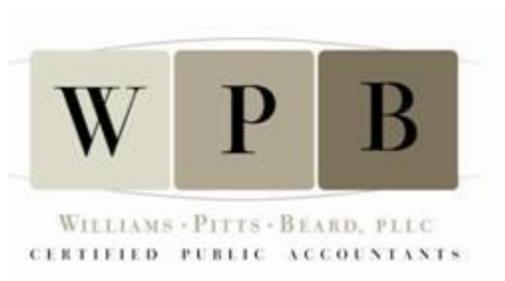


DESOTO COUNTY, MISSISSIPPI
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2012



DESOTO COUNTY, MISSISSIPPI
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For the Year Ended September 30, 2012

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Members of the Board of Supervisors
DeSoto County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of DeSoto County, Mississippi, ("the County") as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements 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.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of DeSoto County, Mississippi, as of September 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 24, 2013, on our consideration of DeSoto County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County'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. The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise DeSoto County, Mississippi's basic financial statements. The accompanying Schedule of Surety Bonds for County Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 24, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

The discussion and analysis of DeSoto County Board of Supervisors' financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2012. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this county's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the county's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued September 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased from \$138,392,234 in the 2011 fiscal year to \$148,676,363 in the 2012 fiscal year, which represents a 7.43% increase from fiscal year 2011.
- General revenues account for \$62,384,824 in revenue, or 87.09% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,251,468 or 12.91% of total revenues. Total revenues for the County were \$71,636,292.
- The County had \$61,252,163 in expenses; \$9,251,468 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$62,384,824 and a portion of the prior year fund balance were more than adequate to provide for the balance of these expenses.
- Among major funds, the General Fund had \$43,525,079 in revenues and \$38,529,587 in expenditures. There was also a net amount of other financing sources (uses) of \$(1,740,840), and the General Fund's fund balance increased \$3,154,652 from the prior year.

Among the major funds, the bridge and culvert fund had \$6,801,657 in revenues and \$4,765,314 in expenditures in the 2012 fiscal year. The bridge and culvert fund balance increased \$2,036,343 from the prior year. This was due, mainly to several projects that were finished in the 2012 fiscal year.

- Capital assets, net of accumulated depreciation, increased by \$12,245,057. The increase in capital assets was mainly due to the addition of newly constructed buildings in progress.
- Long-term debt decreased by \$6,270,126. This was due to the county paying down existing debt and refinancing existing debt to save money for the county.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

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

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

The government-wide financial statements outline functions of the County that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the County include general government; public safety; public works (road and bridges); health and welfare; culture and recreation; education; conservation of natural resources; economic development and assistance; and interest on long-term debt. The business-type activities of the County are for the self-funded health insurance plan for county employees.

Component units are included in our basic financial statements and consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The component units are as follows:

- DeSoto County, Mississippi Port Commission
- DeSoto County Emergency Communications District
- DeSoto County Civic Center

Further information may be obtained from the boards of the various component units as follows:

Port Commission:	365 Loshier Street, Suite 300 Hernando, MS 38632
Emergency Communications District:	P.O. Box 156 Nesbit, MS 38651
DeSoto Civic Center:	4560 Venture Drive Southaven, MS 38671

The government-wide financial statements can be found on pages 6-7 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. Governmental Funds Statements provide a detailed short-term view of the county's operations.

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 9 and 11, respectively.

The County maintains individual governmental funds in accordance with the Mississippi County Financial Accounting Manual. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 8-11 of this report.

The Proprietary fund is maintained in two ways. The Internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its self-funded health insurance plan for county employees. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. Fund financial statements for the proprietary fund provide the same type of information as the government-wide financial statements, only in more detail. The self-funded health insurance fund is considered to be a major fund of the County. The proprietary fund financial statements can be found on pages 12-14 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The county is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The county's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets on pages 15 and 16.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-35 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information and the Notes to the required supplementary information can be found on pages 38-40 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 42 of this report.

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of DeSoto County, assets exceeded liabilities by \$148,776,363 as of September 30, 2012.

The largest portion of the County's net assets (55.31%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and construction in progress, less any related debt used to acquire those assets that is still outstanding). The County uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending.

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

The following table presents a summary of the County's net assets at September 30, 2012 and 2011. Current assets decreased by \$5,343,004 primarily due to the decrease in the cash balances due to the expenditures for the land and construction in progress added for the construction of a new jail for the county.

		<u>2012</u>	<u>2011</u>
Assets:			
	Current assets	\$ 164,398,451	\$ 169,641,455
	Capital assets, net	145,457,723	133,212,666
	Total assets	<u>309,756,174</u>	<u>302,854,121</u>
Liabilities:			
	Current liabilities	61,090,258	58,202,208
	Long-term liabilities	99,989,553	106,259,679
	Total liabilities	<u>161,079,811</u>	<u>164,461,887</u>
Net assets:			
	Invested in capital assets, net of related debt	82,286,711	66,034,658
	Restricted	30,886,276	49,472,438
	Unrestricted	35,603,376	22,885,138
	Total net assets	<u>\$ 148,776,363</u>	<u>\$ 138,392,234</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- The capital assets increased \$12,245,057 for the addition of land and construction in progress for the construction of a new jail facility for the county.
- The current liabilities increased \$2,888,050 due to an increase in the retainage payables and the unearned revenue line items to offset the additional property taxes due.
- The long term liabilities decreased due to the retirement of outstanding debt.
- The current assets decreased \$5,243,004 due to the use of cash reserves for the construction costs of a new jail facility.

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Changes in net assets. The County's total revenues for the fiscal year ended September 30, 2012 were \$71,636,292. The total cost of all programs and services was \$61,252,163. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Revenues:		
Program revenues		
Capital grants and contributions	\$ 46,850	\$ 25,442
Charges for services	8,454,504	8,540,210
Operating grants	750,114	2,212,070
General revenues		
Property taxes	53,520,122	52,375,395
Road and bridge privilege taxes	2,049,792	1,973,119
Interest Income	198,838	309,510
Contributed Capital		2,981,910
Intergovernmental	2,682,456	1,712,571
Grants and contribution not restricted to specific programs	2,542,602	2,396,413
Miscellaneous	<u>1,391,014</u>	<u>511,495</u>
Total Revenues	<u>71,636,292</u>	<u>73,038,135</u>
Expenses:		
General government	15,915,329	14,610,591
Public safety	23,846,856	24,726,309
Public works	14,389,284	17,668,365
Health and welfare	2,061,673	2,007,429
Culture and recreation	1,528,006	1,479,250
Conservation of natural resources	321,485	292,459
Economic development	513,902	503,566
Interest on long term debt	<u>2,675,628</u>	<u>2,961,830</u>
Total Expenses	<u>61,252,163</u>	<u>64,249,799</u>
Change in Net Assets	<u>\$ 10,384,129</u>	<u>\$ 8,788,336</u>

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Governmental activities. The following table presents the cost of eight major County functional activities: general government, public safety, public works, health & welfare, culture and recreation, conservation and natural resources, economic development and interest on long term debt. The table also shows each activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific activities). The net cost shows the financial burden that was placed on the county's taxpayers by each of these activities.

