



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR**

PHIL BRYANT
State Auditor

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

J. SCOTT SPEIGHTS, MBA, CIA, CGAP
Director, County Audit Section

LAWRENCE COUNTY, MISSISSIPPI

**Audited Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2005**

LAWRENCE COUNTY

TABLE OF CONTENTS

| | |
|--|----|
| FINANCIAL SECTION | 1 |
| INDEPENDENT AUDITOR'S REPORT | 3 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | 5 |
| PRIMARY GOVERNMENT FINANCIAL STATEMENTS | 19 |
| Statement of Net Assets | 21 |
| Statement of Activities | 22 |
| Balance Sheet - Governmental Funds | 23 |
| Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets | 24 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds | 25 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 26 |
| Statement of Fiduciary Assets and Liabilities | 27 |
| Notes to Financial Statements | 28 |
| REQUIRED SUPPLEMENTARY INFORMATION | 43 |
| Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) General Fund | 44 |
| Engineer's Fund | 45 |
| CAP Loan Bond Fund | 46 |
| Notes to the Required Supplementary Information | 47 |
| SUPPLEMENTAL INFORMATION | 49 |
| Schedule of Expenditures of Federal Awards | 50 |
| Reconciliation of Operating Costs of Solid Waste | 52 |
| SPECIAL REPORTS | 53 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Primary Government Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 55 |
| Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 57 |
| Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)) | 59 |
| SCHEDULE OF FINDINGS AND QUESTIONED COSTS | 65 |

LAWRENCE COUNTY

FINANCIAL SECTION

(This page left blank intentionally)



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors
Lawrence County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lawrence County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's primary government 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.

The financial statements referred to above include only the primary government of Lawrence County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the county's legal entity. The financial statements do not include financial data for the county's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the county's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Lawrence County, Mississippi, as of September 30, 2005, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of Lawrence County, Mississippi, as of September 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2006, on our consideration of Lawrence 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.

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

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Lawrence County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 6, 2006

LAWRENCE COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

LAWRENCE COUNTY

(This page left blank intentionally)

LAWRENCE COUNTY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of Lawrence County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2005. 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.

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 June 1999. Accounting principles generally accepted in the United States of America do not require comparative data in the financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

Lawrence County is located on U. S. Highway 84, which is 20 miles east of Interstate 55. The population, according to the 2000 census, is 13,258. The timber industry, other agricultural activities and a thriving medical community drive the local economic base.

FINANCIAL HIGHLIGHTS

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

Lawrence County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. Due to the growth each year the County government tax rate has remained the same over the past four years. This does not include the school taxes.

Total net assets decreased \$1,097,904, which represents a 2% decrease from the prior fiscal year. If an analysis is made without the Capital Assets and Long-Term debt there was an increase of \$364,743, which represents a 7% increase from the prior fiscal year. The County's ending cash balance decreased by \$58,173, which represents a 1% decrease from the prior fiscal year.

LAWRENCE COUNTY, MISSISSIPPI

The County had \$9,324,806 in total revenues. Tax revenues account for \$4,269,866 or 46% of total revenues. State revenues in the form of reimbursements, shared revenue or grants, account for \$4,504,037 or 48% of total revenues.

The County had \$9,757,577 in total expenses, which represents an increase of \$316,247 or a 3% increase from the prior fiscal year. Expenses in the amount of \$4,284,272 were offset by grants, outside contributions, or charges for services. The remainder of expenditures of \$5,473,305 was offset by general revenues and accumulated cash.

Among major funds, the General Fund had \$4,182,100 in revenues and other financing sources and \$3,577,669 in expenditures and other financing uses. The General Fund's fund balance increased \$604,431 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$1,693,256.

Long-term debt decreased by \$277,107 the decrease in long-term debt is due to various capital lease transactions offsetting the amount being paid back to loans.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

LAWRENCE COUNTY, MISSISSIPPI

Figure 1 – Required Components of the County's Annual Report

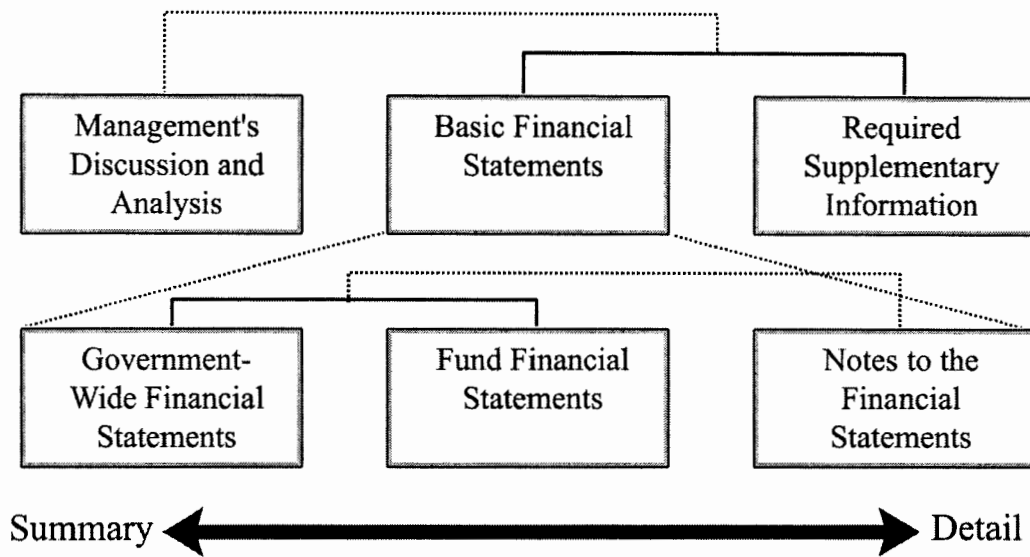


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

LAWRENCE COUNTY, MISSISSIPPI

Figure 2 – Major Features of a County’s Government-Wide and Fund Financial Statements

| | Government-Wide Financial Statements | Fund Financial Statements | | |
|---|--|--|---|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire County government (except fiduciary funds) and component units | All activities of the County that are not business-type or fiduciary in nature | Activities of the County that operate similar to private businesses | The County is the trustee or agent for someone else’s resources |
| Required financial statements | <ul style="list-style-type: none"> ● Statement of net assets ● Statement of activities | <ul style="list-style-type: none"> ● Balance sheet ● Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> ● Statement of net assets ● Statement of revenues, expenses and changes in net assets ● Statement of cash flows | <ul style="list-style-type: none"> ● Statement of fiduciary assets and liabilities ● Statement of changes in net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital and short and long term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short and long term | All assets and liabilities, both short and long term |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

LAWRENCE COUNTY, MISSISSIPPI

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

The **statement of net assets** presents information on all County 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 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 result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development and assistance; and interest on long-term debt. Lawrence County does not have any business-type activities.

