>33,283,758</u>	<u>2,235,000</u>
Other loans	<u>588,497</u>	<u>-</u>	<u>322,594</u>	<u>-</u>	<u>265,903</u>	<u>158,715</u>
Total governmental activities	<u>\$ 33,416,704</u>	<u>\$ 5,607,471</u>	<u>\$ 2,473,176</u>	<u>\$ (2,455,000)</u>	<u>\$ 34,095,999</u>	<u>\$ 2,393,715</u>

*Adjustments reflect bonds refunded on October 6, 2011.

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

PAGE NINETEEN

YEAR ENDED SEPTEMBER 30, 2012

NOTE 10 - QUALIFIED SCHOOL CONSTRUCTION BONDS

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

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

Pursuant to the bond documents, these bonds are to be repaid in full on August 1, 2027, from the proceeds of the annual minimum sinking fund deposit schedule. The County is scheduled to make 15 equal annual payments of \$200,000 into a sinking fund, with a maximum permitted yield of 3.34%. 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, 2012 was \$-0-.

The following schedule reports the annual deposits required for the sinking fund.

<u>Year Ending September 30,</u>	<u>Amount</u>
2013	\$ 200,000
2014	200,000
2015	200,000
2016	200,000
2017	200,000
2018-2022	1,000,000
2023-2027	1,000,000
Total	\$ 3,000,000

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 11 - CONTINGENCIES

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

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

Hospital Revenue Bond Contingencies - The County issued revenue bonds to provide funds for constructing and improving capital facilities of the Forrest General Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the County remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the County is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at the beginning of the fiscal year in the amount of \$1,030,000 was fully repaid during the fiscal year ended September 30, 2012.

NOTE 12 - 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 2012. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from Post Office Box 1898, Hattiesburg, Mississippi 39403.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 12 - JOINT VENTURES (Cont.)

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 \$245,084 in fiscal year 2012. 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 \$687,359 in fiscal year 2012. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 13 - 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 \$1,196,569 for maintenance and support of the college in fiscal year 2012.

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 \$250,799 for support of the district in fiscal year 2012.

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 \$46,975 to the agency in fiscal year 2012.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

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 2012 totaled \$25,000.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Forrest County Board of Supervisors appoints one of the nine members of the board of commissioners. The County appropriated \$201,875 for support of the agency in fiscal year 2012.

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 2012.

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.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2012

NOTE 14 - 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, 2012, 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, 2012 was 14.26% 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, 2012, 2011, and 2010 were \$1,342,313, \$1,187,799, and \$1,194,461 respectively, equal to the required contributions for each year.

NOTE 15 - SUBSEQUENT EVENTS

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Forrest County evaluated the activity of the County through May 20, 2013, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

Subsequent to September 30, 2012, the County issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
10/18/2012	2.00%	\$ 2,375,000	G.O. Bonds	Tax revenue

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2012**

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ 13,899,712
Licenses, commissions and other revenue	996,300
Fines and forfeitures	525,000
Intergovernmental revenues	1,880,000
Charges for services	1,100,000
Interest income	131,000
Miscellaneous revenues	67,500
<i>Total revenues</i>	<u>18,599,512</u>
EXPENDITURES	
Current:	
General government	13,062,766
Public safety	8,881,134
Public works	264,490
Health and welfare	1,049,376
Culture and recreation	1,864,353
Education	9,476
Conservation of natural resources	139,050
Economic development and assistance	219,484
Debt Service	158,251
<i>Total expenditures</i>	<u>25,648,380</u>
Excess of revenues over (under) expenditures	<u>(7,048,868)</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(177,500)
Other financing sources	-
Other financing uses	(10,000)
<i>Total other financing sources and uses</i>	<u>(187,500)</u>
NET CHANGE IN FUND BALANCES	(7,236,368)
Fund balances - beginning	<u>21,515,491</u>
Fund balances - ending	<u>\$ 14,279,123</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>
\$ 14,211,112	14,032,815	\$ (178,297)
1,401,600	1,473,632	72,032
525,000	579,551	54,551
2,736,982	2,827,150	90,168
2,001,000	2,005,706	4,706
66,000	66,842	842
277,929	281,524	3,595
<u>21,219,623</u>	<u>21,267,220</u>	<u>47,597</u>
13,120,479	11,210,678	1,909,801
10,241,272	9,368,326	872,946
337,684	317,380	20,304
1,084,990	977,762	107,228
2,062,106	1,260,682	801,424
9,476	9,476	-
139,050	99,378	39,672
262,984	256,179	6,805
158,251	158,251	-
<u>27,416,292</u>	<u>23,658,112</u>	<u>3,758,180</u>
<u>(6,196,669)</u>	<u>(2,390,892)</u>	<u>3,805,777</u>
(177,500)	(153,558)	23,942
16,070	16,076	6
(10,000)	(7,762)	2,238
<u>(171,430)</u>	<u>(145,244)</u>	<u>26,186</u>
(6,368,099)	(2,536,136)	3,831,963
<u>21,159,409</u>	<u>21,161,669</u>	<u>2,260</u>
<u>\$ 14,791,310</u>	<u>\$ 18,625,533</u>	<u>\$ 3,834,223</u>

