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**Pearl River County, Mississippi  
Financial Statements and Special Reports  
For the Year Ended September 30, 2008**

Pearl River County, Mississippi

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**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Supervisors  
Pearl River County, Mississippi

We have audited the accompanying 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, 2008, 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 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.

As discussed in Note 1 (I) to the financial statements, management has not maintained adequate subsidiary records documenting the county's fixed assets and has not maintained adequate records documenting depreciation. Accounting principles generally accepted in the United States of America require that the governmental activities' infrastructure be depreciated, which would decrease the assets and increase the expenses of the governmental activities. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable. Accordingly, we were unable to satisfy ourselves as to the fair presentation of these capital assets and related transactions of the governmental activities.

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 be reported with the financial data of the county's primary government unless the county also issue 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 above, the financial statements referred to above 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 Pearl River County, Mississippi, as of September 30, 2008, or the changes in financial position thereof for the year then ended.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine adequate capital assets subsidiary records as described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Pearl River County, Mississippi, as of September 30, 2008, 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 addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Pearl River County, Mississippi, as of September 30, 2008, 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 *Governmental Auditing Standards*, we have also issued our report dated January 18, 2010, on our consideration of Pearl River 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are 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 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.

*Herzog CPA Company, PLLC*  
Herzog CPA Company, PLLC  
January 18, 2010

PEARL RIVER COUNTY  
FINANCIAL STATEMENTS

**Pearl River County**  
Statement of Net Assets  
September 30, 2008

**Exhibit 1**

Primary Government

Governmental  
Activities

<b>ASSETS</b>	
Cash	\$ 10,637,167
Cash on deposit with fiscal agent	226,818
Property tax receivable	13,323,486
Fines receivable, (net of allowance for uncollectibles of \$1,331,997)	467,859
Loans Receivable	181,843
Intergovernmental receivables	2,377,901
Capital assets, net	55,574,799
<b>Total Assets</b>	<u><u>82,789,873</u></u>
 <b>LIABILITIES</b>	
Claims payable	946,313
Intergovernmental payables	544,529
Accrued interest payable	223,436
Deferred revenue	13,323,486
Other payables	233,333
Long-term liabilities	
Due within one year:	
Capital related debt	823,804
Due in more than one year:	
Capital related debt	18,547,962
Non-capital debt	425,316
<b>Total Liabilities</b>	<u><u>35,068,179</u></u>
 <b>NET ASSETS</b>	
Invested in capital assets, net of related debt	36,203,033
Restricted net assets:	
Loans Receivable	181,843
Capital Projects	256,396
Debt Service	417,417
Unrestricted	10,663,005
 <b>Total Net Assets</b>	 <u><u>\$ 47,721,694</u></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, 2008**

**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	Governmental Activities	Primary Government
Primary government:						
Governmental activities:						
General government	\$ 7,656,224	\$ 1,473,914	\$ 3,000	\$ -	\$ (6,179,310)	
Public safety	5,598,334	3,757,721	1,238,145	55,613	(546,855)	
Public works	5,879,901	-	55,160	45,296	(5,779,445)	
Health and welfare	3,722,034	-	-	21,500	(3,700,534)	
Culture and recreation	391,049	-	-	-	(391,049)	
Education	361,113	-	-	-	(361,113)	
Conservation of natural resources	265,974	-	-	-	(265,974)	
Economic development and assistance	460,908	-	-	-	(460,908)	
Interest on long-term debt	895,797	-	-	-	(895,797)	
Total Governmental Activities	<u>\$ 25,231,334</u>	<u>\$ 5,231,635</u>	<u>\$ 1,296,305</u>	<u>\$ 122,409</u>	<u>\$ (18,580,985)</u>	

**General revenues:**

Property taxes	\$ 12,959,661
Road & bridge privilege taxes	970,738
Grants and contributions not restricted to specific programs	3,917,698
Unrestricted investment income	454,664
Miscellaneous	803,197
<b>Total General Revenues</b>	<u><u>19,105,958</u></u>
Changes in Net Assets	524,973
Net Assets - Beginning	47,196,721
Net Assets - Ending	<u><u>\$ 47,721,694</u></u>

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

**Pearl River County**  
**Balance Sheet - Governmental Funds**  
**September 30, 2008**

**Exhibit 3**

	Major Funds			Total Governmental Funds
	General Fund	Countywide Road Fund	Other Governmental Funds	
<b>ASSETS</b>				
Cash	\$ 6,281,654	\$ 380,148	\$ 3,975,365	\$ 10,637,167
Cash on deposit with fiscal agent	226,818	-	-	226,818
Property tax receivable	9,235,000	1,316,000	2,772,486	13,323,486
Fines receivable, net of allowance for uncollectibles of \$1,331,997	467,859	-	-	467,859
Loans Receivable	181,843	-	-	181,843
Intergovernmental receivables	2,377,901	-	-	2,377,901
Due from other funds	133,912	75,644	55,226	264,782
Advances to other funds		97,330		97,330
<b>Total Assets</b>	<b>\$ 18,904,987</b>	<b>\$ 1,869,122</b>	<b>\$ 6,803,077</b>	<b>\$ 27,577,186</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Claims payable	\$ 556,969	\$ 199,396	\$ 189,948	\$ 946,313
Intergovernmental payables	544,529	-	-	544,529
Due to other funds	130,870	-	133,912	264,782
Advances from other funds	97,330	-	-	97,330
Deferred revenue	9,702,859	1,316,000	2,772,486	13,791,345
Other payables	233,333	-	-	233,333
<b>Total Liabilities</b>	<b>11,265,890</b>	<b>1,515,396</b>	<b>3,096,346</b>	<b>15,877,632</b>
<b>Fund balances:</b>				
<b>Reserved for:</b>				
Loans Receivable	181,843	-	-	181,843
Advances	-	97,330	-	97,330
Debt service	-	-	417,417	417,417
<b>Unreserved, undesignated reported in:</b>				
General fund	7,457,254	-	-	7,457,254
Special revenue funds	-	256,396	3,289,314	3,545,710
<b>Total Fund Balances</b>	<b>7,639,097</b>	<b>353,726</b>	<b>3,706,731</b>	<b>11,699,554</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 18,904,987</b>	<b>\$ 1,869,122</b>	<b>\$ 6,803,077</b>	<b>\$ 27,577,186</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, 2008