Component units are not included in our basic financial statements, they 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 that are not included are as follows:

- Lawrence County Economic Development District
- Lawrence County Human Resource Agency

The Government-wide Financial Statements can be found on pages 21 and 22 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 finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

LAWRENCE COUNTY, MISSISSIPPI

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds 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 24 and 26 respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds 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 funds financial statements can be found on pages 23 and 25 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the 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 Assets and Liabilities, which can be found on page 27 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 28 through 42 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

LAWRENCE COUNTY, MISSISSIPPI

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund, Engineer’s Fund, and CAP Loan Bond Fund. This required supplementary information could be found on pages 43 through 47 of this report.

Lawrence County is subject to a Single Audit, due to the amount of federal grants it receives. Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Circular A-133 and can be found on pages 50 and 51 of this report.

GOVERNMENT-WIDE FINANCIAL

Net Assets – Net assets may serve over time as a useful indicator of government’s financial position. In the case of Lawrence County, assets exceeded liabilities by \$51,288,712 as of September 30, 2005.

By far, the largest portion of the County’s net assets (89%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

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

The following table presents a summary of the County’s net assets for the fiscal year ended September 30, 2005, as compared to fiscal year ended September 30, 2004.

| | 09/30/05 Governmental Activities | 09/30/04 Governmental Activities |
|---|---|---|
| Assets: | | |
| Current Assets | \$11,793,565 | \$10,504,948 |
| Capital Assets, Net | 48,751,138 | 50,444,394 |
| Total Assets | \$60,544,703 | \$60,949,342 |
| Liabilities: | | |
| Current Liabilities | \$5,637,651 | \$4,667,277 |
| Long-Term Debt Outstanding | 3,618,340 | 3,895,449 |
| Total Liabilities | \$9,255,991 | \$8,562,726 |
| Net Assets: | | |
| Invested in Capital Assets, Net of Related Debt | \$45,411,798 | \$46,874,445 |
| Restricted | 2,897,624 | 3,030,414 |
| Unrestricted | 2,979,290 | 2,481,757 |
| Total Net Assets | \$51,288,712 | \$52,386,616 |

LAWRENCE COUNTY, MISSISSIPPI

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

- The Board of Supervisors used accumulated cash balances to avoid tax increases.
- \$700,520 of long-term debt principal was retired.
- \$423,413 in long-term debt was issued.
- Gross capital assets increased by \$1,723,234 from increases in land, infrastructure, mobile equipment, furniture and equipment and leased property under capital leases

Changes in Net Assets—Lawrence County’s total revenues for the fiscal year ended September 30, 2005 was \$9,324,806. The total cost for all services provided was \$9,757,577 the decrease in net assets were \$1,097,904. The decrease in net assets includes a prior period adjustment of \$660,967 and a fund reclassification of \$4,166. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2005, as compared to fiscal year ended September 30, 2004.

| | 09/30/05 | 09/30/04 |
|--|---------------|---------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | \$219,626 | \$445,240 |
| Grants and Contributions | 4,064,646 | 1,552,333 |
| General Revenues: | | |
| Taxes | 4,105,844 | 4,077,685 |
| Road and Bridge privilege taxes | 164,022 | 172,256 |
| Grants and Contributions | 439,391 | 604,251 |
| Other | 331,277 | 349,200 |
| Total Revenues | \$9,324,806 | \$7,200,965 |
| Expenses: | | |
| General Government | \$2,126,735 | \$2,240,054 |
| Public Safety | 1,613,834 | 1,623,196 |
| Public Works | 5,288,199 | 4,668,251 |
| Health and Welfare | 169,632 | 136,275 |
| Culture and Recreation | 108,327 | 108,116 |
| Conservation of Natural Resources | 23,681 | 14,797 |
| Economic Development & Assistance | 280,191 | 372,970 |
| Other Expenses | 146,978 | 277,671 |
| Total Expenses | \$9,757,577 | \$9,441,330 |
| Prior period adjustments & fund reclassification | \$(665,133) | \$29,127 |
| Decrease in Net Assets | \$(1,097,904) | \$(2,211,238) |

LAWRENCE COUNTY

Governmental Activities – The following table presents the cost of the functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, Conservation of Natural Resources, Economic Development and Assistance, and Interest on Long-Term Debt.

The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Lawrence County’s taxpayers by each of these functions.

| | Total Costs | Net Costs |
|-------------------------------------|------------------------|----------------------|
| General Government | \$2,126,735 | \$2,126,220 |
| Public Safety | 1,613,834 | 1,166,223 |
| Public Works | 5,288,199 | 1,750,320 |
| Health and Welfare | 169,632 | 152,840 |
| Culture and Recreation | 108,327 | 43,209 |
| Conservation of Natural Resources | 23,681 | 23,681 |
| Economic Development and Assistance | 280,191 | 63,834 |
| Interest on Long-Term Debt | 146,978 | 146,978 |
| | \$9,757,577 | \$5,473,305 |

FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

Governmental funds – At the close of the fiscal year, Lawrence County’s governmental funds reported a combined fund balance of \$5,348,923, an increase of \$595,719. The increase is 11.1% of the total fund balance.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year was \$604,431. This increase is due to an increase in intergovernmental revenues and a decrease in expenditures.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Lawrence County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.
- Budgeted revenues were increased as better estimates became available.

LAWRENCE COUNTY, MISSISSIPPI

- The largest increase in amendments was to the public safety department. Budgeted expenditures were increased (decreased) as better estimates became available.

Even with these adjustments, actual disbursements were below final budget amounts by \$9,728.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2005, Lawrence County's total capital assets were \$110,888,537. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, and leased property under capital lease. This amount represents an increase from the previous year of \$1,723,234.

Total accumulated depreciation as of September 30, 2005 was \$62,137,399, including \$2,854,680 of depreciation expense for the year. The balance in total net capital assets was \$48,751,138 at year-end.