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2012**

	Original Budget
REVENUES	
Property taxes	\$ 2,718,000
Road and bridge privilege taxes	480,000
Intergovernmental revenues	550,000
Interest income	8,800
Miscellaneous revenues	2,000
Total revenues	<u>3,758,800</u>
EXPENDITURES	
Current:	
Public works	<u>3,829,840</u>
Total expenditures	<u>3,829,840</u>
Excess of revenues over (under) expenditures	<u>(71,040)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	-
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(71,040)
Fund balances - beginning	<u>2,600,000</u>
Fund balances - ending	<u>\$ 2,528,960</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>
\$ 2,718,000	\$ 2,929,875	\$ 211,875
744,000	744,405	405
874,300	918,278	43,978
8,800	8,780	(20)
2,086	790	(1,296)
<u>4,347,186</u>	<u>4,602,128</u>	<u>254,942</u>
<u>4,194,280</u>	<u>3,095,627</u>	<u>1,098,653</u>
<u>4,194,280</u>	<u>3,095,627</u>	<u>1,098,653</u>
<u>152,906</u>	<u>1,506,501</u>	<u>1,353,595</u>
<u>-</u>	<u>1,260</u>	<u>1,260</u>
<u>-</u>	<u>1,260</u>	<u>1,260</u>
152,906	1,507,761	1,354,855
<u>2,478,073</u>	<u>2,478,081</u>	<u>8</u>
<u>\$ 2,630,979</u>	<u>\$ 3,985,842</u>	<u>\$ 1,354,863</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2012

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, 2012

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

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

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Road and Bridge Maintenance Fund</u>
Budget (cash basis)	\$ (2,536,136)	\$ 1,507,761
Increase (decrease):		
Net adjustments for revenue accruals	(72,409)	(11,871)
Net adjustments for expenditure accruals	<u>(25,289)</u>	<u>(45,290)</u>
GAAP Basis	<u>\$ (2,633,834)</u>	<u>\$ 1,450,600</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<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	\$ 220,795
National Resource Conservation Service Emergency Watershed Protection Program (Direct Program)	10.923	DSR-280350524	<u>105,022</u>
Total U.S. Department of Agriculture			<u>325,817</u>
<i>U.S. Department of Housing and Urban Development:</i>			
Passed-through the Mississippi Development Authority HOME Investment Partnerships Program	14.239	1218-M06-SG-280-134	<u>300,000</u>
<i>U.S. Department of the Interior:</i>			
Payments in Lieu of Taxes (Direct Program)	15.226	N/A	<u>17,202</u>
<i>U.S. Department of Justice:</i>			
Passed-through the City of Hattiesburg Edward Byrne Memorial Justice Assistance Grant Program	16.738	2010-DJ-BX-1348	<u>34,899</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>36,400</u>