	2012	2012	2011	2011
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
General government	\$ 15,915,329	\$ (8,608,597)	\$ 14,610,591	\$ (6,366,931)
Public safety	23,846,856	(22,335,692)	24,726,309	(22,328,127)
Public works	14,389,284	(13,955,712)	17,668,365	(17,532,485)
Health and welfare	2,061,673	(2,061,673)	2,007,429	(2,007,429)
Culture and recreation	1,528,006	(1,528,006)	1,479,250	(1,479,250)
Conservation of natural resources	321,485	(321,485)	292,459	(292,459)
Economic development	513,902	(513,902)	503,566	(503,566)
Interest on long term debt	2,675,628	(2,675,628)	2,961,83	(2,961,830)
Total Expenses	<u>\$ 61,252,163</u>	<u>\$ (52,000,695)</u>	<u>\$ 64,249,799</u>	<u>\$ (53,472,077)</u>

- In 2012, the net cost of governmental activities (\$52,000,695), was financed by general revenue, which is made up primarily of property taxes totaling \$53,520,122. The 2012 net assets increased mainly due to a \$2,636,351 decrease in public works expenditures, a \$1,522,183 decrease in public safety expenditures and a \$1,304,738 increase in general government expenditures

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

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

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

The financial performance of the County as a whole is reflected in its governmental funds. As the County completed the 2012 fiscal year, its governmental funds reported a combined fund balance of \$65,752,183, a decrease of \$6,611,640 due primarily to:

- An decrease in the cash balances
- An increase in road and bridge privilege taxes
- An increase in fines and forfeitures
- A decrease in charges for services
- An increase in licenses, commissions and other revenue
- A decrease in public works expenditures due to the completion of road projects
- An increase in public safety expenditures due to the construction costs for a new jail facility for the county
- An increase in culture and recreation, economic development and public safety expenditures and a decrease in general government expenditures
- A decrease in the interest and fiscal charges expenditures and an increase in the debt issue costs for a new issue
- An increase in the principal retirement costs
- An increase in the proceeds of debt issuance. In the 2012 fiscal year there was a new debt issue to refund an outstanding debt to save debt costs in future years for the county
- An increase in the payments to the bond refunding escrow agent for the refunding of an existing bond issue to save interest costs over the life of the debt

The General Fund is the principal operating fund of the County. The fund balance in the General Fund increased \$3,254,652 for the fiscal year 2012 due to a \$2,810,963 increase in revenues and a \$271,316 increase in expenditures, for a net gain.

BUDGETARY HIGHLIGHTS

Over the course of the year, the County revised the annual operating budget whenever a line item's actual expenditures exceeded the budgeted expenditures. The amendments were approved by the Board of Supervisors and then posted to the accounting records by the accounting clerk.

At least once a month the budgetary reports are sent to each department head for their review. We require a budget amendment for any line items that exceed the budget. Also, when a purchase order is requested by the various departments, the procurement department verifies that the funds are available in that budget line item to cover the requested purchase. If the funds are not available, the department who requested the purchase is required to submit a budget amendment to the office of finance and accounting to present to the board of supervisors and post to the accounting records to ensure that the funds are available in the appropriate line item.

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

DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of September 30, 2012, the County's total net capital assets were \$145,457,723, including land, buildings, improvements other than buildings, equipment and machinery, infrastructure and construction in progress. This amount represents an increase of \$12,245,057 from the previous year. The increase in capital assets is mainly due to the construction in progress of the new jail facility for the county. Total accumulated depreciation as of September 30, 2012 was \$91,460,651 and total depreciation expense for the year was \$6,561,946. Additional information on the County's capital assets can be found in Note 7 of this report.

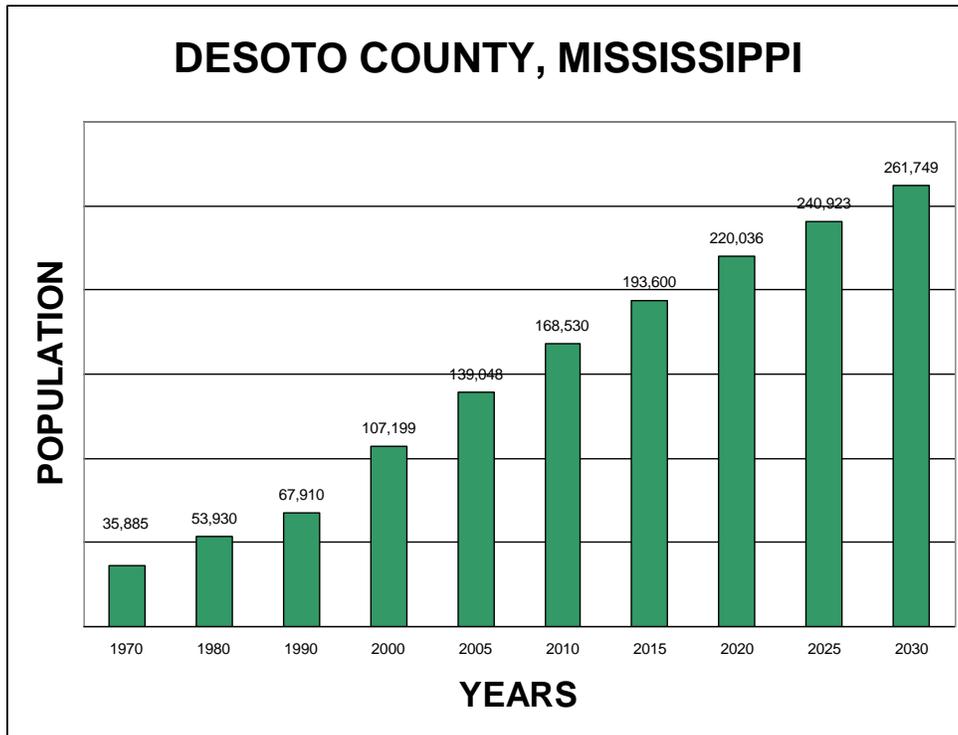
Debt Administration. At September 30, 2012, the County had \$98,825,000 in general obligation bonds and \$426,073 in other loans, of which \$7,152,029 is due within one year. During the 2012 fiscal year, one bond series was issued, to refund existing bonds to save money for the county taxpayers.

2012 Refunding Bonds were issued for \$14,365,000 to refund the outstanding bonds that were issued in 2004. The refunding bonds bear interest rates from 2% to 4%.

The County maintains an AA- bond rating from Standard & Poors and an Aa2 rating from Moody's Investors. Additional information of the County's long-term debt can be found in Note 10 of this report.

CURRENT ISSUES

The DeSoto County Board of Supervisors is financially stable and has accomplished this by committing itself to financial excellence for many years. DeSoto County has been experiencing phenomenal growth over the past several years, and while the amount of growth in 2012 was down due to the general economic downturn experienced throughout the state and country, the trend is for continued growth for the next several years. The County's population has grown over the past 30 years and that growth is expected to continue as follows:



DESOTO COUNTY, MISSISSIPPI
Management's Discussion and Analysis
For the Year Ended September 30, 2012

Between seven and ten companies located to DeSoto County each year. The county averages several industrial expansions annually. Unemployment is at 6.4 percent, the third lowest in the state of Mississippi. This growth has been complimented by conservative, yet progressive leadership. The catalyst of the growth is a strong school system and pro-active leadership from the Board of Supervisors that has allowed the county to keep the tax millage rate low from year to year. In the 2012 fiscal year, the Board of Supervisors financed the county's operations without raising the tax rate. Due to the Board of Supervisors' conservative financial approach, the county has been able to establish substantial cash reserves to ensure the county remains in a good position to endure the economic cycles that come and go from year to year.

DeSoto County Tax Millage Rates 1991-2013

	General County	Road/Bridge	Debt Svc.	Solid Waste	EMS	TOTAL
1991	18.00	6.00	11.05	2.00	0.50	37.55
1992	19.25	6.25	9.40	2.00	0.50	37.40
1993	20.25	6.25	8.60	2.00	0.50	37.60
1994	20.75	6.25	8.60	2.00	0.50	38.10
1995	22.59	6.25	8.00	2.00	0.50	39.34
1996	22.59	6.25	7.20	2.00	0.50	38.54
1997	22.59	7.04	5.75	2.00	0.50	37.78
1998	22.59	7.04	5.75	2.00	0.50	37.88
1999	22.09	8.39	5.45	2.00		37.93
2000	21.10	8.39	5.98	2.25		37.72
2001	22.74	8.39	5.65	2.25		39.03
2002	23.21	8.39	5.00	2.03		38.63
2003	23.84	8.39	4.31	2.09		38.63
2004	23.89	8.34	3.72	2.07		38.02
2005	24.78	8.34	5.83	2.07		41.02
2006	24.78	8.84	5.83	1.57		41.02
2007	25.25	8.84	5.58	1.32		41.02
2008	25.28	8.84	5.58	1.32		41.02
2009	25.28	8.84	5.58	1.32		41.02
2012	25.28	8.84	5.58	1.32		41.02
2011	26.28	7.84	5.58	1.32		41.02
2012	26.88	7.54	5.38	1.22		41.02
2013	27.42	7.00	5.38	1.22		41.02

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Office of Finance and Accounting, 365 Loshier Street, Suite 320, Hernando, MS 38632.