See the schedules below for additional information on Lawrence County's capital assets:

Capital Asset Values

| Asset Classification | Balance 10/1/2004 | Additions | Deletions | Adjustments | Balance 9/30/2005 |
|--------------------------------------|------------------------------|--------------------|------------------|--------------------|------------------------------|
| Land | \$345,486 | \$72,080 | | | \$417,566 |
| Construction-in-progress | 9,917 | | | (9,917) | - |
| Infrastructure | 96,362,073 | 1,123,000 | | | 97,485,073 |
| Buildings | 7,835,156 | | | 105,473 | 7,940,629 |
| Improvements other than buildings | 137,215 | | 137,215 | | - |
| Mobile equipment | 2,558,899 | 416,401 | 139,576 | 706,003 | 3,541,727 |
| Furniture and equipment | 341,673 | 12,667 | 5,582 | 19,797 | 368,555 |
| Leased property under capital leases | 1,574,884 | 363,982 | 18,280 | (785,599) | 1,134,987 |
| TOTALS | \$109,165,303 | \$1,988,130 | \$300,653 | \$35,757 | \$110,888,537 |

LAWRENCE COUNTY, MISSISSIPPI

Capital Asset Accumulated Depreciation

| <u>Asset Classification</u> | <u>Balance 10/1/2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> | <u>Balance 9/30/2005</u> |
|--------------------------------------|------------------------------|--------------------|------------------|--------------------|------------------------------|
| Infrastructure | \$54,256,624 | \$2,265,977 | | \$591,598 | \$57,114,199 |
| Buildings | 1,803,691 | 155,817 | | 22,761 | 1,982,269 |
| Mobile equipment | 1,824,918 | 263,859 | 121,163 | 264,308 | 2,231,922 |
| Furniture and equipment | 238,856 | 16,529 | 5,526 | 3,564 | 253,423 |
| Leased property under capital leases | 596,820 | 152,498 | 8,225 | (185,507) | 555,586 |
| TOTALS | \$ 58,720,909 | \$2,854,680 | \$134,914 | \$696,724 | \$ 62,137,399 |
| Capital Assets, Net | <u>\$ 50,444,394</u> | <u>\$(866,550)</u> | <u>\$165,739</u> | <u>\$(660,967)</u> | <u>\$48,751,138</u> |

Debt Administration – At September 30, 2005, Lawrence County had \$3,618,340 in long-term debt outstanding. This includes general obligation bonds, limited obligation bonds, capital leases and other loans. Of this debt, \$597,279 was due within one year.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2005, Lawrence County's outstanding debt was equal to 1.44% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ending September 30, 2005:

| | <u>Balance 10/1/2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 9/30/2005</u> | <u>Due Within One Year</u> |
|--------------------------|------------------------------|-------------------------|-------------------------|------------------------------|--------------------------------|
| General Obligation Bonds | \$1,790,000 | | \$187,211 | \$1,602,789 | \$195,000 |
| Limited Obligation Bonds | 55,000 | | 10,000 | 45,000 | 10,000 |
| Capital Leases | 681,639 | 363,982 | 304,842 | 740,779 | 192,653 |
| Other Loans | 1,368,808 | 59,431 | 198,467 | 1,229,772 | 199,626 |
| Total | <u>\$3,895,447</u> | <u>\$423,413</u> | <u>\$700,520</u> | <u>\$3,618,340</u> | <u>\$597,279</u> |

Additional information on Lawrence County's long-term debt can be found in note 11 on pages 38 through 40 of this report.

LAWRENCE COUNTY, MISSISSIPPI

CURRENT AND FUTURE ITEMS OF IMPACT

Lawrence County will be involved in two major projects during the fiscal year 2005-2006. The first project will involve construction on U. S. Highway 44; there will be state aid money to help with the construction. The largest project the county will be involved in is the clean up involved with Hurricane Katrina, FEMA will contribute around \$3,500,000 for these efforts.

The budget for the next fiscal year reflected an increase of \$1,313,060 or 18% in revenues and an increase of \$670,906 or 8.6% in expenses. This is expected to increase the County's net assets.

Lawrence County has an unemployment rate of 9.1% versus 7.9% a year ago. This compares unfavorably with the state average rate of 7.4%.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Lawrence County Comptroller's/Chancery Clerk's office at 517 East Broad Street, Monticello, Mississippi 39654.

LAWRENCE COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

LAWRENCE COUNTY

(This page left blank intentionally)

LAWRENCE COUNTY
Statement of Net Assets
September 30, 2005

Exhibit 1

| | <u>Governmental Activities</u> |
|---|------------------------------------|
| ASSETS | |
| Cash | \$ 5,458,629 |
| Property tax receivable | 4,605,305 |
| Fines receivable (net of allowance for uncollectibles of \$577,055) | 247,440 |
| Capital leases receivable | 675,390 |
| Intergovernmental receivables | 800,690 |
| Other receivables | 6,111 |
| Capital assets, net | 48,751,138 |
| Total Assets | <u>60,544,703</u> |
| LIABILITIES | |
| Claims payable | 638,387 |
| Intergovernmental payables | 164,215 |
| Accrued interest payable | 30,614 |
| Deferred revenue | 4,690,530 |
| Other payables | 113,905 |
| Long-term liabilities | |
| Due within one year: | |
| Capital debt | 550,779 |
| Non-capital debt | 46,500 |
| Due in more than one year: | |
| Capital debt | 2,788,561 |
| Non-capital debt | 232,500 |
| Total Liabilities | <u>9,255,991</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | 45,411,798 |
| Restricted: | |
| Expendable: | |
| General government | 309,725 |
| Debt service | 931,660 |
| Public safety | 614,276 |
| Public works | 1,010,569 |
| Culture and recreation | 278 |
| Unemployment compensation | 11,765 |
| Capital projects | 19,351 |
| Unrestricted | 2,979,290 |
| Total Net Assets | <u>\$ 51,288,712</u> |

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

LAWRENCE COUNTY
Statement of Activities
For the Year Ended September 30, 2005

Exhibit 2

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets |
|--|---------------------|-------------------------|--|--|--|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government Governmental Activities |
| Primary government: | | | | | |
| Governmental activities: | | | | | |
| General government | \$ 2,126,735 | 515 | | | (2,126,220) |
| Public safety | 1,613,834 | 201,476 | 136,703 | 109,432 | (1,166,223) |
| Public works | 5,288,199 | 17,635 | 2,397,244 | 1,123,000 | (1,750,320) |
| Health and welfare | 169,632 | | 16,792 | | (152,840) |
| Culture and recreation | 108,327 | | | 65,118 | (43,209) |
| Conservation of natural resources | 23,681 | | | | (23,681) |
| Economic development and assistance | 280,191 | | 216,357 | | (63,834) |
| Interest on long-term debt | 146,978 | | | | (146,978) |
| Total Governmental Activities | <u>\$ 9,757,577</u> | <u>219,626</u> | <u>2,767,096</u> | <u>1,297,550</u> | <u>(5,473,305)</u> |
| General revenues: | | | | | |
| Property taxes | | | | \$ 4,105,844 | |
| Road & bridge privilege taxes | | | | 164,022 | |
| Grants and contributions not restricted to specific programs | | | | 439,391 | |
| Unrestricted interest income | | | | 134,006 | |
| Miscellaneous | | | | 197,271 | |
| Total General Revenues | | | | <u>5,040,534</u> | |
| Changes in Net Assets | | | | <u>(432,771)</u> | |
| Net Assets - Beginning | | | | | 52,386,616 |
| Prior period adjustment | | | | | (660,967) |
| Fund Reclassification | | | | | (4,166) |
| Net Assets - Beginning, as restated | | | | | <u>51,721,483</u> |
| Net Assets - Ending | | | | | <u>\$ 51,288,712</u> |

