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Pearl River County, Mississippi  
Primary Government Financial Statements  
and Special Reports  
For the Year Ended September 30, 2004

PEARL RIVER COUNTY

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INDEPENDENT AUDITOR'S REPORT  
ON  
THE PRIMARY GOVERNMENT FINANCIAL STATEMENTS

June 17, 2005

Members of the Board of Supervisors  
Pearl River County, Mississippi

We have audited the accompanying primary government financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pearl River County, Mississippi, as of and for the year ended September 30, 2004, 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 an opinion 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 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 opinion.

The financial statements referred to above include only the primary government of Pearl River County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the county's legal entity. The financial statements do not include financial data for the county's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the county's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Pearl River County, Mississippi, as of September 30, 2004, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund and the aggregate remaining fund information for the primary government of Pearl River County, Mississippi, as of September 30, 2004, 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 June 17, 2005, on our consideration of Pearl River County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions, of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Pearl River County, Mississippi has not presented Management's Discussion and Analysis that are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board.

The Budgetary Comparison Schedule is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Pearl River 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 has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Angela T. Herzog  
Certified Public Accountant

PEARL RIVER COUNTY  
PRIMARY GOVERNMENT FINANCIAL STATEMENTS

Pearl River County  
Statement of Net Assets  
September 30, 2004

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
<b>ASSETS</b>	
Cash	\$ 5,659,638
Property tax receivable	7,958,898
Fines receivable, net	351,721
Loans receivable	363,255
Intergovernmental receivables	241,439
Other receivables, net	11,133
Capital assets, net	<u>54,234,155</u>
Total Assets	<u>68,820,239</u>
<b>LIABILITIES</b>	
Claims payable	328,932
Intergovernmental payables	721,874
Deferred revenue	7,958,898
Long-term liabilities	
Due within one year:	
Capital related debt	942,299
Due in more than one year:	
Capital related debt	10,199,897
Non-capital debt	<u>425,358</u>
Total Liabilities	<u>20,577,258</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	43,091,959
Restricted net assets:	
Loans Receivable	363,255
Capital Projects	1,467,938
Unrestricted	<u>3,319,829</u>
Total Net Assets	<u>\$ 48,242,981</u>

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

Pearl River County  
Statement of Activities  
For the Year Ended September 30, 2004

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 5,282,161	\$ 1,524,065	\$ 12,017	\$ -	\$ (3,746,079)
Public safety	5,244,611	903,629	571,269	74,570	(3,695,143)
Public works	3,974,920	-	809,892	21,823	(3,143,205)
Health and welfare	616,453	-	59,067	465,952	(91,434)
Culture and recreation	350,915	-	-	-	(350,915)
Education	8,626	-	-	-	(8,626)
Conservation of natural resources	152,937	-	-	-	(152,937)
Economic development and assistance	466,913	-	60,878	-	(406,035)
Interest on long-term debt	86,568	-	-	-	(86,568)
Total Governmental Activities	<u>16,184,104</u>	<u>2,427,694</u>	<u>1,513,123</u>	<u>562,345</u>	<u>(11,680,942)</u>
General revenues:					
Taxes:					
Property taxes				\$ 8,897,713	
Road & bridge privilege taxes				893,316	
Grants and contributions not restricted to specific programs				1,739,142	
Unrestricted investment income				150,479	
Miscellaneous				<u>224,114</u>	
Total General Revenues, Special Item, Extraordinary Item and Transfers				<u>11,904,764</u>	
Changes in Net Assets				<u>223,822</u>	
Net Assets - Beginning (taken from trans-conv)				13,639,366	
Prior Period Adjustment				<u>34,379,793</u>	
Net Assets - Beginning restated				<u>48,019,159</u>	
Net Assets - Ending				<u>\$ 48,242,981</u>	