FINANCIAL STATEMENTS

DESOTO COUNTY, MISSISSIPPI
Statement of Net Assets
September 30, 2012

Exhibit 1

	Governmental Activities	Component Units
ASSETS		
Cash	\$ 70,347,492	\$ 6,911,075
Certificates of deposit	-	2,331,007
Property tax receivable	52,394,725	-
Receivable from component unit	34,270,000	-
Accounts receivable	-	68,534
Fines receivable, net of allowance for doubtful accounts of \$3,181,214	970,460	-
Loans receivable, net of allowance for doubtful accounts of \$7,494,614	3,900,000	-
Intergovernmental receivables	963,369	-
Other receivables	93,918	401,684
Inventories and prepaid items	-	116,110
Bond issue cost, capital related, net	1,458,487	612,761
Capital assets:		
Land and construction in progress	24,543,716	6,409,119
Other capital assets, net	120,914,007	38,652,314
Total Assets	309,856,174	55,502,604
LIABILITIES		
Claims payable	4,743,728	539,359
Retainage payables	901,232	-
Intergovernmental payables	2,195,271	-
Accrued interest payable	681,269	622,280
Unearned revenue	52,568,758	137,986
Long-term liabilities:		
Due within one year:		
Capital debt	7,152,029	7,494,614
Non-capital debt	-	1,829,809
Due in more than one year:		
Capital debt	57,477,470	37,532,057
Non-capital debt	35,360,054	94,468
Total Liabilities	161,079,811	48,250,573
NET ASSETS		
Invested in capital assets, net of related debt	82,286,711	34,762
Restricted:		
Expendable:		
Debt service	3,316,398	-
Public works	27,569,878	-
Unrestricted	35,603,376	7,217,269
Total Net Assets	\$ 148,776,363	\$ 7,252,031

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

DESOTO COUNTY, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2012

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Revenue (Expense) and Changes in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Component Units</u>
Primary government:						
Governmental activities:						
General government	\$ 15,915,329	\$ 7,306,732	\$ -	\$ -	\$ (8,608,597)	\$ -
Public safety	23,846,856	920,557	590,607	-	(22,335,692)	-
Public works	14,389,284	227,215	159,507	46,850	(13,955,712)	-
Health and welfare	2,061,673	-	-	-	(2,061,673)	-
Culture and recreation	1,528,006	-	-	-	(1,528,006)	-
Conservation of natural resources	321,485	-	-	-	(321,485)	-
Economic development	513,902	-	-	-	(513,902)	-
Interest on long-term debt	2,675,628	-	-	-	(2,675,628)	-
Total Governmental Activities	\$ 61,252,163	\$ 8,454,504	\$ 750,114	\$ 46,850	(52,000,695)	-
Component units:						
Desoto County Emergency Commission	\$ 1,021,531	\$ 1,716,670	\$ -	\$ -	\$ -	\$ 695,139
DeSoto Civic Center	13,239,972	7,817,294	-	-	-	(5,422,678)
Desoto County Port Commission	-	-	-	-	-	-
Total Component Units	\$ 14,261,503	\$ 9,533,964	\$ -	\$ -	-	(4,727,539)
General revenues:						
					53,520,122	-
					2,049,792	-
					2,682,456	6,374,611
					2,542,602	-
					198,838	36,208
					1,391,014	394,863
					62,384,824	6,805,682
Changes in Net Assets					10,384,129	2,078,143
Net Assets - Beginning					138,392,234	5,173,888
Net Assets - Ending					\$ 148,776,363	\$ 7,252,031

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

DESOTO COUNTY, MISSISSIPPI
Balance Sheet - Governmental Funds
September 30, 2012

Exhibit 3

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Bridge and Culvert	Refunding Bonds 2012	\$16M Bond Construction		
ASSETS						
Cash	\$ 23,229,719	\$ 18,528,003	\$ -	\$ 2,718,966	\$ 23,536,276	\$ 68,012,964
Property tax receivable	34,840,000	5,600,000	615,000	-	11,339,725	52,394,725
Fines receivable, net of allowances for doubtful accounts of \$3,181,214	146,884	-	-	-	-	146,884
Loans receivable, net of allowances for doubtful accounts of \$7,494,614	3,900,000	-	-	-	-	3,900,000
Intergovernmental receivables	963,369	-	-	-	-	963,369
Other receivables	61,247	-	-	-	32,671	93,918
Due from other funds	3,192,096	71,221	-	-	308,990	3,572,307
Total Assets	\$ 66,333,315	\$ 24,199,224	\$ 615,000	\$ 2,718,966	\$ 35,217,662	\$ 129,084,167
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 1,785,121	\$ 1,276,244	\$ -	\$ 129,892	\$ 1,077,192	\$ 4,268,449
Retainage payable	-	-	-	642,730	258,502	901,232
Intergovernmental payables	2,195,271	-	-	-	-	2,195,271
Due to other funds	364,531	-	750	-	3,207,026	3,572,307
Unearned revenue	34,840,000	5,600,000	615,000	-	11,339,725	52,394,725
Total Liabilities	39,184,923	6,876,244	615,750	772,622	15,882,445	63,331,984
Fund balances:						
Nonspendable:						
Loans receivable	3,900,000	-	-	-	-	3,900,000
Restricted for:						
Debt service	-	-	-	-	3,997,667	3,997,667
Public works	-	17,322,980	-	-	10,246,898	27,569,878
Assigned to:						
General government	-	-	-	-	1,765,215	1,765,215
Public safety	-	-	-	-	1,498,074	1,498,074
Capital projects	-	-	-	1,946,344	1,827,363	3,773,707
Unassigned	23,248,392	-	(750)	-	-	23,247,642
Total Fund Balances	27,148,392	17,322,980	(750)	1,946,344	19,335,217	65,752,183
Total Liabilities and Fund Balances	\$ 66,333,315	\$ 24,199,224	\$ 615,000	\$ 2,718,966	\$ 35,217,662	\$ 129,084,167

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

DESOTO COUNTY, MISSISSIPPI
Reconciliation of Governmental Funds Balance Sheet
To the Statement of Net Assets
September 30, 2012

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 65,752,183
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$91,460,651.	145,457,723
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. These assets consist of the following:	
Fines receivable	649,543
Bond issue cost	1,458,487
Receivable from component unit	34,270,000
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(99,989,553)
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Those liabilities consist of the following:	
Accrued interest	(681,269)
Internal service funds are used by management to charge the cost of insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Statement of Net Assets.	<u>1,859,249</u>
Total Net Assets - Governmental Activities	<u><u>\$ 148,776,363</u></u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2012