SCHEDULE 3
PAGE TWO

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012

<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 Energy:</i>			
ARRA - Renewable Energy Research and Development (Direct Program)	81.087	N/A	<u>\$ 181,086</u>
<i>U.S. Department of Health and Human Services:</i>			
Substance Abuse and Mental Health Services Administration Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Direct Program)	93.243	N/A	<u>361,663</u>
<i>U.S. Department of Homeland Security:</i>			
Passed-through the Mississippi Emergency Management Agency Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	<u>200,703</u>
Hazard Mitigation Grant	97.039	BOS 1604-2-14	93,595
Hazard Mitigation Grant	97.039	1604-0320	17,770
Hazard Mitigation Grant	97.039	DR-1604-MS-0010-42	<u>7,102</u>
			<u>118,467</u>
Total U.S. Department of Homeland Security			<u>319,170</u>
<i>Total Expenditures of Federal Awards</i>			<u><u>\$ 1,576,237</u></u>

FORREST COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2012**

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 \$126,957 to subrecipients during the year ended September 30, 2012.

OTHER INFORMATION

SCHEDULE 4

SCHEDULE OF SURETY BONDS FOR COUNTY OFFICIALS - UNAUDITED
Year Ended September 30, 2012

<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 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, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 20, 2013. 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Members of the Board of Supervisors
Forrest County, Mississippi

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, and material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

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 and Responses as 2012-1 to be a material weakness.

Compliance and Other Matters

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

Forrest County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs and Responses. We did not audit Forrest County's response and, accordingly, we express no opinion on it.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 20, 2013

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

Members of the Board of Supervisors
Forrest County, Mississippi

Compliance

We have audited the compliance of Forrest County, Mississippi 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, 2012. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Forrest County, Mississippi's management. Our responsibility is to express an opinion on Forrest County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and 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. Our audit does not provide a legal determination on Forrest County, Mississippi's compliance with those requirements.

Members of the Board of Supervisors
Forrest County, Mississippi

As described in items 2012-2 and 2012-3 in the accompanying Schedule of Findings and Questioned Costs, Forrest County, Mississippi did not comply with compliance requirements regarding performance reporting and cash management that are applicable to its Substance Abuse and Mental Health Services - Projects of Regional and National Significance Program. Compliance with such requirements is necessary, in our opinion, for Forrest County, Mississippi to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, Forrest County, Mississippi, complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

The management of Forrest County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Forrest County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-2 and 2012-3 to be material weaknesses.

Forrest County, Mississippi's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Forrest County, Mississippi's responses and, accordingly, we express no opinion on them.

Members of the Board of Supervisors
Forrest County, Mississippi

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 20, 2013

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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, 2012. The Board of Supervisors of Forrest County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

In our opinion, Forrest County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2012.

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
May 20, 2013

SCHEDULE 5

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2012**

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

SCHEDULE 6

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2012**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
11/10/11	12 Printers	\$ 1,475	Premier Election Solutions	Printers needed for November elections.
04/02/12	Trimmer Weed Eater	296	Underwood Small Engine	Purchase needed immediately for maintenance.
04/05/12	15 Voter Card Encoders	1,230	Election Systems & Software	Needed for election held in March.
05/10/12	Husquvarna Push Mower	330	Gary Small Engine Repair	Purchase needed immediately for maintenance.
06/25/12	Jet Printer Plotter	7,050	Tri State Consulting	Purchased for new field maps for 2013 appraisal update in July of 2012.
07/02/12	HP Z620 Computer System	3,401	Tri State Consulting	Purchased along with Jet Printer Plotter, see above.
08/23/12	Laser printer and paper drawer	1,850	Premise, Inc.	Purchase needed to use in voter registration.
09/20/12	Fax Machine	289	Lewis Printing	Fax machine needed in Drug Court immediately to replace broken machine.
09/20/12	Turbo Repeater & License Modification, Jail Radios	5,373	Comsouth	Radios needed for Sherriff's Department prior to inmates moving into the new jail.