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

Pearl River County  
 Balance Sheet - Governmental Funds  
 September 30, 2004

Exhibit 3

	<u>Major Funds</u>		Other Governmental Funds	Total Governmental Funds
	<u>General Fund</u>	<u>Road Fund</u>		
<b>ASSETS</b>				
Cash	\$ 2,224,504	\$ 50,690	\$ 3,384,445	\$ 5,659,639
Property tax receivable	4,852,844	2,444,401	661,653	7,958,898
Fines receivable	351,721	-	-	351,721
Loans Receivable	363,255	-	-	363,255
Intergovernmental receivables	241,439	-	-	241,439
Other receivables	11,133	-	-	11,133
Due from other funds	-	65,587	58,096	123,683
Advances to Other Funds	-	46,252	-	46,252
<b>Total Assets</b>	<b>\$ 8,044,896</b>	<b>\$ 2,606,930</b>	<b>\$ 4,104,194</b>	<b>\$ 14,756,020</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Claims payable	\$ 169,008	\$ 89,177	\$ 70,747	\$ 328,932
Intergovernmental payables	721,874	-	-	721,874
Due to other funds	123,683	-	-	123,683
Advances from Other Funds	-	46,252	-	46,252
Deferred revenue	5,204,565	2,444,401	661,653	8,310,619
<b>Total Liabilities</b>	<b>6,219,130</b>	<b>2,579,830</b>	<b>732,400</b>	<b>9,531,360</b>
Fund balances:				
Reserved for:				
Loans Receivable	363,255	-	-	363,255
Debt service funds	-	-	639,823	639,823
Unreserved, reported in:				
General fund	1,462,511	-	-	1,462,511
Special revenue funds	-	27,100	2,731,971	2,759,071
<b>Total Fund Balances</b>	<b>1,825,766</b>	<b>27,100</b>	<b>3,371,794</b>	<b>5,224,660</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 8,044,896</b>	<b>\$ 2,606,930</b>	<b>\$ 4,104,194</b>	<b>\$ 14,756,020</b>

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

Pearl River County  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 September 30, 2004

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds	\$ 5,224,660
Amounts reported for governmental services in the statement of net assets are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets net of depreciation as of 10-1-03	48,708,712
Plus capital outlay expenditures made during the year	6,203,763
Less: depreciation expense	(678,320)
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
	351,721
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	
Long-term liabilities	(11,567,555)
	<hr/>
Total net assets - governmental activities	\$ <u><u>48,242,981</u></u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2004

	Major Funds			Total Govt. Funds
	General Fund	Road Fund	Other Govt. Funds	
<b>REVENUES</b>				
Property taxes	\$ 5,902,538	\$ 1,010,577	\$ 1,984,599	\$ 8,897,714
Road and bridge privilege taxes	220,270	673,046	-	893,316
Licenses, commissions and other revenue	497,221	-	1,296	498,517
Fines and forfeitures	789,921	-	20,519	810,440
Intergovernmental revenues	2,796,666	443,144	574,798	3,814,608
Charges for services	135,688	131,254	500,075	767,017
Interest income	85,316	15,083	50,080	150,479
Miscellaneous revenues	201,581	18,139	4,393	224,113
Total Revenues	<u>10,629,201</u>	<u>2,291,243</u>	<u>3,135,760</u>	<u>16,056,204</u>
<b>EXPENDITURES</b>				
Current:				
General government	4,827,422	-	381,758	5,209,180
Public safety	4,282,985	-	5,426,185	9,709,170
Public works	161,442	2,542,411	1,261,039	3,964,892
Health and welfare	404,484	-	211,969	616,453
Culture and recreation	337,907	-	22,078	359,985
Education	-	-	8,626	8,626
Conservation of natural resources	139,550	-	13,388	152,938
Economic development and assistance	1,478,304	-	-	1,478,304
Debt service:				
Principal	202,572	-	297,352	499,924
Interest	28,603	-	57,965	86,568
Total Expenditures	<u>11,863,269</u>	<u>2,542,411</u>	<u>7,680,360</u>	<u>22,086,040</u>
Excess of Revenues over (under) Expenditures	<u>(1,234,068)</u>	<u>(251,168)</u>	<u>(4,544,600)</u>	<u>(6,029,836)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	444,549	-	250,000	694,549
Transfers in	179,867	170,639	250,000	600,506
Transfers out	(420,639)	-	(179,867)	(600,506)
Total Other Financing Sources and Uses	<u>203,777</u>	<u>170,639</u>	<u>320,133</u>	<u>694,549</u>
Net Changes in Fund Balances	<u>(1,030,291)</u>	<u>(80,529)</u>	<u>(4,224,467)</u>	<u>(5,335,287)</u>
Fund Balance - Beginning	<u>2,856,057</u>	<u>107,629</u>	<u>7,596,261</u>	<u>10,559,947</u>
Fund Balances - Ending	\$ <u>1,825,766</u>	\$ <u>27,100</u>	\$ <u>3,371,794</u>	\$ <u>5,224,660</u>

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

Pearl River County  
 Reconciliation of the Statement of Revenues, Expenditures and Changes  
 in Fund Balances of Governmental Funds to the Statement of Activities  
 For the Year Ended September 30, 2004

Exhibit 4-1

Net changes in fund balances - total governmental funds \$ (5,335,287)

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 of capital outlays of  
 \$6,203,763 exceeded depreciation expense of \$678,320 in the current period. 5,525,443