Exhibit 4

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General	Bridge and Culvert	Refunding Bonds 2012	\$16M Bond Construction		
REVENUES						
Property taxes	\$ 34,119,131	\$ 6,730,335	\$ -	\$ -	\$ 12,670,656	\$ 53,520,122
Road & bridge privilege taxes	-	-	-	-	2,049,792	2,049,792
Licenses, commissions and other revenue	3,765,035	300	-	-	528,560	4,293,895
Fines and forfeitures	1,270,842	-	-	-	189,947	1,460,789
Intergovernmental revenues	3,368,689	-	-	-	2,653,333	6,022,022
Charges for services	458,270	27,213	-	-	2,361,221	2,846,704
Interest income	82,042	43,809	-	24,286	48,701	198,838
Miscellaneous revenues	461,070	-	-	-	576,754	1,037,824
Total Revenues	43,525,079	6,801,657	-	24,286	21,078,964	71,429,986
EXPENDITURES						
Current:						
General government	14,121,386	-	-	-	1,042,731	15,164,117
Public safety	20,137,765	-	-	13,268,433	3,146,516	36,552,714
Public works	124,768	4,765,314	-	-	9,848,212	14,738,294
Health and welfare	1,912,849	-	-	-	66,682	1,979,531
Culture and recreation	1,367,075	-	-	-	103,022	1,470,097
Conservation of natural resources	321,485	-	-	-	-	321,485
Economic development	513,902	-	-	-	-	513,902
Debt service:						
Principal retirement	21,654	-	-	-	5,195,000	5,216,654
Interest and fiscal charges	8,703	-	110,569	-	2,249,544	2,368,816
Debt issue cost	-	-	400,098	-	1,016	401,114
Total Expenditures	38,529,587	4,765,314	510,667	13,268,433	21,652,723	78,726,724
Excess of (deficiency) of Revenues over (under) Expenditures	4,995,492	2,036,343	(510,667)	(13,244,147)	(573,759)	(7,296,738)
OTHER FINANCING SOURCES (USES)						
Proceeds from debt issuance	-	-	14,365,000	-	-	14,365,000
Proceeds from sale of capital assets	288,500	-	-	-	-	288,500
Payment to bond refunding escrow agent	-	-	(13,430,000)	-	-	(13,430,000)
Premiums on bonds issued	-	-	939,110	-	-	939,110
Loss on bond refunding	-	-	(1,477,512)	-	-	(1,477,512)
Operating transfers in	219,839	-	113,319	-	2,204,750	2,537,908
Operating transfers out	(2,249,179)	-	-	-	(288,729)	(2,537,908)
Total Other Financing Sources (Uses)	(1,740,840)	-	509,917	-	1,916,021	685,098
Net Changes in Fund Balance	3,254,652	2,036,343	(750)	(13,244,147)	1,342,262	(6,611,640)
Fund Balances - Beginning	23,893,740	15,286,637	-	15,190,491	17,992,955	72,363,823
Fund Balances - Ending	\$ 27,148,392	\$ 17,322,980	\$ (750)	\$ 1,946,344	\$ 19,335,217	\$ 65,752,183

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

DESOTO COUNTY, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2012

Exhibit 4-1

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (6,611,640)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$21,749,371 (less completed construction of \$2,571,151) exceeded depreciation of \$6,561,946 in the current period.</p>	12,616,274
<p>In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss on disposal.</p>	(371,217)
<p>Fine revenue recognized on the modified accrual basis in the funds during the current year is not reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.</p>	(146,884)
<p>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 of debt reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$20,136,595 exceeded proceeds of \$14,365,000.</p>	5,771,595
<p>The repayment of the receivable from component unit reduces the receivable in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount of the repayment.</p>	(1,490,000)
<p>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:</p>	
Accrued interest on debt	(101,240)
Compensated absences	(81,452)
Premium on bond	(878,723)
Bond discount	(2,156)
Bond issue costs	154,020
Deferred loss on refunding bond	1,460,862
<p>An Internal Service Fund is used by management to charge the cost of insurance to individual funds. The net revenue is reported within governmental activities.</p>	<u>64,690</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 10,384,129</u></u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Net Assets - Proprietary Fund
September 30, 2012

Exhibit 5

	Internal Service Fund
ASSETS	
Cash	\$ 2,334,528
Total Current Assets	<u>2,334,528</u>
LIABILITIES	
Claims and judgments liability	<u>475,279</u>
Total Current Liabilities	<u>475,279</u>
NET ASSETS	
Restricted for health insurance	<u>1,859,249</u>
Total Net Assets	<u>\$ 1,859,249</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended September 30, 2012

Exhibit 6

	Internal Service Fund
Operating Revenues	
Premiums	\$ 4,594,580
Total Operating Revenues	<u>4,594,580</u>
Operating Expenses	
Claims payments	3,589,898
Administrative	945,832
Total Operating Expenses	<u>4,535,730</u>
Operating Income	<u>58,850</u>
Non-Operating Revenues	
Interest income	5,840
Net Non-Operating Revenues	<u>5,840</u>
Net Income	64,690
Net Assets - Beginning	<u>1,794,559</u>
Net Assets -Ending	<u>\$ 1,859,249</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2012

Exhibit 7

	Internal Service Fund
Cash Flows From Operating Activities	
Receipts for premiums	\$ 4,594,580
Payments for claims	(3,664,285)
Payments to administrator for services	(945,832)
Net Cash Used by Operating Activities	<u>(15,537)</u>
Cash Flows From Investing Activities	
Interest and dividends on investments	<u>5,840</u>
Net Cash Provided by Investing Activities	<u>5,840</u>
Net Decrease in Cash and Cash Equivalents	(9,697)
Cash and Cash Equivalents at Beginning of Year	<u>2,344,225</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,334,528</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities	
Operating income	<u>\$ 58,850</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Decrease in claims and judgments liability	<u>(74,387)</u>
Total adjustments	<u>(74,387)</u>
Net Cash Used by Operating Activities	<u><u>\$ (15,537)</u></u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Fiduciary Net Assets
September 30, 2012

Exhibit 8

	<u>Private-purpose Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash	\$ 379,603	\$ 165,909
Intergovernmental receivables	-	134,299
Total Assets	<u>\$ 379,603</u>	<u>\$ 300,208</u>
LIABILITIES		
Amounts held in custody for others	\$ -	\$ 44,483
Intergovernmental payables	-	76,705
Other liabilities	-	179,020
Total Liabilities	<u>\$ -</u>	<u>\$ 300,208</u>
NET ASSETS		
Held in trust for:		
Individuals, organizations and other governments	<u>379,603</u>	
Total Net Assets	<u>\$ 379,603</u>	

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

DESOTO COUNTY, MISSISSIPPI
Statement of Changes in Fiduciary Net Assets
For the Year Ended September 30, 2012

Exhibit 9

	Private-purpose Trust Funds
ADDITIONS	
Interest income	\$ 1,044
Total Additions	<u>1,044</u>
Change in Net Assets	1,044
Net Assets - Beginning	<u>378,559</u>
Net Assets -Ending	<u><u>\$ 379,603</u></u>

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

DESOTO COUNTY, MISSISSIPPI
Combining Statement of Net Assets – Component Units
September 30, 2012

Exhibit 10

	<u>Emergency Communication</u>	<u>Civic Center</u>	<u>Port Commission *</u>	<u>Total</u>
ASSETS				
Cash	\$ 592,587	\$ 6,318,488	\$ -	\$ 6,911,075
Certificates of deposit	2,331,007	-	-	2,331,007
Interest receivable	4,205	-	-	4,205
Accounts receivable	-	68,534	-	68,534
Telephones service charge receivable	397,479	-	-	397,479
Inventory	-	60,494	-	60,494
Prepaid expenses	8,400	47,216	-	55,616
Bond issue cost, net	-	612,761	-	612,761
Capital assets:				
Land and construction in progress	-	6,409,119	-	6,409,119
Other capital assets, net	-	38,652,314	-	38,652,314
Total Assets	<u>3,333,678</u>	<u>52,168,926</u>	<u>-</u>	<u>55,502,604</u>
LIABILITIES				
Claims payable	32,263	507,096	-	539,359
Accrued liabilities	-	137,986	-	137,986
Accrued interest	-	622,280	-	622,280
Long-term liabilities:				
Due within one year:				
Capital debt	-	7,494,614	-	7,494,614
Non-capital debt	-	1,829,809	-	1,829,809
Due in more than one year:				
Capital debt	-	37,532,057	-	37,532,057
Non-capital debt	7,324	87,144	-	94,468
Total Liabilities	<u>39,587</u>	<u>48,210,986</u>	<u>-</u>	<u>48,250,573</u>
NET ASSETS				
Invested capital assets, net of related debt	-	34,762	-	34,762
Unrestricted	3,294,091	3,923,178	-	7,217,269
Total Net Assets	<u>\$ 3,294,091</u>	<u>\$ 3,957,940</u>	<u>\$ -</u>	<u>\$ 7,252,031</u>

* The Port Commission did not have any assets or activity.