**Exhibit 3-1**

	<u>Amount</u>
Total fund balance - governmental funds	\$ 11,699,554
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, net of accumulated depreciation of \$88,426,358	55,574,799
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	467,859
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	(19,797,082)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(223,436)
Total net assets - governmental activities	<u>\$ 47,721,694</u>

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

**Pearl River County**

**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2008**

**Exhibit 4**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Countywide Road Fund		
<b>REVENUES</b>				
Property taxes	\$ 9,242,904	\$ 1,189,412	\$ 2,527,345	\$ 12,959,661
Road and bridge privilege taxes	276,305	694,433	-	970,738
Licenses, commissions and other revenue	613,675	-	231,900	845,575
Fines and forfeitures	1,301,239	76,547	20,211	1,397,997
Intergovernmental revenues	3,043,369	1,991,370	910,573	5,945,312
Charges for services	2,631,703	49,143	598,532	3,279,378
Interest income	244,612	89,163	120,889	454,664
Miscellaneous revenues	908,015	6,796	158,332	1,073,143
Total Revenues	<u>18,261,822</u>	<u>4,096,864</u>	<u>4,567,782</u>	<u>26,926,468</u>
<b>EXPENDITURES</b>				
Current:				
General government	7,114,700	-	850,497	7,965,197
Public safety	4,208,255	-	1,058,510	5,266,765
Public works	1,068,630	4,713,374	2,491,424	8,273,428
Health and welfare	3,715,609	-	5,700	3,721,309
Culture and recreation	374,380	-	14,516	388,896
Education	338,158	-	22,955	361,113
Conservation of natural resources	189,664	-	74,385	264,049
Economic development and assistance	450,345	-	10,563	460,908
Debt service:				
Principal	624,544	-	1,064,520	1,689,064
Interest	403,732	-	388,142	791,874
Total Expenditures	<u>18,488,017</u>	<u>4,713,374</u>	<u>5,981,212</u>	<u>29,182,603</u>
Excess of Revenues over (under) Expenditures	<u>(226,195)</u>	<u>(616,510)</u>	<u>(1,413,430)</u>	<u>(2,256,135)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	967,021	-	-	967,021
Proceeds from sale of capital assets	-	-	571,040	571,040
Transfers in	1,464,569	877,459	311,988	2,654,016
Transfers out	(2,194,130)	-	(459,886)	(2,654,016)
Total Other Financing Sources and Uses	<u>237,460</u>	<u>877,459</u>	<u>423,142</u>	<u>1,538,061</u>
Net Changes in Fund Balances	<u>11,265</u>	<u>260,949</u>	<u>(990,288)</u>	<u>(718,074)</u>
Fund Balance - Beginning	<u>7,627,832</u>	<u>92,777</u>	<u>4,697,019</u>	<u>12,417,628</u>
Fund Balances - Ending	<u>\$ 7,639,097</u>	<u>\$ 353,726</u>	<u>\$ 3,706,731</u>	<u>\$ 11,699,554</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, 2008**

**Exhibit 4-1**

Net changes in fund balances - total governmental funds \$ (718,074)

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 \$3,440,728 exceeded depreciation expense of \$1,353,122, in the current period. 2,087,606

In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the government funds, proceeds from the sale of capital assets increase financial resources and loss from the sale on disposal of capital assets decreases financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of assets of \$1,005,521 and proceeds from sale of \$571,040. (1,576,561)

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. 32,598

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 changes in fund balances by the amount that debt repayments of \$1,689,064 exceeded debt proceeds of \$967,021. 722,043

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:

Decrease in compensated absences payable	81,284
Increase in accrued interest payable	(103,923)
Change in net assets of governmental activities	<u>\$ 524,973</u>

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

**Pearl River County**  
**Statement of Fiduciary Assets and Liabilities**  
**September 30, 2008**

**Exhibit 5**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	<u>\$ 812,494</u>
<b>Total Assets</b>	<u><u>812,494</u></u>
<b>LIABILITIES</b>	
Intergovernmental payables	<u>812,494</u>
<b>Total Liabilities</b>	<u><u>\$ 812,494</u></u>

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

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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

B. Individual Component Unit Disclosure.

Blended Component Units

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

- Mississippi Corrections PRC, LLC

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

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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 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. 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 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.

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 sixty 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:

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

D. **Measurement Focus and Basis of Accounting. (continued)**

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

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

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.

**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 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 2005 by the Government Finance Officers Association.

E. **Deposits and Investments.**

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

Cash includes cash on hand, demand deposits, all certificates of deposit, and cash equivalents, which are short-term, highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. 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". Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds". Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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 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. The extent to which capital assets, other than infrastructure costs, have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets. General infrastructure assets include all roads and bridges and other infrastructure assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980, are reported on the government-wide financial statements. Current year general infrastructure assets are not reported on the government wide financial statements because the county did not maintain adequate subsidiary records documenting the county's infrastructure or records documenting depreciation on infrastructure.

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. 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.

	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.

I. Long-term Liabilities.

Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of concurrent 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 Statement of Net Assets.

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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.

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.

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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.

II. Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2008, was \$11,676,479, and the bank balance was \$10,511,410.31. 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.

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 pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

III. Interfund Receivables and Payables.

The following is a summary of interfund balances at September 30, 2008:

A. Due From/To Other Funds:

<u>Receivable Fund:</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 133,912
Other Governmental Funds	General Fund	55,226
Countywide Road Fund	General Fund	<u>75,644</u>
	Total	<u>\$ 264,782</u>

The receivables represent the tax revenue collected but not settled until October 2008, as well as a loan between the Countywide Fire Fund and the General County Fund. All interfund balances are expected to be repaid within one year from the date of the financial statements.

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

B. Advances from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Countywide Road Fund	General Fund	\$ <u>97,330</u>

The advance was for road and bridge privilege tax that was incorrectly put in General Fund and was not repaid.

C. Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	General Fund	\$ 1,004,683
Countywide Road Fund	General Fund	877,459
Other Governmental Funds	General Fund	311,988
General Fund	Other Governmental Funds	<u>459,886</u>
	Total	<u>\$ 2,654,016</u>

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

IV. Intergovernmental Receivables

Intergovernmental receivables at September 30, 2008 consisted of the following:

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative Tax Credit	\$ 304,707
Disaster grants-public assistance	2,011,099
Other federal grants	<u>62,095</u>
	<u>\$ 2,377,901</u>

V. Loans Receivable.

Loans receivable at September 30, 2008, 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%	12-2012	<u>\$ 181,843</u>

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

VI. Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2008:

Governmental Activities:	<u>Balance</u> <u>Oct. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Sept. 30, 2008</u>
<b><u>Non-depreciable capital assets:</u></b>				
Land	\$ 1,007,386	\$ 110,495	-	\$ 1,117,881
<b><u>Depreciable capital assets:</u></b>				
Infrastructure	120,120,086	1,061,625	-	121,181,711
Buildings	12,098,364	10,000	(647,881)	11,460,483
Improvements other than buildings	312,193	31,298	-	343,491
Mobile equipment	4,219,003	841,420	(517,157)	4,543,266
Furniture and equipment	2,744,974	1,385,890	(510,152)	3,620,712
Leased property under capital leases	<u>2,194,022</u>	<u>-</u>	<u>(460,409)</u>	<u>1,733,613</u>
Total depreciable capital assets	<u>141,688,642</u>	<u>3,330,233</u>	<u>(2,135,599)</u>	<u>142,883,276</u>
<b><u>Less accumulated depreciation for:</u></b>				
Infrastructure	81,196,147	217,804	-	81,413,951
Buildings	2,034,291	349,365	-	2,383,656
Improvements other than buildings	37,467	13,567	-	51,034
Mobile equipment	2,652,556	315,508	(98,799)	2,869,265
Furniture and equipment	659,231	284,298	(165,069)	778,460
Leased property under capital leases	<u>1,052,582</u>	<u>172,580</u>	<u>(295,170)</u>	<u>929,992</u>
Total accumulated depreciation	<u>87,632,274</u>	<u>1,353,122</u>	<u>(559,038)</u>	<u>88,426,358</u>
Total depreciable capital assets, net	<u>54,056,368</u>	<u>1,977,111</u>	<u>(1,576,561)</u>	<u>54,456,918</u>
Governmental activities capital assets, net	<u>\$ 55,063,754</u>	<u>\$2,087,606</u>	<u>\$ (1,576,561)</u>	<u>\$ 55,574,799</u>

Adjustments were made to capital assets to transfer amounts between capital asset accounts.

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

Depreciation expense was changed to the following functions:

Governmental Activities:

	<u>Amount</u>
General government	\$ 175,331
Public safety	548,345
Public works	624,644
Culture and recreation	2,152
Economic Development	<u>2,650</u>
 Total governmental activities depreciation expense	 <u>\$ 1,353,122</u>

VII. 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, 2008, to January 1, 2009. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

VIII. Capital Leases.

As Lessee:

The county is obligated for the following assets acquired through capital leases as of September 30, 2008

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 1,733,613
Less: Accumulated depreciation	<u>(929,992)</u>
 Leased Property under Capital Leases	 <u>\$ 803,621</u>

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

VIII. Capital Leases (continued)

The following is a schedule by years of the total payments due as of September 30, 2008:

Year Ending September 30:	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 252,323	\$ 31,461
2010	227,012	22,472
2011	393,048	6,959
2012	<u>61,366</u>	<u>571</u>
Total	<u>\$ 933,749</u>	<u>\$ 61,463</u>

IX. Long-Term Debt.

Debt outstanding as of September 30, 2008, consisted of the following:

Governmental Activities

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<b>Governmental Activities</b>			
A. Limited Obligation Bonds:			
Detention Facility, Series 2003,	\$ 7,594,351	2.50% to 4.625%	01-2023
Hospital Improvement, Series 2002	<u>4,375,000</u>	4.00% to 5.875%	07-2032
Total Limited Obligation Bonds	<u>\$ 11,969,351</u>		
B. Capital Leases			
2002 Caterpillar 312C excavator	44,052	4.22%	07-2010
Caterpillar Dozer	41,057	4.19%	12-2011
2 Kubota Tractors and Booms	81,146	4.08%	12-2011
2006 Ford Explorer	8,897	4.29%	08-2010
2007 Ford Expedition	18,812	4.21%	01-2012
3 2008 Crown Victorias	61,826	3.30%	04-2012
AS400 computer upgrade	86,033	4.31%	03-2012
2008 Ford F-250	10,953	2.88%	05-2008
2 2007 Ford F-150 Trucks	21,199	4.21%	01-2012
2 2007 Dump Trucks	68,479	3.15%	07-2011
2 2007 Kubota Excavators	65,739	4.08%	12-2011
2 Caterpillar Motor graders	271,992	3.42%	10-2010
2 F-350 Crew Cab Trucks	4,257	3.35%	02-2009
2 2007 Pothole Patchers	65,823	4.08%	12-2011
6 Crown Victoria Police Cars	22,739	3.34%	04-2009
2007 Ford Ranger	9,885	4.31%	05-2010
2007 Ford F-250 and F-350 Trucks	26,858	4.31%	03-2012
2 2007 Ford F-150 Trucks	<u>24,002</u>	4.21%	01-2012
Total Capital Leases	<u>\$ 933,749</u>		

**PEARL RIVER COUNTY**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2008**

IX.	Long-Term Debt (continued)		Final
		Amount	Maturity
	<u>Description and Purpose</u>	<u>Outstanding</u>	<u>Rate</u>
			<u>Date</u>
C.	Other Loans:		
	State of Mississippi cap loan	\$ 200,206	3.7%
	Hancock Bank- Fire Department loan	7,044	5.25%
	FNB Picayune Bank- Fire Department loan	15,191	4.48%
	Hancock Bank-Health Department	53,189	3.19%
	Mississippi Development Bank	1,248,181	4.35%
	FEMA Community Disaster loan	4,660,703	2.65%
	Urban Renewal note	284,152	4.37%
	Total Other Loans	<u>\$ 6,468,666</u>	

\*- The maturity date may be extended by the federal agency, and all or part of the loan may be forgiven. However, the entire amount has been questioned by the auditors in the fiscal year 2007 and 2008 audit.