Fine revenue recognized on the modified accrual basis in the funds during the  
 current year is reduced because prior year recognition would have been  
 required  
 on the statement of activities using the full-accrual basis of accounting. 351,721

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 and loss from the sale of capital  
 assets decrease financial resources. Thus, the change in net assets differs  
 from the changes in fund balances by the amount that debt proceeds  
 \$694,549 exceeded debt repayments \$499,924. (194,625)

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:

Compensated absences payable (123,430)

Change in net assets of governmental activities \$ 223,822

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

Pearl River County  
Statement of Fiduciary Assets and Liabilities  
September 30, 2004

Exhibit 5

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ <u>884,059</u>
Total Assets	\$ <u><u>884,059</u></u>
<b>LIABILITIES</b>	
Intergovernmental payables	<u>884,059</u>
Total Liabilities	\$ <u><u>884,059</u></u>

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

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

I. Significant Accounting Policies.

A. Financial Reporting Entity.

Pearl River 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 Pearl River 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 the county's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Pearl River County Hospital
- Carriere Fire District
- Crossroads Fire District
- Henleyfield Fire District
- McNeil Fire District
- Southeast Fire District
- Amackertown Fire District
- Northeast Fire District
- Pine Grove Fire District
- Nicholson Fire District
- Derby/Whitesand Fire District
- North Central Fire District
- Steephollow Fire District

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

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

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 components units are reported as if they are part of the primary government. The following component units' balances and transactions are blended with the balances and transactions of the primary government.

- Mississippi Corrections PRC, LLC

Mississippi Corrections PRC, LLC was formed for the purpose of the construction of a new county jail facility.

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a statement of net

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

assets and a statement of activities and fund financial statements, 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 component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities which are generally financed through taxes, intergovernmental revenues and other nonexchange revenues are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

The government-wide, proprietary fund and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenue 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.

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 sixty days after year end to liquidate liabilities 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.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

The county reports the following major governmental funds:

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

Road Fund - This fund is used to account for all activities of the road department.

Jail Fund - This fund is used to account for the proceeds of the jail debt and corresponding costs to construct the jail facility.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources (other than for major capital projects) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

Debt Service Funds - These funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bond issues and federal grants.

FIDUCIARY FUND TYPES

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

D. Account Classification.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 1994 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 1993 by the Office of the State Auditor.

E. Deposits and Investments.

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

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

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.

F. Receivables.

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

G. Interfund Receivables/Payables.

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. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in governmental fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statement. 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. 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 of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

	Capitalization Thresholds	Estimated Useful Life
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 will correspond with the amounts for the asset classification, as listed above.

General infrastructure assets acquired after September 30, 1980 are not reported on government-wide financial statements. General infrastructure assets include all roads, bridges, and other infrastructure assets acquired subsequent to October 1, 2002.

I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of current 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 applicable governmental activities.

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.

J. Equity Classifications.

Government-wide Financial Statements:

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

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, constructions or improvements of those assets.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

K. Property Tax Revenues.

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

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

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

L. 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.

M. 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 absences liability payable only if the payable has matured, for example an employee resigns or retires.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

Therefore, the county's full liability in the amount of \$425,358 for accumulated unpaid personal leave up to a maximum of 20 days per employee is reported as a liability in the Statement of Net Assets.

II. Prior Period Adjustment

A summary of significant fund equity adjustments is as follows:

Exhibit 2- Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Fixed Assets and Depreciation were recorded.	\$ 34,504,424
Change in Fines Receivable	<u>(124,631)</u>
	<u>\$ 34,379,793</u>

III. Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2004, was \$6,543,697, and the bank balance was \$7,244,732. The collateral for public entities' deposits in financial institutions are 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 Depository Insurance Corporation.

IV. Interfund Receivables and Payables.

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds:

<u>Receivable Fund:</u>	<u>Payable Fund</u>	<u>Amount</u>
<u>Major Funds:</u>		
Other Non-major Governmental Funds	General Fund	\$ 58,096
Road Fund	General Fund	65,587
	Total	<u>\$ 123,683</u>

The interfund receivables and payables were a result of the tax collector receivable accrual.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

B. Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Non-Major Governmental Fund	Non-Major Governmental Fund	46,252
Total		<u>\$ 46,252</u>

The advance was made as a temporary transfer from the County Reappraisal Fund to the Hospital Support Fund. However, it had not been repaid as of September 30, 2004. Therefore, it was reclassified as an advance.

C. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
<u>Major Funds:</u>		
General Funds	Non-major Governmental Funds	\$ 179,867
Road Funds	General Fund	170,639
Non-Major Governmental Funds	General Funds	250,000
Total		<u>\$ 600,506</u>

The purpose of the transfers was \$170,639 for road repair and maintenance expenditures, \$179,867 for debt expenditures, and \$250,000 for the CDBG Health Department Project.