SCHEDULE 7

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2012**

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

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RICHARD G. TOPP, CPA
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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, 2012, 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 20, 2013, on the financial statements of Forrest County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Members of the Board of Supervisors
Forrest County, Mississippi

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 20, 2013

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

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS AND RESPONSES YEAR ENDED SEPTEMBER 30, 2012

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|----|--|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Unqualified |
| | Each major fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | A. Material weaknesses identified? | Yes |
| | B. Significant deficiencies identified? | None reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | A. Material weaknesses identified? | Yes |
| | B. Significant deficiency identified? | None reported |
| 5. | Type of auditor's report issued on compliance for major federal programs:
Unqualified for all major programs except for the Substance Abuse and
Mental Health Services - Projects for Regional National
Significance which was qualified. | |
| 6. | Any audit findings disclosed that are required to be reported in
accordance with Section_510(a) of Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.239	Home Investment Partnerships Program
81.087	ARRA - Renewable Energy Research and Development
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, 2012

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

Federal Awards Continued:

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

SECTION 2: FINANCIAL STATEMENT FINDINGS

Material Weakness

2012-1 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, 2012

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Material Weakness – Material Noncompliance

2012-2 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
Grant Numbers – 1H79TI021547-01

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, 2012, it was noted that the County's Final Performance Report for the Adult Project of the Substance Abuse and Mental Health Services Project did not include the performance data of one of the two primary vendors used during the fiscal year. Additionally, documented review procedures of the performance reporting process were not in place.

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.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2012

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

Recommendation:

The County should implement documented review procedures that would allow for accurate and complete reporting of grant activities, including documentation of person responsible for filing required reports and person responsible for reviewing the reports for accuracy.

Auditee's Response:

The County's Corrective Action Plan is presented on page 71.

Material Weakness – Material Noncompliance

2012-3 Amounts were drawn down in excess of actual immediate cash requirements as prescribed by the Department of Health and Human Services, Substance Abuse and Mental Health Services Administration (SAMHSA) Grantee Financial Management Requirements.

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
Grant Numbers – 1H79TI021547-01

Compliance Requirement:

Per the Department of Health and Human Services, SAMHSA Grantee Financial Management Requirements, federal funds received in advance should be fully disbursed within the next 72 hours.

During fiscal year ended September 30, 2012, a draw down was received in advance of expenditures, but was not disbursed within the allotted time frame. The County did not have a documented understanding of the cash management policies and procedures required per the grant agreement. Specifically, there were no written procedures in place to minimize the time elapsing between the transfer of funds and disbursement.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2012

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

The requirements for cash management are contained in the A-102 Common Rule (§____.21), OMB Circular A-110 (2 CFR section 215.22), 45 CFR 74.22, 45 CFR 92.21, Treasury regulations at 31 CFR part 205, program legislation, Federal awarding agency regulations, and the terms and conditions of the award.

Failure to minimize the time elapsing between the transfer of funds and disbursement by the recipient could result in amounts being drawn in excess of amounts actually needed.

Questioned Cost:

\$74,592.10 was received in advance of expenditures. These amounts were not expended within 72 hours of receiving the funds.

Recommendation:

The County should implement documented procedures in place to minimize the time elapsing between the transfer of funds and disbursement in accordance with applicable grant management policies, including a clear assignment of cash management job responsibilities.

Auditee's Response:

The County's Corrective Action Plan is presented on page 72.

Forrest County, Mississippi
AUDITEE'S CORRECTIVE ACTION PLAN
Year Ended September 30, 2012

BOARD OF SUPERVISORS

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DISTRICT 1, PRESIDENT

CHARLES MARSHALL
DISTRICT 2

BURKETT ROSS
DISTRICT 3

RODERICK WOULLARD
DISTRICT 4, VICE PRESIDENT

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DAVID B. MILLER
ATTORNEY

BETTY CARLISLE
COUNTY ADMINISTRATOR

Finding 2012-2

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 2010-2012
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 review procedures that would allow for accurate and complete reporting of grant activities, including documentation of person responsible for filing required reports and person responsible for reviewing the reports for accuracy. Responsible personnel will have regular discussions regarding reporting compliance.

Name of Responsible Person: Betty Carlisle, County Administrator

Name of Department Contact: Lucy Davenport, Adult Drug Court Coordinator

Expected date of Completion: June 1, 2013

Finding 2012-3

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 2010-2012

Compliance Requirement: Cash Management

Questioned Costs: \$74,592.10

Department's Response:

The County Administrator concurs with the finding.

Corrective Action Plan:

Response from the Department of Administration:

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

Name of Responsible Person: Betty Carlisle, County Administrator

Name of Department Contact: Penny Steed, Comptroller

Expected date of Completion: May 1, 2013