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

LAWRENCE COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2005

Exhibit 3

| | <u>Major Funds</u> | | | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|-----------------------|--------------------------------|--------------------------------|
| | General Fund | Engineer's Fund | CAP Loan Bond Fund | | |
| ASSETS | | | | | |
| Cash | \$ 2,420,777 | | 3,712 | 3,034,140 | 5,458,629 |
| Property tax receivable | 2,827,550 | | | 1,777,755 | 4,605,305 |
| Fines receivable (net of allowance for uncollectibles of \$577,055) | 247,440 | | | | 247,440 |
| Capital lease receivable | | | 675,390 | | 675,390 |
| Intergovernmental receivables | 512,037 | 288,653 | | | 800,690 |
| Other receivables | 6,111 | | | | 6,111 |
| Due from other funds | | | | 61,615 | 61,615 |
| Advances to other funds | 9,500 | | | | 9,500 |
| Total Assets | \$ 6,023,415 | 288,653 | 679,102 | 4,873,510 | 11,864,680 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Claims payable | \$ 185,452 | 316,648 | | 136,287 | 638,387 |
| Intergovernmental payables | 151,131 | | | | 151,131 |
| Due to other funds | 74,699 | | | | 74,699 |
| Advances from other funds | | | 7,500 | 2,000 | 9,500 |
| Deferred revenue | 3,074,990 | | 675,390 | 1,777,755 | 5,528,135 |
| Other payables | 113,905 | | | | 113,905 |
| Total Liabilities | 3,600,177 | 316,648 | 682,890 | 1,916,042 | 6,515,757 |
| Fund balances: | | | | | |
| Reserved for: | | | | | |
| Debt service | | | | 962,274 | 962,274 |
| Capital projects | | | | 19,351 | 19,351 |
| Advances | 9,500 | | | | 9,500 |
| Unemployment compensation | | | | 11,765 | 11,765 |
| Unreserved, reported in: | | | | | |
| General Fund | 2,413,738 | | | | 2,413,738 |
| Special Revenue Funds | | (27,995) | (3,788) | 1,964,078 | 1,932,295 |
| Total Fund Balances | 2,423,238 | (27,995) | (3,788) | 2,957,468 | 5,348,923 |
| Total Liabilities and Fund Balances | \$ 6,023,415 | 288,653 | 679,102 | 4,873,510 | 11,864,680 |

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

LAWRENCE COUNTY
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2005

Exhibit 3-1

| | <u>Amount</u> |
|---|----------------------|
| Total Fund Balance - Governmental Funds | \$ 5,348,923 |
| Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1) 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 \$62,137,399. | 48,751,138 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 247,440 |
| Capital lease receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 590,165 |
| Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds. | (3,618,340) |
| Accrued interest payable is not due and payable in the current period and, therefore, are not reported in the funds. | <u>(30,614)</u> |
| Total Net Assets - Governmental Activities | <u>\$ 51,288,712</u> |

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

LAWRENCE COUNTY
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2005

Exhibit 4

| | Major Funds | | | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|--------------------|--------------------------|--------------------------------|--------------------------------|
| | General Fund | Engineer's Fund | CAP Loan Bond Fund | | |
| REVENUES | | | | | |
| Property taxes | \$ 2,471,890 | | | 1,633,954 | 4,105,844 |
| Road and bridge privilege taxes | | | | 164,022 | 164,022 |
| Licenses, commissions and other revenue | 116,677 | | | 3,274 | 119,951 |
| Fines and forfeitures | 99,590 | | | 6,421 | 106,011 |
| Intergovernmental revenues | 923,149 | 2,537,029 | | 1,043,967 | 4,504,145 |
| Charges for services | 75,334 | | | 128,022 | 203,356 |
| Interest income | 82,996 | | 17,408 | 33,602 | 134,006 |
| Miscellaneous revenues | 143,063 | | | 54,208 | 197,271 |
| Total Revenues | <u>3,912,699</u> | <u>2,537,029</u> | <u>17,408</u> | <u>3,067,470</u> | <u>9,534,606</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government | 1,846,979 | | | 53,505 | 1,900,484 |
| Public safety | 1,248,418 | | | 424,787 | 1,673,205 |
| Public works | | 2,469,241 | | 2,086,870 | 4,556,111 |
| Health and welfare | 116,445 | | | 872 | 117,317 |
| Culture and recreation | 97,930 | | | 7,954 | 105,884 |
| Conservation of natural resources | 23,681 | | | | 23,681 |
| Economic development and assistance | 102,092 | | | 178,099 | 280,191 |
| Debt service: | | | | | |
| Principal | 105,758 | | 75,564 | 519,198 | 700,520 |
| Interest | 20,366 | | 19,144 | 113,083 | 152,593 |
| Total Expenditures | <u>3,561,669</u> | <u>2,469,241</u> | <u>94,708</u> | <u>3,384,368</u> | <u>9,509,986</u> |
| Excess of Revenues over (under) Expenditures | <u>351,030</u> | <u>67,788</u> | <u>(77,300)</u> | <u>(316,898)</u> | <u>24,620</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Long-term capital debt issued | 71,353 | | | 352,060 | 423,413 |
| Proceeds from sale of capital assets | 47,210 | | | 31,353 | 78,563 |
| Transfers in | 150,838 | | | 16,000 | 166,838 |
| Transfers out | (16,000) | | | (150,838) | (166,838) |
| Lease principal payments | | | 73,289 | | 73,289 |
| Total Other Financing Sources and Uses | <u>253,401</u> | <u>0</u> | <u>73,289</u> | <u>248,575</u> | <u>575,265</u> |
| Net Changes in Fund Balances | <u>604,431</u> | <u>67,788</u> | <u>(4,011)</u> | <u>(68,323)</u> | <u>599,885</u> |
| Fund Balances - Beginning | 1,818,807 | (95,783) | 223 | 3,029,957 | 4,753,204 |
| Fund Reclassification | | | | (4,166) | (4,166) |
| Fund Balances - Beginning, as restated | <u>1,818,807</u> | <u>(95,783)</u> | <u>223</u> | <u>3,025,791</u> | <u>4,749,038</u> |
| Fund Balances - Ending | <u>\$ 2,423,238</u> | <u>(27,995)</u> | <u>(3,788)</u> | <u>2,957,468</u> | <u>5,348,923</u> |