V. Intergovernmental Receivables

Intergovernmental receivables at September 30, 2004 consisted of the following:

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative Tag Credit	<u>\$ 241,439</u>

VI. Loans Receivable.

Loans receivable at September 30, 2004, consists of the following:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Pearl River Community College Loan	02-97	3.7	12-12	<u>\$363,255</u>

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

VII. Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2004:

Governmental activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments	Balance Sept. 30, 2004
<u>Non-depreciable capital assets:</u>					
Land	\$ 497,065	\$ 117,325	\$ -	\$ 6,020	\$
Construction in progress	<u>3,290,221</u>	<u>5,835,794</u>			<u>9,126,015</u>
Total non-depreciable capital assets	<u>3,787,286</u>	<u>5,953,119</u>	<u>-</u>	<u>6,020</u>	<u>9,746,425</u>
<u>Depreciable capital assets:</u>					
Infrastructure				120,120,086	120,120,086
Buildings	4,340,088	-	-	11,197	4,351,285
Improvements other than buildings					
Mobile equipment	2,522,189	156,087	(81,358)	110,482	2,707,400
Furniture and equipment	1,195,600	185,292	(35,926)	9,943	1,354,909
Leased property under capital leases	<u>2,317,357</u>	<u>68,934</u>	<u>(617)</u>	<u>(129,726)</u>	<u>2,255,948</u>
Total depreciable capital assets	<u>10,375,234</u>	<u>410,313</u>	<u>(117,901)</u>	<u>120,121,982</u>	<u>130,789,628</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure		159,838			80,716,577
Buildings		52,129			2,147,115
Improvements other than buildings					
Mobile equipment					2,092,994
Furniture and equipment					
Leased property under capital leases		<u>316,884</u>		<u>671,867</u>	<u>988,751</u>
Total accumulated depreciation	<u>-</u>	<u>678,320</u>	<u>-</u>	<u>85,623,578</u>	<u>86,301,898</u>
Total depreciable capital assets, net	<u>10,375,234</u>	<u>(268,007)</u>	<u>(117,901)</u>	<u>34,498,404</u>	<u>44,487,730</u>
Governmental activities capital assets, net	<u>\$ 14,162,520</u>	<u>\$ 5,685,112</u>	<u>\$ (117,901)</u>	<u>\$ 34,504,424</u>	<u>\$ 54,234,155</u>

The adjustments to capital assets are the results of recording assets and depreciation so that the county is in compliance with Governmental Accounting Standards Board Statement Number 34.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

Depreciation expense was changed to the following functions:

Governmental Activities:

	<u>Amount</u>
General government	\$ 96,357
Public safety	159,028
Public works	421,693
Culture and recreation	453
Economic development	789
 Total governmental activities depreciation expense	 \$678,320

Commitments with respect to unfinished capital projects at September 30, 2004 consist of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
County Jail and Office Facilities	\$610,729	June 2005

VIII. Claims and Judgements.

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 \$500,000 for law enforcement, fire fighters, and road construction personnel and \$400,000 for all other employees 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, 2004, to January 1, 2005. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

IX. Capital Leases.

As Lessee:

The county is obligated for the following assets acquired through capital leases as of September 30, 2004

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 1,898,724
Other furniture and equipment	357,224
Total	2,255,948
Less: Accumulated depreciation	(988,751)
Leased Property Under Capital Leases	\$ 1,267,197

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

The future minimum lease payments together with the present value of the net minimum lease payables as of September 30, 2004, are as follows:

	Governmental Activities	
Year Ending September 30:	Principal	Interest
2005	\$ 812,790	41,830
2006	227,646	10,303
2007	160,568	3,771
2008	44,979	423
 Total	 \$ 1,245,983	 \$ 56,327

X. Long-Term Debt.

Debt outstanding as of September 30, 2004, consisted of the following:

Governmental Activities		Final Interest	
Description and Purpose	Amount Outstanding	Rate	Maturity Date
Governmental Activities			
A. Limited Obligation Bonds:			
Detention Facility, Series 2003,	\$ 8,749,351	3.86%	01-2023
Total Limited Obligation Bonds	\$ 8,749,351		
B. Capital Leases			
1 Caterpillar asphalt roller	\$ 4,017	4.39%	01-2005
3 Caterpillar motor graders	340,735	5.66%	09-2005
International asphalt distributor truck	15,713	4.51%	05-2005
2001 Ford dump truck	6,066	4.63%	05-2005
3 Mack dump trucks w/trailers	34,698	4.47%	08-2005
4 New Holland backhoes	52,262	4.16%	04-2007
Kobelco hydraulic excavator	10,663	3.93%	12-2005
2 Case 621D wheel loaders	119,063	3.97%	03-2005
2 2003 Alamo Mowers	82,580	3.19%	06-2008
2 New Holland Tractors	65,034	2.90%	06-2007
4 Mack Dump Trucks	211,505	3.19%	12-2007
Communication Equipment	54,129	5.77%	04-2006
5 Chevrolet Impalas & 2 Jeep Cherokees	10,910	5.49%	12-2004
3 Dodge trucks	12,099	4.49%	08-2005
3 2002 Ford Crown Victorias	20,336	4.44%	01-2006
1997 Dodge pickup truck	4,334	4.18%	04-2005
2 Crown Victorias	17,627	2.91%	12-2005
Voice/Data Phone System	118,298	3.24%	03-2007
2003 Ford F150 Supercab Truck	3,490	3.45%	02-2005
2 Chevy Extended Cab Trucks	27,340	2.88%	05-2008
2 Crown Victorias	35,084	2.88%	04-2008
Total Capital Leases	\$ 1,245,983		

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
C. Other Loans:			
FNB Picayune bank note	\$ 44,261	5.2%	09-2006
FNB Picayune bank note	15,596	5.6%	04-2007
State of Mississippi cap loan	363,255	3.7%	12-2012
Hancock Bank- fire department loan	22,828	4.8%	12-2007
FNB Picayune bank note	12,998	4.8%	05-2008
Hancock Bank- fire department loan	19,142	5.25%	01-2010
FNB Picayune bank- fire department loan	30,683	4.48%	12-2011
FNB Picayune bank- fire department loan	12,824	6.12%	10-2010
Hancock bank-health department	250,000	3.19%	01-2009
FNB Picayune bank-fire department loan	37,355	5.15%	01-2014
FNB Picayune bank-fire department loan	19,020	5.15%	09-2013
Urban Renewal note	318,900	4.375%	02-2023
Total Other Loans	<u>\$ 1,146,862</u>		

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

Governmental Activities

<u>Year Ending September 30</u>	<u>Other Loans</u>		<u>Limited Obligation Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 129,509	\$ 32,857	\$ -	\$ 351,733
2006	140,100	40,401	375,000	347,983
2007	145,448	35,529	385,000	339,901
2008	129,452	28,837	395,000	330,633
2009	124,308	23,876	400,000	319,695
2010-2014	273,903	68,809	2,230,000	1,365,737
2015-2019	85,522	35,798	2,705,000	885,354
2020-2024	118,620	14,982	2,259,351	241,012
Total	<u>\$ 1,146,862</u>	<u>\$ 281,089</u>	<u>\$ 8,749,351</u>	<u>\$ 4,182,048</u>

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 county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2004, the county had no outstanding general obligation bonded debt.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

The following is a summary of long-term changes occurred in liabilities and obligations for year ended September 30, 2004:

<u>Styling</u>	<u>Balance</u> <u>Oct. 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Sept. 30, 2004</u>	<u>Amount</u> <u>Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 301,928	\$ 123,430	\$ -	\$ 425,358	\$ -
Limited obligation bonds	8,749,351	-	-	8,749,351	-
Capital leases	1,606,551	69,274	429,842	1,245,983	812,790
Other Loans	<u>591,669</u>	<u>625,275</u>	<u>70,082</u>	<u>1,146,862</u>	<u>129,509</u>
<b>Total</b>	<b><u>\$ 11,249,499</u></b>	<b><u>\$ 817,979</u></b>	<b><u>\$ 499,924</u></b>	<b><u>\$ 11,567,554</u></b>	<b><u>\$ 942,299</u></b>

XI. Commitments and 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.

General Obligation Debt Contingencies- The county borrowed money to provide funds for certain local fire districts. This debt is being retired from resources of these entities and is, therefore, a liability of these entities. However, because this debt is backed by the full faith, credit and taxing power of the county, the county remains contingently liable for its retirement. The principal amount of such debt outstanding at year end is as follows:

<u>Description</u>	<u>Balance at</u> <u>Sept. 30, 2004</u>
Derby/Whitesand Fire District	\$ 70,317
McNeil Fire District	19,960
Northeast Fire District	64,450
North Central Fire District	8,330
Pine Grove Fire District	50,000
Nicholson Fire District	111,508
Southeast Fire District	<u>30,422</u>
Total	<u>\$ 354,987</u>

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

Hospital Revenue Bond Contingencies- The county issues revenue bonds to provide funds for constructing and improving capital facilities of the Pearl River County 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. To secure the repayment of the bonds, the Board of Supervisors may authorize payment of the avails of an ad valorem tax levy of all taxable property in districts one, two and three, not to exceed five mills in any one year. The principal amount of hospital revenue bonds outstanding at September 30, 2004 is \$4,500,000.