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

DESOTO COUNTY, MISSISSIPPI
Combining Statement of Activities – Component Units
For the Year Ended September 30, 2012

Exhibit 11

	<u>Communication</u>	<u>Civic Center</u>	<u>Commission*</u>	<u>Total</u>
REVENUES				
Charges for services	\$ 1,716,670	\$ 7,817,294	\$ -	\$ 9,533,964
Tourism tax	-	6,374,611	-	6,374,611
Sign sales	-	344,384	-	344,384
Luxury suite sales	-	15,850	-	15,850
Interest	13,003	23,205	-	36,208
Other	-	34,629	-	34,629
Total Revenues	<u>1,729,673</u>	<u>14,609,973</u>	<u>-</u>	<u>16,339,646</u>
EXPENDITURES				
Depreciation expense	-	1,437,024	-	1,437,024
Event expenses	-	1,610,022	-	1,610,022
General operating expense	-	3,468,474	-	3,468,474
Capital outlay	105,356	-	-	105,356
Insurance	525	-	-	525
Interest	-	1,536,103	-	1,536,103
Office expense	5,014	-	-	5,014
Professional services	20,439	-	-	20,439
Repairs and maintenance	303,780	-	-	303,780
Salaries and wages	88,518	-	-	88,518
Subscriptions and seminars	7,630	-	-	7,630
Tickets	-	4,627,379	-	4,627,379
Travel	10,965	-	-	10,965
Telephone	4,904	-	-	4,904
Telephone equipment/lease	441,038	-	-	441,038
Tourism	-	560,970	-	560,970
Utilities/tower	33,362	-	-	33,362
Total Expenditures	<u>1,021,531</u>	<u>13,239,972</u>	<u>-</u>	<u>14,261,503</u>
Change in net assets	708,142	1,370,001	-	2,078,143
Net Assets - Beginning of Year	<u>2,585,949</u>	<u>2,587,939</u>	<u>-</u>	<u>5,173,888</u>
Net Assets - End of Year	<u>\$ 3,294,091</u>	<u>\$ 3,957,940</u>	<u>\$ -</u>	<u>\$ 7,252,031</u>

* The Port Commission did not have any assets or activity.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity

DeSoto County, Mississippi ("the 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 DeSoto County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

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

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

B. Individual Component Units 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. DeSoto County has one blended component unit – The DeSoto County, Mississippi Public Improvement Corporation.

The DeSoto County, Mississippi Public Improvement Corporation is comprised solely of the five members of the Board of Supervisors and the Chancery Clerk. Although it is legally separate from DeSoto County, Mississippi, the corporation is reported as if it were part of the primary government, as it is a pass-through corporation whose sole purpose is to finance, renovate and construct County buildings.

Discretely Presented Component Units

The component unit columns in the financial statements include the financial data of the following component units of the County. They are reported in a separate column to emphasize that they are legally separate from the County. The majority of the members of the governing bodies of these component units were not appointed by the County Board of Supervisors.

The County reports the following discretely presented component units. Complete financial statements for these component units can be obtained through the DeSoto County Board of Supervisors.

- DeSoto County, Mississippi Port Commission - created December 5, 1988. It did not have any assets or activity.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

- DeSoto County Emergency Communications District - created April 6, 1988. It provides communications referred to as "911".
- DeSoto County Civic Center - established on March 26, 1998. It is designed to promote tourism in DeSoto County and the surrounding area.

C. Basis of Presentation.

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the County as a whole. The statements include all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Net Assets presents the financial condition of the governmental activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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. Internal service fund balances have been eliminated against the expenses and program revenue. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the County.

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 Proprietary Funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column.

D. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The County's Proprietary Funds apply all applicable Governmental Accounting Standards Board ("GASB") pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

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

The County reports the following major Governmental Funds:

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

Bridge & Culvert Fund – This fund is used to account for bridge and culvert construction.

Refunding Bonds 2012 – This fund is used to account for resources accumulated and used for the payment of long-term debt principal, interest and related costs of borrowing to partially advance refund General Obligation Bonds, Series 2004.

\$16M Bond Construction – The proceeds in this fund are currently set aside for construction of a new jail facility.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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

PROPRIETARY FUND TYPE

Internal Service Fund – This fund is used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The County's internal service fund reports on the self-insurance program for employee medical benefits.

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.

Private-purpose Trust Funds – These funds are used to report all trust arrangements, other than those properly reported elsewhere, under which the principal and income benefit individuals, private organizations or other governments.

E. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association.

F. Deposits and Investments.

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

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

G. Receivables.

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

H. Interfund Transactions and Balances.

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

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

I. Inventories and Prepaid Items.

Inventories in component units are valued at cost, which approximates market, using the first-in/first-out method.

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

J. Capital Assets.

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital 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.

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

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

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

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

K. Long-term Liabilities.

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

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets.

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

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

L. 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, construction or improvement of those assets.

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

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

Fund Financial Statements:

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

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

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

property held for resale unless the proceeds from the collection of those receivables or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as a principal balance of a permanent fund.

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

Assigned fund balance includes amounts that are constrained by the County's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not classified as nonspendable and is neither restricted nor committed. Assignments of fund balance are created by the County Administrator and Comptroller pursuant to authorization established by the Board of Supervisors.

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

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

M. 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 the original purchase.

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

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

N. 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.

O. Compensated Absences.

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

(2) Deposits and Investments.

The carrying amount of the County’s total deposits with financial institutions at September 30, 2012 was \$70,893,004, and the bank balance was \$75,020,837. The collateral for a public entities deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity’s funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (“FDIC”).

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

The County held no investments as of September 30, 2012.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

(3) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental	\$ 3,192,096
Other Governmental	Refunding Bonds 2012	750
Bridge and Culvert	General Fund	71,221
Other Governmental	General Fund	293,310
Other Governmental	Other Governmental	14,930
Total		<u><u>\$ 3,572,307</u></u>

These are for settlement of September tax receipts and for federal grant money received. All interfund balances are expected to be repaid within one year.

B. Transfers In/Out:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 219,839	\$ (2,249,179)
Refunding Bonds 2012	113,319	-
Other Governmental	2,204,750	(288,729)
Total	<u><u>\$ 2,537,908</u></u>	<u><u>\$ (2,537,908)</u></u>

The principal purpose of interfund transfers was to provide funds as budgeted to pay for operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(4) Intergovernmental Receivables.

As of September 30, 2012, intergovernmental receivables consisted of grants receivable.

(5) Receivable from Component Unit.

As of September 30, 2012, the County had \$34,270,000 in General Obligation Refunding Bonds, Series 2009B with a rate of 2.5% - 5.0%. The DeSoto Civic Center (the "Civic Center"), a component unit of the County, is servicing these bonds via an interlocal agreement with the County.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

(6) Loans Receivable.

At September 30, 2012, the Civic Center had \$7,494,614 in loans payable to the County outstanding. The funds were loaned in various years from 1998 to 2007. Based on the current loan agreement between the Civic Center and the County, the loan is to be repaid to the County with no interest. Based on the current conditions, it is unlikely that the Civic Center will be financially able to repay the loan balance within the foreseeable future. As of September 30, 2012, the entire balance has been reserved as a doubtful account.

At September 30, 2012, the DeSoto County Regional Utility Authority ("DCRUA") had \$3,900,000 in loans payable to the County outstanding. The funds were loaned in various years from 1998 to 2005. The loans were made by the County from the general fund as well as the proceeds of a State Development Bank loan. Repayment is deferred for a period not to exceed 10 years, which will expire in November 2012. As of the date of this report, no payments have been received. The interest rate on the State Development Bank loan was variable, but approximated 3% per year. Any interest charged is not to exceed the amount of interest paid by the County on such funds.

(7) Capital Assets.