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

LAWRENCE COUNTY

Exhibit 4-1

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, 2005

| | <u>Amount</u> |
|--|---------------------|
| Net Changes in Fund Balances - Governmental Funds | \$ 599,885 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of \$2,854,680 exceeded capital outlay of \$1,988,130 in the current period. | (866,550) |
| 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 of \$87,176 and the proceeds from the sale of \$78,563 in the current period. | (165,739) |
| Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. | (209,800) |
| In the Statement of Activities, only interest income from payments received on capital leases are reported, whereas in the governmental funds, both principal and interest payments received increase financial resources. Thus, the change in net assets differs from change in fund balances by the principal collections on the capital leases. | (73,289) |
| Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$700,520 exceeded debt proceeds of \$423,413. | 277,107 |
| 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 the amount of decrease in accrued interest payable. | <u>5,615</u> |
| Change in Net Assets of Governmental Activities | <u>\$ (432,771)</u> |

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

LAWRENCE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2005

Exhibit 5

| | <u>Agency Funds</u> |
|------------------------------------|--------------------------|
| ASSETS | |
| Cash | \$ 107,690 |
| Due from other funds | <u>13,084</u> |
| Total Assets | <u><u>\$ 120,774</u></u> |
| LIABILITIES | |
| Amounts held in custody for others | \$ 71,882 |
| Intergovernmental payables | <u>48,892</u> |
| Total Liabilities | <u><u>\$ 120,774</u></u> |

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

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Lawrence 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 Lawrence County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

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

- Lawrence County Economic Development District
- Lawrence County Human Resource Agency

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

LAWRENCE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2005

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. 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. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

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

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 all activities of the general government for which a separate fund has not been established.

Engineer's Fund - This fund is used to account for monies from the State of Mississippi, Department of Transportation that are restricted for the maintenance and construction of roads and bridges.

CAP Loan Bond Fund - This fund is used to account for monies from rents that are restricted for the payment of the other loans and the reduction of the capital lease receivable.

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUND TYPE

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

D. Account 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.

E. Deposits and Investments.

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

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

F. Receivables.

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

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the 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.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Lawrence County elected to report general infrastructure assets acquired after September 30, 1980, on the government-wide financial statements. Current year general infrastructure assets are reported on the government-wide financial statements as required. General infrastructure assets include all roads and bridges and other infrastructure 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 | \$ 0 | N/A |
| Infrastructure | 0 | 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.

LAWRENCE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2005

I. Long-term Liabilities.

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

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

J. Equity Classifications.

Government-wide Financial Statements:

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

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

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws 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:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved.

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

K. Property Tax Revenues.

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

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

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

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

L. Intergovernmental Revenues in Governmental Funds.

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

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2005, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this new statement have been incorporated into the financial statements and the accompanying notes.

(3) Fund Reclassification.

The Regional Library Fund's beginning fund balance of \$4,166 was reclassified from the Special Revenue Funds to a beginning cash balance in the Agency Funds because the objective of the fund is to account for assets held by the regional library in a purely custodial capacity.

(4) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

| <u>Explanation</u> | <u>Amount</u> |
|--------------------|----------------------------|
| Capital assets | \$ <u><u>(660,967)</u></u> |

(5) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$5,566,319, and the bank balance was \$5,513,388. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

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.

(6) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2005:

A. Due From/To Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|---------------------|------------------|
| Other Governmental Funds | General | \$ 61,615 |
| Agency Funds | General | <u>13,084</u> |
| Total | | <u>\$ 74,699</u> |

The receivables represent the tax revenue collected but not settled until October, 2005. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|--------------------------|-----------------|
| General | Other Governmental Funds | \$ 2,000 |
| General | CAP Loan Bond | <u>7,500</u> |
| Total | | <u>\$ 9,500</u> |

The receivables represent a cash shortage in the special revenue funds.

C. Transfers In/Out:

| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
|--------------------------|--------------------------|-------------------|
| General Fund | Other Governmental Funds | \$ 150,838 |
| Other Governmental Funds | General Fund | <u>16,000</u> |
| Total | | <u>\$ 166,838</u> |

The principal purpose of the interfund transfers was to provide funds for grant matches and to offset expenditures made from the special revenue funds. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(7) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2005, consisted of the following:

| <u>Description</u> | <u>Amount</u> |
|-------------------------------------|-----------------------|
| Legislative tax credit | \$ 76,847 |
| Disaster grants - public assistance | 435,190 |
| Highway planning and construction | 288,653 |
| Total | \$ <u>800,690</u> |

(8) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2005:

| | <u>Balance Oct. 1, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments *</u> | <u>Balance Sept. 30, 2005</u> |
|---|---------------------------------|------------------|------------------|----------------------|-----------------------------------|
| <u>Non-depreciable capital assets:</u> | | | | | |
| Land | \$ 345,486 | 72,080 | | | 417,566 |
| Construction in progress | 9,917 | | | (9,917) | |
| Total non-depreciable capital assets | <u>355,403</u> | <u>72,080</u> | <u>0</u> | <u>(9,917)</u> | <u>417,566</u> |
| <u>Depreciable capital assets:</u> | | | | | |
| Infrastructure | 96,362,073 | 1,123,000 | | | 97,485,073 |
| Buildings | 7,835,156 | | | 105,473 | 7,940,629 |
| Improvements other than buildings | 137,215 | | 137,215 | | |
| Mobile equipment | 2,558,899 | 416,401 | 139,576 | 706,003 | 3,541,727 |
| Furniture and equipment | 341,673 | 12,667 | 5,582 | 19,797 | 368,555 |
| Leased property under capital leases | 1,574,884 | 363,982 | 18,280 | (785,599) | 1,134,987 |
| Total depreciable capital assets | <u>108,809,900</u> | <u>1,916,050</u> | <u>300,653</u> | <u>45,674</u> | <u>110,470,971</u> |
| <u>Less accumulated depreciation for:</u> | | | | | |
| Infrastructure | 54,256,624 | 2,265,977 | | 591,598 | 57,114,199 |
| Buildings | 1,803,691 | 155,817 | | 22,761 | 1,982,269 |
| Mobile equipment | 1,824,918 | 263,859 | 121,163 | 264,308 | 2,231,922 |
| Furniture and equipment | 238,856 | 16,529 | 5,526 | 3,564 | 253,423 |
| Leased property under capital leases | 596,820 | 152,498 | 8,225 | (185,507) | 555,586 |
| Total accumulated depreciation | <u>58,720,909</u> | <u>2,854,680</u> | <u>134,914</u> | <u>696,724</u> | <u>62,137,399</u> |