Construction In Progress- The county has borrowed \$8,749,351 for the construction of a county jail and office facilities. As of September 30, 2004, \$8,138,622 of the construction has been completed.

XII. Joint Ventures.

The county participates in the following joint ventures:

Pearl River County is a participant with the Cities of Picayune and Poplarville in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Pearl River County Library System. The library system was created to provide free library service to all the people in the county. The library system is governed by a board of trustees consisting of ten members. Pearl River County appoints five members, Picayune appoints four and Poplarville appoints one. The library system is funded by each governmental entity on a previously agreed to proportional basis. The county's appropriation to the joint venture was \$266,000 in fiscal year 2004. Complete financial statements for the Pearl River County Library System can be obtained from the Margaret Reed Crosby Memorial Library located at 900 Goodyear Blvd., Picayune, MS 39466.

Pearl River County is a participant with the Cities of Poplarville and Picayune, the Chamber of Commerce and Pearl River Community College in a joint venture, authorized by Section 19-5-99, Miss. Code Ann. (1972), to operated the Pearl River County Development Association. The association was created to foster, encourage and facilitate economic development in the county. The association is composed of seven members appointed as follows: Pearl River County, two; Poplarville, one; Picayune, one; Chamber of Commerce, two; and Pearl River Community College, one. The county's appropriation to the joint venture was \$170,000 in fiscal year 2004. Complete financial statements can be obtained from P.O. Box 278, Picayune, MS 39466.

Pearl River County is a participant with the City of Poplarville n a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Poplarville/Pearl River County Airport. The joint venture was created to provide airport service to the area. The airport is governed by a five-member board of commissioners appointed as follows: Pearl River County, two; Poplarville, two; and jointly, one. The county's appropriation to the joint venture was \$5,000 in fiscal year 2004. Complete financial statements can be obtained from Highway 53 South, Poplarville, MS 39470.

XIII. Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

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 15-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.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the counties of Hancock, Harrison, Pearl River, and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$86,000 for support of the agency in fiscal year 2004.

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 Pearl River County Board of Supervisors appoints one of the 24 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.

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 Pearl River County Board of Supervisors appoints one of the nine members of the board of directors. The county appropriated \$70,000 for support of the district in fiscal year 2004.

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Pearl River County Board of Supervisors appoints two of the 16 members of the college board of trustees. The county appropriated \$1,060,939 for maintenance and support of the college in fiscal year 2004.

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 Pearl River County Board of Supervisors appoints one of the 27 members of the board of directors. The county appropriated \$45,000 for support of the district in fiscal year 2004.

XIV. Defined Benefit Pension Plan.

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

Funding Policy – PERS members are required to contribute 7.25% of their annual covered salary and the county is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county’s contributions (employer share only) to PERS for the years ending September 30, 2004, 2003, and 2002, were \$524,339, \$498,497, \$446,334, respectively, equal to the required contributions for each year.

PEARL RIVER COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2004

XV. Other Information

As a result of revenue shortfalls, the State Tax Commission has to withhold 5.52% of the March 2004 homestead exemption reimbursement from local governments. The amount withheld from Pearl River County during the 2003-2004 fiscal year was \$34,150.

XVI. Subsequent Events.

Subsequent to September 30, 2004, Pearl River County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
11/29/04	3.34%	\$134,195	Lease Purchase	Tax Revenues
11/29/04	3.29%	\$ 38,516	Lease Purchase	Tax Revenues
11/29/04	3.29%	\$102,955	Lease Purchase	Tax Revenues
11/29/04	3.28%	\$18,000	Lease Purchase	Tax Revenues