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

Governmental Activities:	Balance 10/1/2011	Additions	Deletions	Balance 9/30/2012
<u>Non-depreciable capital assets:</u>				
Land	\$ 3,746,823	\$ -	\$ -	\$ 3,746,823
Construction in progress	5,142,480	18,225,564	2,571,151	20,796,893
Total non-depreciable capital assets	8,889,303	18,225,564	2,571,151	24,543,716
<u>Depreciable capital assets:</u>				
Buildings and improvements	42,827,772	71,182	57,823	42,841,131
Improvements other than buildings	561,872	-	-	561,872
Equipment and machinery	21,268,699	1,063,886	891,828	21,440,757
Infrastructure	145,142,159	2,388,739	-	147,530,898
Total depreciable capital assets	209,800,502	3,523,807	949,651	212,374,658
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	11,322,563	753,811	2,314	12,074,060
Improvements other than buildings	259,178	22,479	-	281,657
Equipment and machinery	13,082,585	1,722,565	576,120	14,229,030
Infrastructure	60,812,813	4,063,091	-	64,875,904
Total accumulated depreciation	85,477,139	6,561,946	578,434	91,460,651
Total depreciable capital assets, net	124,323,363	(3,038,139)	371,217	120,914,007
Governmental activities capital assets, net	\$ 133,212,666	\$ 15,187,425	\$ 2,942,368	\$ 145,457,723

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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

	<u>Balance 10/1/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2012</u>
<u>Non-depreciable capital assets:</u>				
Land	\$ 6,328,825	\$ -	\$ -	\$ 6,328,825
Construction in progress	-	80,294	-	80,294
Total non-depreciable capital assets	<u>6,328,825</u>	<u>80,294</u>	<u>-</u>	<u>6,409,119</u>
<u>Depreciable capital assets:</u>				
Buildings and improvements	47,369,443	12,331	-	47,381,774
Equipment and machinery	1,317,790	204,793	-	1,522,583
Furniture and fixtures	366,591	-	-	366,591
Total depreciable capital assets	<u>49,053,824</u>	<u>217,124</u>	<u>-</u>	<u>49,270,948</u>
<u>Less accumulated depreciation for:</u>				
Buildings and improvements	8,188,151	1,238,967	-	9,427,118
Equipment and machinery	694,167	192,217	-	886,384
Furniture and fixtures	299,292	5,840	-	305,132
Total accumulated depreciation	<u>9,181,610</u>	<u>1,437,024</u>	<u>-</u>	<u>10,618,634</u>
Total depreciable capital assets, net	<u>39,872,214</u>	<u>(1,219,900)</u>	<u>-</u>	<u>38,652,314</u>
Capital assets, net	<u>\$ 46,201,039</u>	<u>\$ (1,139,606)</u>	<u>\$ -</u>	<u>\$ 45,061,433</u>

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 663,140
Public safety	952,365
Public works	4,806,390
Health and welfare	82,142
Culture and recreation	57,909
Total governmental activities depreciation expense	<u>\$ 6,561,946</u>

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

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
New jail	\$ 992,396	4/30/2013
Energy project	258,502	4/30/2013
Total	<u>\$ 1,250,898</u>	

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

(8) Claims and Judgments.

Risk Financing.

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

The County is exposed to risk of loss relating to employee health, accident and dental coverage. Beginning March 1, 1992 and pursuant to Section 25-15-101, Miss. Code Ann. (1972), the County established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. The DeSoto County Board of Supervisors has extended coverage to the employees of the following public entities:

- Horn Lake Creek Basin
- DeSoto County Regional Utility Authority
- DeSoto County Emergency Communications District
- 17th Circuit Court District – District Attorney's Office

Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Each participating public entity, including DeSoto County, pays the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The County has a minimum uninsured risk retention for all participating entities, including DeSoto County, Mississippi, to the extent that actual claims submitted exceed the predetermined premium. The County has implemented the following plans to minimize this potential loss:

- The County has purchased coinsurance which functions on two separate stop-loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$100,000, up to a maximum of \$2,000,000 per individual. The aggregate policy covers all submitted claims in excess of \$4,841,231.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported ("IBNR"). At September 30, 2012, the amount of these liabilities was \$475,279. An analysis of claims activities is presented below:

	<u>Beginning of fiscal year liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>End of fiscal year liability</u>
2010-2011	\$ 664,881	3,690,427	3,805,642	\$ 549,666
2011-2012	\$ 549,666	3,589,898	3,664,285	\$ 475,279

(9) Capital Leases.

The County had no capital lease obligations as of September 30, 2012.

(10) Long-term Debt.

Debt outstanding as of September 30, 2012 consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
A. General Obligation Bonds			
Walls Sewer District	\$ 75,000	5.40% - 6.40%	10/1/2014
2004 Public Improvements	2,035,000	3.50% - 5.00%	7/1/2024
2005 General obligation refunding bonds	4,110,000	3.00% - 4.00%	10/1/2019
2007 Loan refunding bonds	6,620,000	variable	7/1/2024
2009 Refunding bonds	9,605,000	2.25%-4.00%	10/1/2021
2009 General obligation bonds	13,545,000	3.00%-3.875%	7/1/2024
2009 Refunding bonds	34,270,000	2.50%-5.00%	11/1/2028
2009 Refunding bonds	4,065,000	2.00%-3.50%	9/30/2022
2010 Refunding bonds	5,390,000	2.00%-2.125%	9/30/2026
2010 General obligation bonds	4,745,000	2.50%-3.50%	11/1/2018
2012 Refunding bonds	14,365,000	2.00%-4.00%	7/1/2024
Total General Obligation Bonds	<u>\$ 98,825,000</u>		
B. Other Loans			
Civic Center Tourism Building	426,073	2%	4/1/2029
Total Other Loans	<u>\$ 426,073</u>		

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 7,130,000	\$ 4,158,018	\$ 22,029	\$ 8,324
2014	7,380,000	3,933,606	22,473	7,880
2015	7,795,000	3,065,877	22,927	7,426
2016	8,065,000	2,824,290	23,390	6,963
2017	8,345,000	2,567,608	23,862	6,491
2018-2022	37,380,000	8,545,832	126,730	25,034
2023-2027	18,625,000	2,489,511	140,048	11,717
2028-2032	4,105,000	196,188	44,614	713
Total	\$ 98,825,000	\$ 27,780,930	\$ 426,073	\$ 74,548

Legal Debt Margin – The amount of debt, excluding specific exempted debt, which may be incurred by the County, is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2012, the amount of outstanding debt was equal to 6.4% of the latest property assessments.

Advance Refunding – In March 2012, the County issued \$14,365,000 in General Obligation Refunding Bonds, Series 2012, with an interest rate of 2.00% - 4.00% to advance refund certain outstanding maturities of the \$22,000,000 General Obligation Bonds, Series 2004.

The \$22,000,000 General Obligation Bonds, Series 2004 had an outstanding balance of \$15,465,000 at the time of refunding, but only \$13,430,000, of the bond was refunded, leaving a remaining principal balance of \$2,985,000, of which \$950,000 was redeemed during the fiscal year 2012.

The net proceeds of \$13,430,000 (after payment of \$396,598 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in a trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Assets.