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

| | <u>Balance</u> <u>Oct. 1, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> * | <u>Balance</u> <u>Sept. 30, 2005</u> |
|---|---------------------------------------|------------------|------------------|----------------------|---|
| Total depreciable capital assets, net | 50,088,991 | (938,630) | 165,739 | (651,050) | 48,333,572 |
| Governmental activities capital assets, net | \$ 50,444,394 | (866,550) | 165,739 | (660,967) | 48,751,138 |

* Adjustments are to correct errors in prior year ending balances and for the reclassification of paid out capital leases from leased property under capital leases to mobile equipment.

Depreciation expense was charged to the following functions:

| | <u>Amount</u> |
|--|---------------------|
| Governmental Activities: | |
| General government | \$ 223,822 |
| Public safety | 148,766 |
| Public works | 2,427,334 |
| Health and welfare | 52,315 |
| Culture and recreation | 2,443 |
| Total governmental activities depreciation expense | \$ <u>2,854,680</u> |

(9) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 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, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(10) Capital Leases.

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2005:

| <u>Class of Property</u> | <u>Amount</u> |
|--------------------------|-------------------|
| Buildings | \$ <u>900,000</u> |

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2005, are as follows:

| Year Ended September 30 | Principal | Interest |
|-------------------------|------------|----------|
| 2006 | \$ 74,642 | 16,025 |
| 2007 | 76,073 | 14,594 |
| 2008 | 77,588 | 13,079 |
| 2009 | 79,190 | 11,477 |
| 2010 | 80,886 | 9,781 |
| 2011 - 2015 | 201,786 | 20,269 |
| Total | \$ 590,165 | 85,225 |

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2005:

| Classes of Property | Governmental Activities |
|--------------------------------------|----------------------------|
| Mobile equipment | \$ 1,013,494 |
| Furniture and equipment | 121,493 |
| Total | 1,134,987 |
| Less: Accumulated depreciation | 555,586 |
| Leased Property Under Capital Leases | \$ 579,401 |

The following is a schedule by years of the total payments due as of September 30, 2005:

| Year Ending September 30 | Governmental Activities | |
|--------------------------|-------------------------|----------|
| | Principal | Interest |
| 2006 | \$ 192,653 | 21,775 |
| 2007 | 178,468 | 15,515 |
| 2008 | 184,909 | 9,744 |
| 2009 | 108,126 | 4,441 |
| 2010 | 76,623 | 1,956 |
| Total | \$ 740,779 | 53,431 |

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(11) Long-term Debt.

Debt outstanding as of September 30, 2005, consisted of the following:

| Description and Purpose | Amount Outstanding | Interest Rate | Final Maturity Date |
|--|-----------------------|------------------|---------------------------|
| A. General Obligation Bonds: | | | |
| Series 1998 jail bond | \$ 935,000 | 4.30%/4.75% | 04-13 |
| Series 1998A jail bond | 465,000 | 4.90% | 07-13 |
| Series 2004 road & bridge construction | <u>202,789</u> | 2.82% | 02-09 |
| Total General Obligation Bonds | <u>\$ 1,602,789</u> | | |
| B. Limited Obligation Bonds: | | | |
| Tax increment bonds | <u>\$ 45,000</u> | 8.50% | 03-09 |
| C. Capital Leases: | | | |
| IBM computer system | \$ 26,096 | 3.91% | 12-07 |
| Dodge Durango | 5,793 | 3.70% | 07-06 |
| 2003 Crown Victoria | 5,149 | 3.55% | 09-06 |
| 2004 Chevy Impala | 10,936 | 3.04% | 03-08 |
| Sheriff's truck | 14,055 | 2.89% | 03-07 |
| 2 Ford Crown Victorias | 37,118 | 3.04% | 10-08 |
| E-911 radio equipment | 7,465 | 6.43% | 07-06 |
| Extendahoe | 54,138 | 2.99% | 05-08 |
| Excavator | 115,067 | 3.41% | 09-10 |
| Daewoo excavator | 5,268 | 5.07% | 05-06 |
| Case backhoe/loader | 35,762 | 3.97% | 05-07 |
| Bush hog and trailer | 9,455 | 3.67% | 12-07 |
| Tractor and mower | 40,245 | 3.49% | 07-10 |
| GMAC pickup | 2,348 | 5.85% | 02-06 |
| Daewoo excavator | 12,744 | 5.07% | 06-06 |
| 2 Massey Ferguson tractors | 42,412 | 3.58% | 08-10 |
| Backhoe | 61,379 | 3.19% | 03-09 |
| Asphalt truck | 31,930 | 3.67% | 12-07 |
| Caterpillar model 939C HST | 70,932 | 2.99% | 08-08 |
| Garbage truck & Pac Man container unit | 59,813 | 3.13% | 12-08 |
| Garbage truck | 42,600 | 3.19% | 12-08 |
| 2005 Ford Crown Victoria | 23,391 | 3.66% | 08-09 |
| Tractor | <u>26,683</u> | 3.65% | 08-10 |
| Total Capital Leases | <u>\$ 740,779</u> | | |

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

| Description and Purpose | Amount Outstanding | Interest Rate | Final Maturity Date |
|------------------------------------|-----------------------|------------------|---------------------------|
| D. Other Loans: | | | |
| CAP loan | \$ 250,001 | 2.00% | 11-17 |
| CAP loan | 293,939 | 5.66% | 02-15 |
| Road & bridge construction 2/19/01 | 50,000 | 5.15% | 02-06 |
| Road & bridge construction 3/19/01 | 5,000 | 5.25% | 03-06 |
| Southern Pine loan | 295,833 | 0.00% | 08-11 |
| Hospital note - revenue note | 279,000 | 4.95% | 10-11 |
| District 2 - fire truck loans | 55,999 | 3.00% | 02-15 |
| | <u>1,229,772</u> | | |
| Total Other Loans | <u>\$ 1,229,772</u> | | |