SUPPLEMENTAL INFORMATION

Pearl River County  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 5,879,700	\$ 6,090,496	\$ 6,090,496	\$ -
Road and bridge privilege taxes		221,110	221,110	-
Licenses, commissions and other revenue	447,000	522,067	522,067	-
Fines and forfeitures	741,000	767,139	837,761	70,622
Intergovernmental revenues	2,224,902	3,388,171	3,039,154	(349,017)
Charges for services	140,000	135,688	135,688	-
Interest income	120,200	63,353	88,143	24,790
Miscellaneous revenues	323,000	369,704	480,894	111,190
Total Revenues	<u>9,875,802</u>	<u>11,557,728</u>	<u>11,415,313</u>	<u>(142,415)</u>
<b>EXPENDITURES</b>				
Current:				
General government	3,872,873	5,023,477	5,107,817	(84,340)
Public safety	3,638,602	4,630,662	4,167,836	462,826
Public works	185,500	162,954	162,954	-
Health and welfare	369,200	359,132	359,132	-
Culture and recreation	351,250	347,387	347,387	-
Education	530,581	425,855	225,274	200,581
Conservation of natural resources	183,226	152,754	136,350	16,404
Economic development and assistance	1,559,100	1,737,754	1,737,382	372
Debt service:				
Principal			172,358	(172,358)
Interest			415,162	(415,162)
Total Expenditures	<u>10,690,332</u>	<u>12,839,975</u>	<u>12,831,652</u>	<u>8,323</u>
Excess of Revenues over (under) Expenditures	<u>(814,530)</u>	<u>(1,282,247)</u>	<u>(1,416,339)</u>	<u>(134,092)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term debt issued			275,900	275,900
Refunding bonds issued				-
Proceeds from sale of capital assets				-
Premiums on bonds issued				-
Compensation for loss of capital assets				-
Transfers in			29,164	29,164
Transfers out			(150,000)	(150,000)
Payment to bond refunding escrow agent				-
Discount on bonds issued				-
Other financing sources	601,000	805,064		(805,064)
Other financing uses				-
Total Other Financing Sources and Uses	<u>601,000</u>	<u>805,064</u>	<u>155,064</u>	<u>(650,000)</u>
Net Change in Fund Balance	(213,530)	(477,183)	(1,261,275)	(784,092)
Fund Balances - Beginning	2,135,758	2,772,190	767,832	(2,004,358)
Fund Balances - Ending	<u>\$ 1,922,228</u>	<u>\$ 2,295,007</u>	<u>\$ (493,443)</u>	<u>\$ (2,788,450)</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Road Fund  
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 789,000	\$ 860,474	\$ 860,474	\$ -
Road and bridge privilege taxes	569,000	672,279	672,279	-
Intergovernmental revenues	562,000	443,144	443,144	-
Charges for services	40,000	131,254	131,254	-
Interest income	20,000	1,598	1,598	-
Miscellaneous revenues	<u>                    </u>	<u>31,054</u>	<u>31,054</u>	<u>-</u>
Total Revenues	<u>1,980,000</u>	<u>2,139,803</u>	<u>2,139,803</u>	<u>-</u>
<b>EXPENDITURES</b>				
Current:				
General government	\$ -	\$ -	\$ -	\$ -
Public safety	-	-	-	-
Public works	-	-	-	-
Health and welfare	2,300,000	2,581,668	2,581,668	-
Culture and recreation	-	-	-	-
Education	-	-	-	-
Conservation of natural resources	-	-	-	-
Economic development and assistance	-	-	-	-
Debt service:	-	-	-	-
Principal	-	-	-	-
Interest	-	-	-	-
Bond issue costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Expenditures	<u>2,300,000</u>	<u>2,581,668</u>	<u>2,581,668</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>(320,000)</u>	<u>(441,865)</u>	<u>(441,865)</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Other financing sources	<u>\$ 250,000</u>	<u>\$ 320,639</u>	<u>\$ 320,639</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>250,000</u>	<u>320,639</u>	<u>320,639</u>	<u>-</u>
Net Change in Fund Balance	\$ (70,000)	\$ (121,226)	\$ (121,226)	-
Fund Balances - Beginning	51,740	111,952	111,952	-
Fund Balances - Ending	<u>\$ (18,260)</u>	<u>\$ (9,274)</u>	<u>\$ (9,274)</u>	<u>\$ -</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

PEARL RIVER COUNTY  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2004

Notes to the Required Supplementary Information

A. Budgetary Information.

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

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

B. Basis of Presentation.

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (non GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund.

For the year ended September 30, 2004, the county implemented GASB Statement No. 41 - *Budgetary Comparison Schedules - Perspective Differences, which amends Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The statement clarifies the budgetary presentation requirements. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

C. Budget/GAAP Reconciliation.

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

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

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

PEARL RIVER COUNTY  
Notes to the Required Supplementary Information  
For the Year Ended September 30, 2004

	Governmental Fund Types	
	General Fund	Road Fund
	<u>          </u>	<u>          </u>
Budget (Cash Basis)	\$ (1,261,275)	\$ (121,226)
Increase (Decrease)		
Net adjustments for revenue accruals	206,282	79,955
Net adjustments for expenditure accruals	24,702	(39,258)
GAAP Basis	<u>\$ (1,030,291)</u>	<u>\$ (80,529)</u>