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

<u>Governmental Activities</u>	<u>Other Loans</u>		<u>Limited Obligation Debt</u>	
<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 116,481	\$ 176,344	\$ 455,000	\$ 551,252
2010	1,314,040	172,090	485,000	534,643
2011	4,725,430	130,472	510,000	515,807
2012	64,060	15,117	540,000	496,657
2013	28,012	12,536	565,000	475,576
2014-2018	79,602	45,403	3,265,000	2,016,075
2019-2023	99,775	22,348	3,754,351	371,985
2024-2028	41,266	1,872	1,190,000	-
2029-2033	-	-	1,205,000	-
Total	<u>\$ 6,468,666</u>	<u>\$ 576,182</u>	<u>\$ 11,969,351</u>	<u>\$ 4,961,995</u>

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

**IX. Long-term Debt (continued)**

**Legal Debt Margin** – The amount of debt, excluding specific exempted debt, which 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, 2008, the county had no outstanding general obligation bonded debt.

The following is a summary of long-term changes that occurred in liabilities and obligations for year ended September 30, 2008:

<u>Styling</u>	<u>Balance Oct. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Sept. 30, 2008</u>	<u>Amount Due Within One Year</u>
<b>Governmental Activities:</b>					
Compensated absences	\$ 506,600	\$ -	\$ (81,284)	\$ 425,316	\$ -
Limited obligation bonds	12,409,351	-	(440,000)	11,969,351	455,000
Capital leases	1,976,648	80,120	(1,123,019)	933,749	252,323
Other Loans	5,707,810	886,901	(126,045)	6,468,666	116,481
Total	<u>\$ 20,600,409</u>	<u>\$ 967,021</u>	<u>\$ (1,770,348)</u>	<u>\$ 19,797,082</u>	<u>\$ 823,804</u>

**X. 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. As of September 30, 2008, the single audit performed on these federal grants disclosed a material instance of noncompliance, resulting in questioned costs by the auditor in the amount of \$4,660,703 and interest accrued to date for the Community Disaster Loan. Any disallowance by the grantor agency could result in a liability of the county, but ultimate resolution cannot presently be determined. Accordingly, 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 Sept. 30, 2008</u>
Derby/Whitesand Fire District	\$ 82,223
Northeast Fire District	31,031
Pine Grove Fire District	15,184
Amackertown Fire District	41,653
Steephollow Fire District	157,820
Total	<u>\$ 327,911</u>

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

**XI. 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 \$274,600 in fiscal year 2008. 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 operate 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 \$20,000 in fiscal year 2008. 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 in 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 \$4,000 in fiscal year 2008. Complete financial statements can be obtained from Highway 53 South, Poplarville, MS 39470.

**XII. Jointly Governed Organizations.**

The county participates in the following jointly governed organizations:

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 2008.

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

XII. Jointly Governed Organizations. (continued)

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. The county appropriated \$9,000 for support of the agency in fiscal year 2008.

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 2008.

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 \$1,324,138 for maintenance and support of the college in fiscal year 2008.

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 \$47,700 for support of the district in fiscal year 2008.

XIII. 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 rate at September 30, 2008 was 11.85% 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, 2008, 2007, and 2006, were \$1,038,003, \$884,387, and \$666,947, respectively, equal to the required contributions for each year.

XIV. Subsequent Events.

Subsequent to September 30, 2008, Pearl River County issued the following debt obligation:

Approved a Publication for a Road and Bridge bond for a maximum amount of \$3,500,000 in December 2008.

**REQUIRED SUPPLEMENTAL INFORMATION**

**Pearl River County**  
**Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)**  
**General Fund**  
**For the Year Ended September 30, 2008**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 8,797,000	\$ 9,254,767	\$ 9,254,767	\$ -
Licenses, commissions and other revenue	832,000	896,137	896,137	-
Fines and forfeitures	906,000	1,549,071	1,301,239	(247,832)
Intergovernmental revenues	13,814,906	7,258,356	9,069,796	1,811,440
Charges for services	2,800,000	2,631,703	2,631,703	-
Interest income	244,050	245,045	245,045	-
Miscellaneous revenues	736,000	970,344	970,344	-
<b>Total Revenues</b>	<b>28,129,956</b>	<b>22,805,423</b>	<b>24,369,031</b>	<b>1,563,608</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	12,436,941	8,283,236	6,714,916	1,568,320
Public safety	9,755,775	10,694,948	9,788,952	905,996
Public works	170,750	179,728	179,728	-
Health and welfare	4,522,596	3,717,450	3,717,450	-
Culture and recreation	457,960	373,617	373,617	-
Education	300,581	464,286	313,704	150,582
Conservation of natural resources	188,233	189,771	189,771	-
Economic development and assistance	1,470,480	505,787	450,902	54,885
<b>Debt service:</b>				
Principal	-	-	631,719	(631,719)
Interest	-	-	396,557	(396,557)
<b>Total Expenditures</b>	<b>29,303,316</b>	<b>24,408,823</b>	<b>22,757,316</b>	<b>1,651,507</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>(1,173,360)</b>	<b>(1,603,400)</b>	<b>1,611,715</b>	<b>3,215,115</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	1,155,000	1,701,258	137,233	(1,564,025)
Transfers out	(800,000)	(1,050,901)	(2,704,854)	(1,653,953)
<b>Total Other Financing Sources and Uses</b>	<b>355,000</b>	<b>650,357</b>	<b>(2,567,621)</b>	<b>(3,217,978)</b>
<b>Net Change in Fund Balance</b>	<b>(818,360)</b>	<b>(953,043)</b>	<b>(955,906)</b>	<b>(2,863)</b>
Fund Balances - Beginning	5,518,772	6,415,338	6,338,561	(76,777)
<b>Fund Balances - Ending</b>	<b>\$ 4,700,412</b>	<b>\$ 5,462,295</b>	<b>\$ 5,382,655</b>	<b>\$ (79,640)</b>

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

**Pearl River County**  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Countywide Road Fund  
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 1,049,000	\$ 1,189,521	\$ 1,189,521	\$ -
Road and bridge privilege taxes	645,000	697,439	697,439	-
Intergovernmental revenues	3,121,500	2,067,916	2,067,916	-
Charges for services	50,000	49,143	49,143	-
Interest income	30,000	89,163	89,163	-
Miscellaneous revenues	-	6,796	6,796	-
<b>Total Revenues</b>	<b>4,895,500</b>	<b>4,099,978</b>	<b>4,099,978</b>	<b>-</b>
<b>EXPENDITURES</b>				
Current:				
Public works	5,200,450	4,732,394	4,732,394	-
<b>Total Expenditures</b>	<b>5,200,450</b>	<b>4,732,394</b>	<b>4,732,394</b>	<b>-</b>
Excess of Revenues over (under) Expenditures	(304,950)	(632,416)	(632,416)	-
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term non-capital debt issued	-	211,766	211,766	-
Transfers in	550,000	665,694	665,694	-
<b>Total Other Financing Sources and Uses</b>	<b>550,000</b>	<b>877,460</b>	<b>877,460</b>	<b>-</b>
Net Change in Fund Balance	245,050	245,044	245,044	-
Fund Balances - Beginning	135,103	135,103	135,103	-
<b>Fund Balances - Ending</b>	<b>\$ 380,153</b>	<b>\$ 380,147</b>	<b>\$ 380,147</b>	<b>-</b>

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

**PEARL RIVER COUNTY**  
Notes to the Financial Statements  
For the Year Ended September 30, 2008

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 the Countywide Road Fund. The Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) is a part of required supplementary information.