The County advance refunded the above bonds to reduce its total debt service payments over the next 12 years by almost \$1,235,143 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,112,813.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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

	<u>Balance</u> <u>Oct. 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Sept. 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds payable	\$ 104,575,000	\$ 14,365,000	\$ 20,115,000	\$ 98,825,000	\$ 7,130,000
Deferred amounts:					
For deferred loss on refunding bonds	(142,909)	(1,477,512)	(16,650)	(1,603,771)	-
For bond discount	(28,574)	-	(2,156)	(26,418)	-
For bond premiums	399,892	939,110	60,387	1,278,615	-
Total bonds payable	<u>104,803,409</u>	<u>13,826,598</u>	<u>20,156,581</u>	<u>98,473,426</u>	<u>7,130,000</u>
Loans payable	447,668	-	21,595	426,073	22,029
Compensated absences	1,008,602	110,584	29,132	1,090,054	-
Governmental activities long-term liabilities	<u>\$ 106,259,679</u>	<u>\$ 13,937,182</u>	<u>\$ 20,207,308</u>	<u>\$ 99,989,553</u>	<u>\$ 7,152,029</u>

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

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

	<u>Balance</u> <u>Oct. 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Sept. 30, 2012</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 35,760,000	\$ -	\$ 1,490,000	\$ 34,270,000	\$ 1,535,000
Bond premium	2,023,610	-	108,894	1,914,716	-
Capital leases	3,449,769	-	272,619	3,177,150	294,809
Loans payable	7,594,614	-	100,000	7,494,614	7,494,614
Compensated absences	75,642	71,213	52,387	94,468	-
Total Debt	<u>\$ 48,903,635</u>	<u>\$ 71,213</u>	<u>\$ 2,023,900</u>	<u>\$ 46,950,948</u>	<u>\$ 9,324,423</u>

(11) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2012:

<u>Fund</u>	<u>Deficit Amount</u>
Refunding Bonds 2012	\$ 750

(12) Contingencies.

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

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

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.

(13) Related Organization.

The DeSoto County, Mississippi Board of Supervisors is responsible for appointing a voting majority of the Members of the Board of the Horn Lake Creek Watershed Drainage District, but the County’s accountability for this organization does not exceed beyond making the appointments. During the year, the County did not appropriate any funds to this organization.

(14) Joint Ventures.

DeSoto County is a participant along with Lafayette, Panola, Tate and Tunica counties in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the First Regional Library. The joint venture was created to provide free library service to the citizens of the respective counties. First Regional Library is governed by a five-member board appointed by the Board of Supervisors of the participating counties, one from each county. Each county appropriates funds annually as determined by each Board of Supervisors for the ongoing support of the First Regional Library. DeSoto County, Mississippi’s appropriations from the General Fund this year to the joint venture amounted to \$1,341,000. Complete financial statements for the First Regional Library can be obtained from P.O. Box 386, Hernando, Mississippi 38632.

(15) Jointly Governed Organizations.

The County participates in the following jointly governed organizations:

North Delta Planning and Development District operates in a district composed of the counties of Coahoma, DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The DeSoto County Board of Supervisors appoints four of 30 members of the board of directors. DeSoto County appropriated \$336,843 for the operation of the district in fiscal year 2012, and \$125,812 for the cost of the county-wide transportation service for disabled and elderly citizens.

Yazoo-Mississippi Water Management District operates in a district composed of the counties of Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, Leflore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Washington and Yazoo. The DeSoto County Board of Supervisors appoints one of the 21 members of the board of commissioners. DeSoto County levied a .61 mill tax, which resulted in \$11,884 to help support the district in fiscal year 2012.

Region IV Community Mental Health District, composed of Alcorn, DeSoto, Prentiss, Tippah and Tishomingo counties, provides community based mental health programming for both youth and adults and provides an array of counseling services for anyone in need. Region IV Community Mental Health District currently operates within the DeSoto County School District and provides in-school counseling and therapy to students in need of services. In accordance with state law, the Board of Supervisors allocated \$209,055 in fiscal year 2012, in order to participate as a member of Region IV and for countywide services from the mental health care provider. Region IV is managed by an appointed five member Board of Directors, with each Director appointed by the participating Boards of Supervisors from each county.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
For the Year Ended September 30, 2012

Northwest Mississippi Community College operates in a district composed of the counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The DeSoto County Board of Supervisors appoints two of the 23 members of the college board of trustees. DeSoto County appropriated \$6,373,280 for maintenance and support of the college in fiscal year 2012.

Mid-State Opportunity, Inc. operates in a district composed of the counties of DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The DeSoto County Board of Supervisors appoints one of the 30 board members. DeSoto County did not appropriate any money for support of the agency in fiscal year 2012.

(16) Defined Benefit Pension Plan.

Plan Description – Desoto 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 – At September 30, 2012 PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2012 was 14.26% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County’s contributions (employer share only) to PERS for the years ending September 30, 2012, 2011, and 2010 were \$2,860,674, \$2,698,422 and \$2,483,515, respectively, equal to the required contributions for each year.

(17) Subsequent Events.

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of Desoto County evaluated the activity of the County through May 24, 2013, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

In February, 2013, the County passed a resolution to issue general obligation refunding bonds, in an amount not to exceed \$16,500,000.

In May 2013, the County issued \$10,500,000 General Obligation Bonds, Series 2013. The bonds have a 20 year term, with interest rates ranging from 2.250% to 3.125%.

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REQUIRED SUPPLEMENTARY INFORMATION

DESOTO COUNTY, MISSISSIPPI
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2012

	General Fund			
	Original Budget	Final Budget	Actual Non-GAAP Budgetary Basis	Positive/(Negative) Variance with Final Budget
Revenues:				
Property taxes	\$ 32,745,148	\$ 32,745,148	\$ 32,771,021	\$ 25,873
Licenses, commissions and other revenue	4,590,700	4,600,700	4,919,485	318,785
Intergovernmental revenues	3,273,150	3,401,686	3,434,229	32,543
Charges for services	325,000	325,000	360,915	35,915
Use of money and property	100,000	100,000	71,393	(28,607)
Miscellaneous revenues	275,500	294,403	89,147	(205,256)
Total Revenues	41,309,498	41,466,937	41,646,190	179,253
Expenditures				
Current				
General government	15,021,629	15,319,449	13,641,730	1,677,719
Public safety	20,735,851	20,885,289	20,135,870	749,419
Public works	142,128	173,696	122,677	51,019
Health and welfare	2,514,327	2,516,492	2,315,389	201,103
Culture and recreation	1,361,000	1,361,000	1,361,000	-
Conservation of natural resources	325,502	340,528	321,856	18,672
Economic development	515,000	516,000	504,406	11,594
Debt service	-	30,359	30,359	-
Total Expenditures	40,615,437	41,142,813	38,433,287	2,709,526
Excess of Revenues over (under) Expenditures	694,061	324,124	3,212,903	2,888,779
Other Financing Sources (Uses)				
Transfers in	1,000,000	1,001,000	219,839	(781,161)
Transfers out	(1,536,254)	(1,711,254)	(1,556,755)	154,499
Total Other Financing Sources (Uses)	(536,254)	(710,254)	(1,336,916)	(626,662)
Net Change in Fund Balance	\$ 157,807	\$ (386,130)	1,875,987	\$ 2,262,117
Fund Balances - Beginning			16,227,218	
Fund Balances - Ending			\$ 18,103,205	

DESOTO COUNTY, MISSISSIPPI
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis)
For the Year Ended September 30, 2012

	Bridge and Culvert			
	Original Budget	Final Budget	Actual Non-GAAP Budgetary Basis	Positive/(Negative) Variance with Final Budget
Revenues:				
Property taxes	\$ 6,164,525	\$ 6,164,525	\$ 6,747,539	\$ 583,014
Intergovernmental revenue	-	-	19,093	19,093
Charges for services	525,000	525,000	-	(525,000)
Use of money and property	25,000	25,000	43,809	18,809
Miscellaneous revenues	-	-	27,214	27,214
Total Revenues	6,714,525	6,714,525	6,837,655	123,130
Expenditures:				
Current:				
Public works	20,947,049	21,042,779	4,338,523	16,704,256
Debt service	-	-	-	-
Total Expenditures	20,947,049	21,042,779	4,338,523	16,704,256
Excess of Revenues over (under) Expenditures	(14,232,524)	(14,328,254)	2,499,132	16,827,386
Other Financing Sources (Uses)				
Transfers out	-	(35,000)	-	35,000
Proceeds from sale of capital assets	1,000,000	1,000,000	-	(1,000,000)
Total Other Financing Sources (Uses)	1,000,000	965,000	-	(965,000)
Net Change in Fund Balance	\$ (13,232,524)	\$ (13,363,254)	2,499,132	\$ 15,862,386
Fund Balances - Beginning			15,212,346	
Fund Balances - Ending			\$ 17,711,478	

DESOTO COUNTY, MISSISSIPPI
Notes to the Required Supplementary Information
For the Year Ended September 30, 2012

Notes to the Required Supplementary Information

(A) Budgetary Information.