PEARL RIVER COUNTY  
Schedule of Expenditures of Federal Awards  
For the year ended September 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>MAJOR FEDERAL AWARDS</b>			
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program Total Department of Housing and Urban Development	14.228	1118-01-055-PF-01	\$ 317,970
Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Public assistance grants	97.036	FEMA-1051-DR-MS	<u>282,647</u>
Total Expenditures of Major Federal Awards			<u>600,617</u>
<b>OTHER FEDERAL AWARDS</b>			
Office of Community Oriented Policing Services Public Safety Partnership and Community Policing Grants	16.710	2002CKWX0404 2002SHWX0393	110,278
U.S. Department of Justice- Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety Crime Victim Assistance	16.575	4CA1551 2001-VA-GX-0028	54,180
Violence against women formula grants	16.588	2SL1551	25,850
Office of Justice Programs Local law enforcement block grants program	16.592	3LB1551	<u>2,300</u>
Total Department of Justice			<u>192,608</u>
U.S. Department of Transportation- Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	N/A	<u>16,250</u>
Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency State Domestic Preparedness Equipment	97.004	3SSG-1084	<u>161,635</u>

PEARL RIVER COUNTY  
 Schedule of Expenditures of Federal Awards  
 For the year ended September 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
Total Expenditures of Other Federal Awards			<u>370,493</u>
Total Expenditures of Federal Awards			<u>\$ 971,110</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A- Significant Accounting Policies

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

PEARL RIVER COUNTY  
SPECIAL REPORTS

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

June 17, 2005

Members of the Board of Supervisors  
Pearl River County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Pearl River County, Mississippi, as of and for the year ended September 30, 2004, and have issued our report thereon dated June 17, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether Pearl River County, Mississippi's, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pearl River County, Mississippi's, internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weakness. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be a material weakness.

This report is intended solely for the information and use of management 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.

Angela T. Herzog  
Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE  
IN ACCORDANCE WITH OMB CIRCULAR A-133

June 17, 2005

Members of the Board of Supervisors  
Pearl River County, Mississippi

Compliance

We have audited the compliance of Pearl River 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 are applicable to each of its major federal programs for the year ended September 30, 2004. Pearl River 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 Pearl River 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 standard 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 Pearl River 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 Pearl River County, Mississippi's compliance with those requirements.

In our opinion, Pearl River County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Pearl River County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Pearl River County, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management 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.

Angela T. Herzog  
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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, MISS. CODE ANN. (1972))

June 17, 2005

Members of the Board of Supervisors  
Pearl River County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Pearl River County, Mississippi, as of and for the year ended September 30, 2004. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures, as we considered necessary in the circumstances.

The Board of Supervisors of Pearl River County, Mississippi, is responsible for 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). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Pearl River County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any 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, Pearl River County complied, in all material respects, with state laws governing central purchasing, inventory, and bid requirements.

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 study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

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

Angela T. Herzog  
Certified Public Accountant

PEARL RIVER COUNTY  
Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2004

Schedule 1

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other Than the Lowest Bid</u>
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Our test results did not identify any purchases not made from the lowest bidder.

PEARL RIVER COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2004

Schedule 2

Our test did not identify any emergency purchases.

PEARL RIVER COUNTY  
Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2004

Schedule 3

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

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

June 17, 2005

Members of the Board of Supervisors  
Pearl River County, Mississippi

In planning and performing our audit of the financial statements of Pearl River County, Mississippi for the year ended September 30, 2004, we considered Pearl River County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Pearl River 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 date June 17, 2005, on the financial statement of Pearl River 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 on transactions for this or other fiscal years to ensure compliance with legal requirements.

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

Angela T. Herzog  
Certified Public Accountant

Section 1: Summary of Auditor's Results  
Financial Statements

1. An unqualified opinion was issued on the primary government financial statements.
2. The audit did not disclose any noncompliance which is material to the primary government financial statements.
3. The audit did not identify any material weakness or reportable condition of internal control over financial reporting.

Federal Awards

4. An unqualified report was issued on compliance for Major Federal Programs
5. The audit did not identify any material weakness or reportable condition of internal control over major programs.
6. No audit finding was identified and reported as required by Section \_\_\_.510 (a) of Circular A-133.
7. Federal Programs identified as major programs: Department of Homeland Security Public Assistance Grant CFDA Number 97.036, and U.S. Department of Housing and Urban Development Community Development Block Grant CFDA Number 14.228.
8. The dollar threshold used to distinguish between type A and Type B programs: \$300,000.
9. Auditee does not qualify as a low-risk auditee.
10. There was no prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_\_.315 (b) of OMB Circular A-133.

Section 2: Financial Statement Findings

There were no financial statements findings.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.