C. Budget/GAAP Reconciliation.

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

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

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 General Fund</u>	<u>Fund Types Road Fund</u>
Budget (Cash Basis)	\$ (955,906)	\$ 245,044
Increase (Decrease)		
Net adjustments for revenue accruals	(4,779,873)	(3,114)
Net adjustments for expenditure	5,747,044	19,019
GAAP Basis	<u>\$ 11,265</u>	<u>\$ 260,949</u>

**SUPPLEMENTAL INFORMATION**

**PEARL RIVER COUNTY**  
Schedule of Expenditures of Federal Awards  
For the year ended September 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Housing and Urban Development/ Passed-through Mississippi Development Authority			
Community development block grants/state's program	14.228	R-103-06	\$ 40,740
Community development block grants/state's program	14.228	R-103-055-01-KP	<u>110,614</u>
Subtotal			<u>151,354</u>
U.S. Department of Justice- Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety			
Crime victim assistance	16.575	05VA-1551	<u>45,313</u>
Violence against women formula grants	16.588	06SL1552	<u>23,244</u>
Office of Community Oriented Policing Services/ Passed-through the Mississippi Department of Public Safety			
Public Safety Partnership and Community Policing Grants	16.710	2004UMWX0101	123,269
Public Safety Partnership and Community Policing Grants	16.710	08TA-1551	<u>9,501</u>
Subtotal			<u>132,770</u>
Total U.S. Department of Justice			<u>201,327</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>119,649</u>
U.S. Department of Health and Human Services/ Passed-through the Mississippi Department of Human Services			
Social services block grant	93.667	607V481	<u>116,247</u>
U.S. Department of Homeland Security			
Community disaster loans (Note B, Note C)*	97.030	N/A	<u>886,901</u>
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency			
Disaster grants - Public assistance*	97.036	DR-1604- MS	937,095
Hazard Mitigation grant*	97.039	DR-1604-0010-37-MS	<u>603,010</u>
Total U. S. Department of Homeland Security			<u>2,427,006</u>
Total Expenditures of Federal Awards			<u>\$ 3,902,484</u>

**PEARL RIVER COUNTY**  
Schedule of Expenditures of Federal Awards  
For the year ended September 30, 2008

**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.

**Note B - Community Disaster Loans**

Pearl River County was awarded a Special Community Disaster Loan on December 12, 2005, creating a line of credit in the amount of \$4,660,703 with an interest rate of 2.65% and a maturity date of January 9, 2011. The county made its first draw in the amount of \$2,000,000 on February 3, 2006, and a second draw of \$1,773,802 on January 26, 2007, and a third draw of \$886,901 on July 31, 2008. Payments of principal and interest may be deferred until the loan matures, and FEMA may grant an extension for repayment or cancel repayment of all or part of the loan.

**Note C - Community Disaster Loans**

The Single Audit for fiscal year ended September 30, 2008, includes findings (material weaknesses and material noncompliance) related to the Community Disaster Loan. Questioned Costs include cumulative total of the loan (\$4,660,703 in principal as well as all accrued interest).

\* - Denotes major federal award program

PEARL RIVER COUNTY  
SPECIAL REPORTS

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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  
PRIMARY GOVERNMENT FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Board of Supervisors  
Pearl River County, Mississippi

We have audited the 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, 2008, which collectively comprise the county's basic financial statements and have issued our report thereon dated January 18, 2010. 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 reporting entity that include the financial data for its component units. The report is qualified on the governmental activities because the county did not maintain adequate subsidiary records documenting the county's capital assets and has not maintained adequate records documenting depreciation on the county's infrastructure as required by accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pearl River 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 Pearl River 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

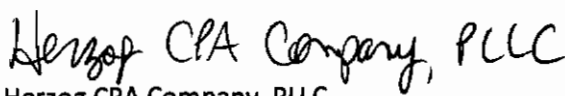
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1, 08-2, and 08-3 to be material weaknesses.

#### Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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*.

Pearl River County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Pearl River County's responses and, accordingly, we express no opinion on them.

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.

  
Herzog CPA Company, PLLC  
January 18, 2010

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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

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, 2008. 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 management. Our responsibility is to express an opinion on 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 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 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.

As described in items 08-5 and 08-6 in the accompanying Schedule of Findings and Questioned Costs, Pearl River County, Mississippi, did not comply with requirements regarding eligibility and reporting that are applicable to its community disaster loans. Compliance with such requirements is necessary, in our opinion, for Pearl River County, Mississippi, to comply with requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Pearl River County, Mississippi, did not comply in all material respects with the requirements referred to above that are applicable to the community disaster loan program. Also, 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 other major federal programs for the year ended September 30, 2008.

## 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 the requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 would not necessarily identify all deficiencies in the county's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in a county's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of Findings and Questioned Costs as items 08-4, 08-5, 08-6, 08-7, 08-8 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 08-4, 08-5, 08-6, 08-8 to be material weaknesses.

Pearl River County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Pearl River County's responses and, accordingly, we express no opinion on them.

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.

*Herzog CPA Company, PLLC*  
Herzog CPA Company, PLLC  
January 18, 2010

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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))**

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, 2008. 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.

The county did not maintain adequate subsidiary records documenting the county's fixed assets and has not maintained adequate records documenting depreciation of the county's assets.

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.