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

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

(B) Basis of Presentation.

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

(C) Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	Governmental Fund Types	
	General Fund	Bridge and Culvert
Budget (Cash Basis)	\$ 1,875,987	\$ 2,499,132
Increase (Decrease)		
Net adjustments for revenue accruals	2,167,389	(35,998)
Net adjustments for expenditure	(788,724)	(426,791)
GAAP Basis	\$ 3,254,652	\$ 2,036,343

SUPPLEMENTAL INFORMATION

DESOTO COUNTY, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Pass-through Number	Federal Expenditures
U.S. Department of Commerce			
Passed-through the Economic Development Authority Economic Development - Support for Planning Organizations	11.302	n/a	\$ 46,849
Passed-through Mississippi Development Authority Community Development Block Grant - State's Program	14.228	112205017ED01	2,500
Total U.S. Department of Housing and Urban Development			49,349
U.S. Department of Justice			
Passed-through the Mississippi Department of Public Safety Juvenile Accountability Block Grants	16.523	08JB1171	31,596
Crime Victim Assistance	16.575	09LI1171	18,299
Direct Program: State Criminal Alien Assistance Program	16.606	n/a	24,561
Total U.S. Department of Justice			74,456
U.S. Department of Transportation			
Passed-through Mississippi Department of Transportation Highway Planning and Construction	20.205	BRIS0740117	25,711
Passed-through Mississippi Department of Public Safety Occupant Protection Incentive Grants	20.602	12OP1171	6,727
*Alcohol Open Container Requirements	20.607	12TA1171	137,699
Total U.S. Department of Transportation			170,137
U.S. Department of Homeland Security			
Passed-through Shelby County, Tennessee *Non-Profit Security Program	97.008	2009 UASI	97,225
*Non-Profit Security Program	97.008	2009 UASI (GIS)	19,849
			<u>117,074</u>
Passed-through Mississippi Emergency Management Emergency Management Performance Grants	97.042	11EMPL00	76,320
*State Homeland Security Program	97.073	09LE017	8,000
*State Homeland Security Program	97.073	10IC017T	13,647
*State Homeland Security Program	97.073	A09HS017T	67,572
*State Homeland Security Program	97.073	A10HS017T	14,082
*State Homeland Security Program	97.073	10HS017T	23,386
*State Homeland Security Program	97.073	10HS017T2	24,399
*State Homeland Security Program	97.073	91CO17T1	23,324
			<u>250,730</u>
Total U.S. Department of Homeland Security			367,804
Total Expenditures of Federal Awards			\$ 661,746

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.

* Denotes major federal award program.

OTHER INFORMATION

DESOTO COUNTY, MISSISSIPPI
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2012

Position	Company	Bond
Supervisor - District 1	RLI Insurance Co.	\$ 100,000
Supervisor - District 2	Brierfield Insurance Co.	\$ 100,000
Supervisor - District 3	State Farm Fire & Casualty Co.	\$ 100,000
Supervisor - District 4	Brierfield Insurance Co.	\$ 100,000
Supervisor - District 5	Brierfield Insurance Co.	\$ 100,000
Chancery Clerk	State Farm Fire & Casualty Co.	\$ 100,000
Circuit Clerk	Ohio Casualty Insurance Co.	\$ 100,000
Sheriff	Brierfield Insurance Co.	\$ 100,000
Tax Assessor	State Farm Fire & Casualty Co.	\$ 100,000
Tax Collector	State Farm Fire & Casualty Co.	\$ 100,000
County Administrator	Travelers Casualty & Surety Co.	\$ 100,000
Road Managers	Ohio Casualty Insurance Co.	\$ 50,000
Chief Financial Officer	USF&G	\$ 50,000
Purchase Clerk	Brierfield Insurance Co.	\$ 75,000
Asst. Purchase Clerks	Brierfield Insurance Co.	\$ 50,000
Inventory Control Clerk	Western Surety Co.	\$ 75,000
Asst. Inventory Control Clerks	Western Surety Co./Brierfield Insurance Co.	\$ 50,000
Receiving Clerk	Brierfield Insurance Co.	\$ 75,000
Asst. Receiving Clerks	Western Surety Co./Brierfield Insurance Co.	\$ 50,000
Constables	Brierfield Insurance Co.	\$ 50,000
Justice Court Judges	Brierfield Insurance Co.	\$ 50,000
Justice Court Clerk	St. Paul Travelers	\$ 50,000
Dep. Justice Court Clerks	St. Paul Travelers	\$ 50,000
Coroner	Western Surety Co.	\$ 10,000
County Engineer	Ohio Casualty Insurance Co.	\$ 10,000
Deputy Tax Collector	State Farm Insurance Co./Old Republic Surety Co.	\$ 50,000

SPECIAL REPORTS



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

Members of the Board of Supervisors
DeSoto County, Mississippi

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of DeSoto County, Mississippi ("the County"), as of and for the year ended September 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated May 24, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal cover over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Hernando, Mississippi

May 24, 2013



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

Members of the Board of Supervisors
DeSoto County, Mississippi

Compliance

We have audited the compliance of DeSoto County, Mississippi ("the County"), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. The County's major federal programs are identified in the summary of auditors' 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 the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County'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 the County's compliance with those requirements.

In our opinion, DeSoto County, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012.

Internal Control over Compliance

The management of the County 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 the County's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

A deficiency in a county's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 24, 2013



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**INDEPENDENT AUDITORS' 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
DeSoto County, Mississippi

We have examined DeSoto County, Mississippi's ("the County") compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2012. The Board of Supervisors of DeSoto County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

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

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

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

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 24, 2013

DESOTO COUNTY, MISSISSIPPI
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2012

Schedule 1

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Reason for Accepting Other Than Lowest Bid</u>
5/11/2012	Sodium bicarbonate 8.4% 50ml vials	\$ 345	Midwest Medical	Not available from local vendors due to national backorder.

DESOTO COUNTY, MISSISSIPPI
Schedule of Emergency Purchases
For the Year Ended September 30, 2012

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
11/28/2011	Synthetic medium aggregate rock	\$ 10,997	Big River Industries	Weather

DESOTO COUNTY, MISSISSIPPI
Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2012

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
4/2/2012	Morpho Trak Latent Lite Station	\$ 38,200	Morphotrak Inc.



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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
DeSoto County, Mississippi

In planning and performing our audit of the financial statements of DeSoto County, Mississippi (“the County”) for the year ended September 30, 2012, we considered the County’s internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to the County’s financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County’s compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated May 24, 2013, on the financial statements of the County.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Hernando, Mississippi
May 24, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

DESOTO COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

Section 1: Summary of Auditors' Results

Financial Statements:

(1) Type of auditors' report issued on the financial statements

Governmental activities	Unqualified
Aggregate discretely presented component units	Unqualified
General Fund	Unqualified
Bridge and Culvert Fund	Unqualified
\$16M Bond Fund	Unqualified
Aggregate remaining fund information	Unqualified

(2) Internal Control over financial reporting:

(a) Material weakness identified?	No
(b) Significant deficiency identified that is not considered to be a material weakness?	None Reported
(3) Noncompliance material to the financial statements noted:	No

Federal Awards:

(4) Internal control over major programs:

(a) Material weakness identified?	No
(b) Significant deficiency identified that is not considered to be a material weakness?	None Reported

(5) Type of auditors' report issued on compliance for major federal programs:

(6) Any audit finding(s) disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	Unqualified
	No

(7) Federal programs identified as major programs:

- (a) Alcohol Open Container Requirements – CFDA No. 20.607
- (b) Non-Profit Security Program – CFDA No. 97.008
- (c) State Homeland Security Program – CFDA No. 97.073

(8) The dollar threshold used to distinguish between type A and type B programs:	\$300,000
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DESOTO COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2012

(9) Auditee qualified as a low-risk auditee?

No

(10) 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?

No

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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