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

| Year Ending September 30 | General Obligation Bonds | | Limited Obligation Bonds | |
|--------------------------|--------------------------|----------------|--------------------------|--------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 195,000 | 71,012 | 10,000 | 3,400 |
| 2007 | 200,000 | 63,084 | 10,000 | 2,550 |
| 2008 | 215,000 | 54,825 | 10,000 | 1,700 |
| 2009 | 222,789 | 45,815 | 15,000 | 637 |
| 2010 | 180,000 | 36,428 | | |
| 2011 - 2015 | 590,000 | 57,326 | | |
| Total | <u>\$ 1,602,789</u> | <u>328,490</u> | <u>45,000</u> | <u>8,287</u> |

| Year Ending September 30 | Other Loans | |
|--------------------------|---------------------|----------------|
| | Principal | Interest |
| 2006 | \$ 199,626 | 82,744 |
| 2007 | 146,581 | 32,149 |
| 2008 | 148,630 | 27,797 |
| 2009 | 150,781 | 23,345 |
| 2010 | 153,036 | 18,787 |
| 2011 - 2015 | 382,035 | 35,639 |
| 2016 - 2020 | 49,083 | 1,112 |
| Total | <u>\$ 1,229,772</u> | <u>221,573</u> |

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2005, the amount of outstanding debt was equal to 1.44% of the latest property assessments.

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2005:

| | Balance Oct. 1, 2004 | Additions | Reductions | Adjustments | Balance Sept. 30, 2005 | Amount due within one year |
|--------------------------|-------------------------|----------------|----------------|-------------|---------------------------|----------------------------------|
| General obligation bonds | \$ 1,790,000 | | 187,211 | | 1,602,789 | 195,000 |
| Limited obligation bonds | 55,000 | | 10,000 | | 45,000 | 10,000 |
| Capital leases | 681,639 | 363,982 | 304,842 | | 740,779 | 192,653 |
| Other loans | 1,368,808 | 59,431 | 198,467 | | 1,229,772 | 199,626 |
| Total | \$ 3,895,447 | 423,413 | 700,520 | 0 | 3,618,340 | 597,279 |

(12) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2005:

| Fund | Deficit Amount |
|-----------------|-------------------|
| Sheriff's Grant | \$ 39 |
| Law Library | 433 |
| Engineer's | 27,995 |
| MDOT Litter | 1,435 |
| CAP Loan Bond | 3,788 |

The deficit fund balances in the Sheriff's Grant Fund, Law Library Fund and Engineer's Fund were the results of the accrual of claims payable. The deficit fund balances in the MDOT Litter Fund and CAP Loan Bond Fund were the results of interfund loans which are due to the General Fund.

(13) Contingencies.

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

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

Hospital Revenue Note Contingencies - The county issues revenue notes to provide funds for constructing and improving capital facilities of the Lawrence County Hospital. Revenue notes are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these notes because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue notes outstanding at September 30, 2005, is \$363,221.

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(14) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Copiah-Lincoln Community College operates in a district composed of the Counties of Adams, Copiah, Franklin, Jefferson, Lawrence, Lincoln and Simpson. The Lawrence County Board of Supervisors appoints two of the 27 members of the college board of trustees. The county appropriated \$351,039 for maintenance and support of the college in fiscal year 2005.

Southwest Mississippi Planning and Development District operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The Lawrence County Board of Supervisors appoints four of the 40 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$27,360 for support of the district in fiscal year 2005.

Southwest Mississippi Mental Health Complex operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The Lawrence County Board of Supervisors appoints one of the ten members of the board of commissioners. The county appropriated \$22,500 for its support in fiscal year 2005.

Southwest Mississippi Development Corporation operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The entity is governed by ten members appointed by each county's lead industrial foundation or chamber of commerce. If no industrial foundation or chamber of commerce is present, the member is appointed by the county's Board of Supervisors. The member counties provide only modest financial support for the entity.

(15) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2005 was 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2005, 2004 and 2003 were \$182,243, \$164,733 and \$162,259, respectively, equal to the required contributions for each year.

LAWRENCE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(16) Subsequent Events.

Subsequent to September 30, 2005, Lawrence County issued the following debt obligations:

| <u>Issue Date</u> | <u>Interest Rate</u> | <u>Issue Amount</u> | <u>Type of Financing</u> | <u>Source of Financing</u> |
|-------------------|----------------------|---------------------|---------------------------|---|
| 10-04-05 | 2.00% | \$ 34,679 | Capital improvements loan | Volunteer Fire County Fund revenue |
| 10-14-05 | 4.07% | 65,975 | Lease purchase | Road and Bridge District 3 Fund revenue |
| 10-20-05 | 4.25% | 69,000 | Lease purchase | Road and Bridge Districts 1, 3 and 5 Funds revenue |
| 11-01-05 | 4.03% | 25,534 | Lease purchase | District 2 Garbage Fund revenue |
| 12-05-05 | 3.87% | 300,000 | General obligation bond | Lawrence County Road Construction Debt Service Fund revenue |