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

Board of Supervisors.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. As reported in the prior year audit report, control procedures were inadequate for maintaining adequate subsidiary records documenting the county's capital assets and for documenting depreciation on the county's infrastructure. Therefore, the Independent Auditor's Report includes a qualified opinion on the financial position of the governmental activities. The failure to maintain a proper inventory control system could result in the reporting of inaccurate amounts and increases the possibility of loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should establish adequate control procedures to document the county's capital assets and also to document depreciation on the county's capital assets.

Board of Supervisors' Response

Pearl River County Board of Supervisors will meet with the County Engineer, Road Manager, Inventory Control Clerk and County Administrator to put into place the proper policies and procedures to capture and record the necessary information to compile the road and bridge report.

In our opinion, except as explained in the third paragraph and except for the noncompliance referred to in the preceding paragraph, Pearl River County, Mississippi, 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.

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

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

*Herzog CPA Company, PLLC*  
Herzog CPA Company, PLLC  
January 18, 2010

PEARL RIVER COUNTY  
Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2008

Schedule 1

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, 2008

Schedule 2

Our test results did not identify any emergency purchases.

PEARL RIVER COUNTY  
Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2008

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**

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, 2008, 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 January 18, 2010, on the financial statements 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 of 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.

*Herzog CPA Company, PLLC*

Herzog CPA Company, PLLC

January 18, 2010

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**PEARL RIVER COUNTY**  
 Schedule of Findings and Questioned Costs  
 For the Year Ended September 30, 2008

**Section 1: Summary of Auditor's Results**

**Financial Statements**

1. Type of auditor's report issued on the financial statements:
 

Governmental Activities	Qualified
General Fund	Unqualified
Countywide Road Fund	Unqualified
Aggregate remaining fund information	Unqualified
Aggregate Discretely Presented Component Units	Adverse
  
2. Internal control over financial reporting:
  - a. Material weakness identified? Yes
  - b. A significant deficiency identified that is not considered to be a material weakness? None Reported
  
3. Noncompliance material to the financial statements? No

**Federal Awards:**

1. Internal control over major programs:
  - a. Material weakness(es) identified? Yes
  - b. Significant deficiency identified that is not considered to be a material weakness? Yes
  
2. Type of auditor's report issued on compliance for major federal programs:
 

Community disaster loans, CFDA #97.030	Adverse
Disaster grants – public assistance, CFDA #97.036	Unqualified
Hazard Mitigation grant, CFDA #97.039	Unqualified

Any audit finding(s) reported as required by Section \_\_.510(a) of Circular A-133? Yes
  
3. Federal programs identified as major programs:
  - a. Community disaster loans, CFDA #97.030
  - b. Disaster grants – public assistance, CFDA #97.036
  - c. Hazard Mitigation grant, CFDA #97.039
  
4. The dollar threshold used to distinguish between type A and type B program: \$300,000
  
5. Auditee qualified as a low-risk auditee? No
  
6. Prior fiscal year audit finding(s) 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? Yes

**PEARL RIVER COUNTY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 2: Financial Statement Findings

Board of Supervisors

08-1. Finding

*Significant Deficiency-Material Weakness*

As reported in the prior year audit report, a critical aspect of effective financial management is the maintenance of accurate accounting records. Management does not have personnel that possess the necessary qualification and training to prepare financial statements in accordance with generally accepted accounting principles. Due to the fact that county personnel lacked the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions and preparing its financial statements, the auditor was relied on to perform these tasks. Without adequate controls in place over the recording and reporting of financial records, the risk increases that inaccurate information may be reported and increases the possibility of the loss of misappropriation of public funds.

Recommendation

The Board of Supervisors should establish adequate controls and procedures to ensure that financial transactions are recorded, presented, and disclosed in accordance with generally accepted accounting principles.

08-2. Finding

*Significant Deficiency-Material Weakness*

As reported in the prior year audit report, 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.

08-3. Finding

*Significant Deficiency-Material Weakness*

Control procedures were inadequate for maintaining adequate subsidiary records documenting the county's fixed assets and for documenting depreciation on the county's fixed assets. Therefore, the Independent Auditor's Report includes a qualified opinion on the financial position of the governmental activities. The failure to maintain a proper inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should establish adequate control procedures to document the county's fixed assets and to document depreciation on the county's fixed assets.

**PEARL RIVER COUNTY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 3: Federal Award Findings and Questioned Costs

08-4. Finding

97.030      Community Disaster Loans  
                 U.S. Department of Homeland Security

*Significant Deficiency-Material Weakness*

Compliance Requirements: Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period Availability-Controls Over Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Cash Management, and Period of Availability Should be Strengthened.

As reported in the prior year audit report, the county is required to provide a clear audit trail of receipts and disbursements with respect to the Community Disaster Loan proceeds. The county failed to provide a clear audit trail of the receipts and disbursements of its Community Disaster Loan proceeds. The county commingled these proceeds into the Countywide Road Fund and the Reappraisal Fund. Disbursements of Community Disaster Loan monies from these funds cannot be distinguished from other expenditures. No effective internal controls were found to be in place to prevent this commingling of monies. This is identified as a material weakness in internal controls. Had the county accounted for the Community Disaster Loan receipts and disbursements in a separate fund, a clear audit trail would have been created. The county's lack of adequate internal controls in this situation could reduce its ability to prevent or detect error or fraud. In addition, the county's lack of a clear audit trail makes it impossible to test compliance requirements including allowable costs, activities allowed, cash management, and period of availability. Without testing, noncompliance in these areas could remain undetected. This could result in the misappropriation of federal funds.

Recommendation

The Board of Supervisors should implement controls to ensure that the county provides a clear audit trail for its Community Disaster Loan, as well as all of its other federal grants. Each major federal grant should be accounted for in a separate fund.

08-5. Finding

97.030      Community Disaster Loans  
                 U.S. Department of Homeland Security

Questioned Costs: \$4,660,703

*Significant Deficiency-Material Weakness*  
*Material Noncompliance*

Compliance Requirement: Eligibility – Controls Over Eligibility Should Be Strengthened.

As reported in the prior year audit report, the county is required to demonstrate a substantial loss in tax and other revenues in order to be eligible to draw against its community Disaster Loan (CDL). Federal Emergency Management Agency (FEMA) initially determined eligibility through the county's projected revenue loss and tentatively awarded a CDL to the county. However, once actual revenue figures become available, FEMA requires that the county reevaluate its own eligibility to make subsequent draws. Prior to each draw made against its CDL, the county must submit to FEMA an accurately completed Disbursement Request form. By answering questions on this form, the county declares to FEMA whether its actual revenues exceeded its original projected revenues. Ultimately, the county is responsible for notifying FEMA of any changes in the county's eligibility status.

**PEARL RIVER COUNTY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 3: Federal Award Findings and Questioned Costs (continued)

The county submitted a Disbursement Request form prior to its \$1,773,802 draw during January of 2008. On this form, the county declared that its actual revenues did not exceed its original projected revenues.

Our Audit procedures included an analysis of the county's actual and projected revenues for both 2007 and 2008. Based on this analysis, it was determined that the county's actual revenues exceeded its projected revenues by a considerable amount. Furthermore, the county experienced a substantial increase in tax and other revenues, rather than a loss. Because the county failed to demonstrate a substantial loss in revenues, the eligibility requirement was not satisfied. Moreover, audit procedures yielded no evidence that adequate internal control activities were in place to ensure that the county satisfied eligibility requirements. As a result, the county improperly made a draw against its Community Disaster Loan for \$1,773,802. The county's lack of adequate internal controls in this situation resulted in the misappropriation of federal funds.

Recommendation

The Board of Supervisors should immediately notify FEMA that the county did not satisfy the eligibility requirements. FEMA's award letter to the county reads as follows: "The misappropriation of funds received, false statements on the loan application or requests for disbursement, premature draw-down of funds, or failure to provide required documentation throughout the life of the loan will constitute loan default and result in a request for immediate repayment of all outstanding principle and interest." Based on this statement, the Board of Supervisors should make arrangements with FEMA for immediate repayment of all outstanding principal and interest accrued to date. The county should also surrender to the Federal Emergency Management Agency any interest earned on the CDL proceeds. In addition, the Board of Supervisors should implement internal controls to ensure that the county satisfies all eligibility requirements with respect to federal funds.

08-6. Finding

97.030      Community Disaster Loans  
                 U.S. Department of Homeland Security

*Significant Deficiency – Material Weakness*

*Material Noncompliance*

Compliance Requirements: Reporting – Controls Over Reporting Should be Strengthened.

As reported in the prior year audit report, the county is required to satisfy reporting requirements for the Community Disaster Loan as follows:

- a. Submit an accurately completed Disbursement Request form prior to each draw.
- b. Submit an accurately completed Annual Financial Report form for each fiscal year within 90 days after the fiscal year-end.
- c. Submit its most recent Audited Financial Statements with each Annual Financial Report form.

The county submitted an inaccurate Disbursement Request form prior to its \$1,773,802 draw. In addition, the county presented no evidence that the Annual Financial Report forms and Audited Financial Statements were submitted as required. With respect to the reporting requirement, no effective internal controls were found to be in place. This is identified as a material weakness in internal controls. Because of the county's lack of adequate internal controls with respect to reporting, the county submitted an inaccurate Disbursement Request form, which led to an improper draw against the county's Community Disaster Loan. In addition, the county could not prove that it had satisfied the other reporting requirements. Had the county implemented adequate controls with respect to reporting, the improper draw could have been prevented, and the county could have ensured its compliance with reporting requirements.

**PEARL RIVER COUNTY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 3: Federal Award Findings and Questioned Costs (continued)

Recommendation

The Board of Supervisors should implement controls to ensure that the county accurately and completely satisfies all reporting requirements for federal programs.

08-7. Finding

97.036      Disaster grants – public assistance  
                 U.S. Department of Homeland Security/  
                 Passed-through the Mississippi Emergency Management Agency

*Significant Deficiency*

Compliance Requirement: Procurement and Suspension and Debarment - Controls Over Procurement and Suspension and Debarment Should Be Strengthened.

As reported in the prior year audit report, the OMB Circular A-133 Compliance Supplement, Part 3(1), specifies that a non-federal entity entering into a covered transaction with another entity must verify that the entity is not suspended or debarred or otherwise excluded. As reported in the prior year audit report, the county entered into a contract for services, which qualified as a covered transaction. During our audit testing procedures, we noted no evidence that control activities were in place to ensure that verification was obtained to determine if the entity was suspended or debarred.

Recommendation

The Board of Supervisors should implement controls to ensure verification is obtained that an entity is not suspended or debarred or otherwise excluded. The verification may be accomplished by checking the *Excluded Parties List System* maintained by the General Services Administration, collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity.

08-8. Finding

97.036      Disaster grants – public assistance  
                 U.S. Department of Homeland Security/  
                 Passed-through the Mississippi Emergency Management Agency

*Significant Deficiency – Material Weakness*

Compliance Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Controls Over Activities Allowed or Unallowed and Allowable Costs/Cost Principles Should Be Strengthened.

As reported in the prior year audit report, the following internal control weaknesses were noted in the processing of federal transactions during the audit of the federal expenditures:

- a. The expenditures relating to the Disaster grants – public assistance were not segregated into separate account codes in a separate fund.
- b. The Revenues relating to the Disaster grants – public assistance were not segregated into separate account codes in a separate fund.

**PEARL RIVER COUNTY**  
Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2008

Section 3: Federal Award Findings and Questioned Costs (continued)

The failure to identify specifically Disaster grants – public assistance with separate account codes in a separate fund prevents proper accounting for these funds.

Recommendation

The Pearl River County Board of Supervisors should take steps to ensure that a separate fund and separate account codes are used when receipting and expending Disaster grants – public assistance in order to facilitate accounting for grant transactions.

**ANTHONY HALES**  
President, District One

**J. PATRICK LEE**  
Vice-President, District Four  
**JOYCE CULPEPPER**  
District Two



**HUDSON HOLLIDAY**  
District Three  
**SANDY KANE SMITH**  
District Five  
**DAVID EARL JOHNSON**  
Clerk of Board

**BOARD OF SUPERVISORS**  
PEARL RIVER COUNTY  
P.O. BOX 569  
POPLARVILLE, MS 39470  
(601) 403-2300  
(601) 403-2309 Fax  
**ADRIN LUMPKIN, JR.**  
County Administrator

**CORRECTIVE ACTION PLAN**  
**January 18, 2010**

Gentlemen:

Pearl River County respectfully submits the following corrective action plan for the year ending September 30, 2008.

The findings from the schedule of Findings and Questioned cost are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1: Summary of Auditor's Results, does not include findings and is not addressed.

**Section 2: Financial Statement Findings**

- 08-1 Corrective Action Planned:** The County Administrator and the Chancery Clerk are working with the Board of Supervisors to create a position within the County's Administrator's office to prepare the necessary schedules and complete the necessary check list to provide all required information to the audit firm.

Anticipated Completion Date: October 1, 2008

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

08-2

**Corrective Action Planned:** The Board of Supervisors, the County Administrator and the Chancery Clerk are working with all component units to secure and provide the appropriate financial data to include in Pearl River County's financial statements.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

**08-3 Corrective Action Planned:** Pearl River County Board of Supervisors will meet with the County Engineer, Road Manager, Inventory Control Clerk and County Administrator to put into place the proper policies and procedures to capture and record the necessary information to compile the Road and Bridge Improvement Report and fixed asset reports.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

### **Section 3: Federal Awards Findings and Questioned Costs**

**08-4 Corrective Action Planned:** Pearl River County Board of Supervisors will ensure that the County Administrator works with the Comptroller to set up separate funds and separate account codes for all federal grants.

Anticipated Completion Date: Already completed.

Contact Person Responsible for Corrective Action: Board of Supervisors for Pearl River County, MS.

**08-5 Corrective Action Planned:** Pearl River County Board of Supervisors have provided all the financial statements from fiscal year ended 9/30/2006 and draft copies of the Statement of Revenues, Expenditures and Changes in Fund Balance for 9/30/2007. FEMA is reviewing the current information and the Board of Supervisors will comply with FEMA's decision.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

**08-6 Corrective Action Planned:** Pearl River County Board of Supervisors will work with the County Administrator to insure all reports for federal grants are filed timely and accurately as possible.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.

**08-7 Corrective Action Planned:** When Pearl River County Board of Supervisors enters into a covered transaction with another entity, the Board of Supervisors will include in the contract and have verification that the entity is not suspended or debarred or otherwise excluded.

Anticipated Completion Date: effective immediately.

Contact Person Responsible for Corrective Action: Board of Supervisors of Pearl River County, MS.


**08-8 Corrective Action Planned:** Pearl River County Board of Supervisors will ensure that the County Administrator works with the Comptroller to set up separate account codes for all federal grants.

Anticipated Completion Date: Already completed.

Contact Person Responsible for Corrective Action: Board of Supervisors for Pearl River County, MS.

Sincerely yours,

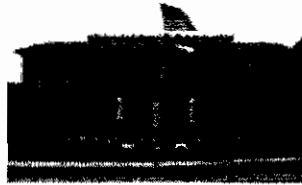
Pearl River County,  
Mississippi



Adrain Lumpkin, Jr. County Administrator  
(601) 403-2300 ext. 302

**ANTHONY HALES**  
President, District One

**J. PATRICK LEE**  
Vice-President, District Four  
**JOYCE CULPEPPER**  
District Two



**HUDSON HOLLIDAY**  
District Three  
**SANDY KANE SMITH**  
District Five  
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**BOARD OF SUPERVISORS**  
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(601) 403-2309 Fax  
**ADRIN LUMPKIN, JR.**  
County Administrator

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
For the Year Ended September 30, 2008

Gentlemen:

Pearl River County respectfully submits the following summary of prior audit finding relative to federal awards.

U.S. DEPARTMENT OF HOMELAND SECURITY

2007- Finding No. 07-4: Community Disaster Loans, U.S. Department of Homeland Security, CFDA No. 97.030

Condition: The following internal control weaknesses were noted in processing of federal transactions during the audit of the federal expenditures:

- a. The expenditures relating to the Community Disaster Loan were not segregated into separate account codes in a separate fund.
- b. The revenues relating to the Community Disaster Loan were not segregated into separate account codes in a separate fund.

The failure to identify specifically Community Disaster Loans with separate account codes in a separate fund prevents proper accounting for these federal funds.

Recommendation: The Pearl River county Board of Supervisors should take steps to ensure that a separate fund and separate account codes are used when receipting and expending Community Disaster Loans in order to facilitate accounting for grant transactions.

Current Status: Corrective action was taken.

2007 - Finding No. 08-5: Community Disaster Loans, U.S. Department of Homeland Security, CFDA No. 97.030

Condition: Eligibility requirements were not met.

Recommendation: The Board of Supervisors should implement controls to ensure that the county satisfies all eligibility requirements. The county should notify FEMA that eligibility requirements were not satisfied.

Current Status: Corrective action was taken.

2007-Finding No. 08-6: Community Disaster Loans, U.S. Department of Homeland Security. CFDA No. 97.030

Condition: The County failed to satisfy reporting requirements for the Community Disaster Loan.

Recommendation: The County should implement controls to ensure that it accurately and completely satisfies all reporting requirements for federal programs.

Current Status: Corrective action was taken.

2007-Finding No. 08-7: Disaster Grants- Public Assistance / Passed-through the Mississippi Emergency Management Agency, CFDA No. 97.036

Condition: The OMB Circular A-133 Compliance Supplement, Part 3(l), specifies that a non-federal entity entering into a covered transaction with another entity must verify that the entity is not suspended or debarred or otherwise excluded. The county entered into a contract for services, which qualified as a covered transaction. During our audit testing procedures, we noted no evidence that control activities were in place to ensure that verification was obtained to determine if the entity was suspended or debarred.

Recommendation: The Board of Supervisors should implement controls to ensure verification that an entity is not suspended or debarred or otherwise excluded. The verification may be accomplished by checking the Excluded Parties List System maintained by the General Services Administration, collecting a certification from the entity or adding a clause or condition to the covered transaction with the entity.

Current Status: Corrective action was taken.

2007-Finding No. 08-8: Disaster Grants-Public Assistance/ Passed-through the Mississippi Emergency Management Agency, CFDA No. 97.036

Condition: The expenditures and revenues relating to the Disaster Grants- Public Assistance, were not segregated into separate account codes in a separate fund.

Recommendation: The Board of Supervisors should segregate revenues and expenses for the grant in a separate fund.

Current Status: Corrective action currently being implemented.

Sincerely yours,

Pearl River County,  
Mississippi

A handwritten signature in black ink, appearing to read "Adrain Lumpkin, Jr.", written over a horizontal line.

Adrain Lumpkin, Jr. County Administrator  
(601) 403-2300 ext. 302