LAWRENCE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

LAWRENCE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2005

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|---------------------|------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 2,334,000 | 2,440,000 | 2,441,582 | 1,582 |
| Road and bridge privilege taxes | 1,000 | | | |
| Licenses, commissions and other revenue | 55,000 | 68,000 | 69,809 | 1,809 |
| Fines and forfeitures | 70,000 | 97,000 | 97,706 | 706 |
| Intergovernmental revenues | 550,500 | 725,000 | 727,057 | 2,057 |
| Charges for services | 100,000 | 75,000 | 75,334 | 334 |
| Interest income | 32,750 | 72,600 | 75,983 | 3,383 |
| Miscellaneous revenues | 100,000 | 100,000 | 167,083 | 67,083 |
| Total Revenues | <u>3,243,250</u> | <u>3,577,600</u> | <u>3,654,554</u> | <u>76,954</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,855,388 | 1,875,650 | 1,902,464 | (26,814) |
| Public safety | 1,122,615 | 1,289,000 | 1,279,660 | 9,340 |
| Health and welfare | 135,300 | 119,950 | 113,448 | 6,502 |
| Culture and recreation | 13,400 | 2,900 | 2,610 | 290 |
| Education | 250,000 | 237,000 | 233,737 | 3,263 |
| Conservation of natural resources | 35,241 | 22,500 | 20,429 | 2,071 |
| Economic development and assistance | 143,860 | 143,860 | 150,781 | (6,921) |
| Debt service: | | | | |
| Principal | 100,000 | 100,000 | 92,637 | 7,363 |
| Interest | 36,000 | 35,000 | 20,366 | 14,634 |
| Total Expenditures | <u>3,691,804</u> | <u>3,825,860</u> | <u>3,816,132</u> | <u>9,728</u> |
| Excess of Revenues over (under) Expenditures | <u>(448,554)</u> | <u>(248,260)</u> | <u>(161,578)</u> | <u>86,682</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | | 71,000 | 71,353 | 353 |
| Proceeds from sale of capital assets | | 95,000 | 94,382 | (618) |
| Transfers in | 125,000 | 125,000 | 125,838 | 838 |
| Transfers out | (75,000) | (100,000) | (99,198) | 802 |
| Total Other Financing Sources and Uses | <u>50,000</u> | <u>191,000</u> | <u>192,375</u> | <u>1,375</u> |
| Net Change in Fund Balance | (398,554) | (57,260) | 30,797 | 88,057 |
| Fund Balances - Beginning | <u>2,137,000</u> | <u>2,066,082</u> | <u>2,066,082</u> | <u>0</u> |
| Fund Balances - Ending | <u>\$ 1,738,446</u> | <u>2,008,822</u> | <u>2,096,879</u> | <u>88,057</u> |

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

LAWRENCE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Engineer's Fund
 For the Year Ended September 30, 2005

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|------------------|--------------------------------|---|
| REVENUES | | | | |
| Intergovernmental revenues | \$ 350,000 | 1,125,376 | 1,125,376 | |
| Total Revenues | <u>350,000</u> | <u>1,125,376</u> | <u>1,125,376</u> | <u>0</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | 350,000 | 1,198,391 | 1,198,391 | |
| Total Expenditures | <u>350,000</u> | <u>1,198,391</u> | <u>1,198,391</u> | <u>0</u> |
| Excess of Revenues over (under) Expenditures | <u>0</u> | <u>(73,015)</u> | <u>(73,015)</u> | <u>0</u> |
| Net Change in Fund Balance | 0 | (73,015) | (73,015) | 0 |
| Fund Balances - Beginning | <u>6,120</u> | <u>73,015</u> | <u>73,015</u> | <u>0</u> |
| Fund Balances - Ending | <u>\$ 6,120</u> | <u>0</u> | <u>0</u> | <u>0</u> |

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

LAWRENCE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 CAP Loan Bond Fund
 For the Year Ended September 30, 2005

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|-----------------|--------------------------------|---|
| REVENUES | | | | |
| Interest income | \$ 35 | 30 | 30 | |
| Miscellaneous revenues | 91,000 | 90,667 | 90,667 | |
| Total Revenues | <u>91,035</u> | <u>90,697</u> | <u>90,697</u> | <u>0</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Debt service: | | | | |
| Principal | 75,000 | 75,564 | 75,564 | |
| Interest | 16,000 | 19,144 | 19,144 | |
| Total Expenditures | <u>91,000</u> | <u>94,708</u> | <u>94,708</u> | <u>0</u> |
| Excess of Revenues over (under) Expenditures | <u>35</u> | <u>(4,011)</u> | <u>(4,011)</u> | <u>0</u> |
| Net Change in Fund Balance | 35 | (4,011) | (4,011) | 0 |
| Fund Balances - Beginning | <u>7,722</u> | <u>7,723</u> | <u>7,723</u> | <u>0</u> |
| Fund Balances - Ending | <u>\$ 7,757</u> | <u>3,712</u> | <u>3,712</u> | <u>0</u> |

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

LAWRENCE COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2005

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

| | <u>Governmental Fund Types</u> | | |
|--|--------------------------------|----------------------------|-------------------------------|
| | <u>General Fund</u> | <u>Engineer's Fund</u> | <u>Cap Loan Bond Fund</u> |
| Budget (Cash Basis) | \$ 30,797 | (73,015) | (4,011) |
| Increase (Decrease) | | | |
| Net adjustments for revenue accruals | (199,217) | 288,653 | |
| Net adjustments for expenditure accruals | <u>772,851</u> | <u>(147,850)</u> | |
| GAAP Basis | <u>\$ 604,431</u> | <u>67,788</u> | <u>(4,011)</u> |

LAWRENCE COUNTY

(This page left blank intentionally)

LAWRENCE COUNTY

SUPPLEMENTAL INFORMATION

LAWRENCE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| MAJOR FEDERAL AWARDS | | | |
| U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation | | | |
| Highway planning and construction | 20.205 | MS-038-39(1)B | \$ 1,238,268 |
| Highway planning and construction | 20.205 | N/A | <u>2,200</u> |
| Total U.S. Department of Transportation | | | <u>1,240,468</u> |
| U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency | | | |
| Disaster grants - public assistance | 97.036 | 1604-DR-MS | <u>435,189</u> |
| Total Expenditures of Major Federal Awards | | | <u>1,675,657</u> |
| OTHER FEDERAL AWARDS | | | |
| U.S. Department of Agriculture/Rural Business - Cooperative Service | | | |
| Rural business enterprise grants | 10.769 | N/A | <u>12,524</u> |
| U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority | | | |
| Community development block grants/state's program | 14.228 | 01-039-ED-IF-01 | <u>48,624</u> |
| U.S. Department of Justice Office of Justice Programs/Passed-through the Mississippi Department of Public Safety | | | |
| Local law enforcement block grants program | 16.592 | 2004-LB-BX-0104 | 1,296 |
| Office of Community Oriented Policing Services/ Passed-through the Mississippi Department of Public Safety | | | |
| Public safety partnership and community policing grants | 16.710 | 2002-DB-BX-0028 | <u>38,157</u> |
| Total U.S. Department of Justice | | | <u>39,453</u> |

LAWRENCE COUNTY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2005

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency State domestic preparedness equipment support program | 97.004 | 2DPG-37 | 24,995 |
| Passed-through the Mississippi Department of Public Safety State domestic preparedness equipment support program | 97.004 | 04LE039 | <u>23,784</u> |
| Total U.S. Department of Homeland Security | | | <u>48,779</u> |
| Total Expenditures of Other Federal Awards | | | <u>149,380</u> |
| Total Expenditures of Federal Awards | | | <u>\$ 1,825,037</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

LAWRENCE COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2005

Operating Expenditures, Cash Basis:

| | | |
|---|----|-----------------------|
| Salaries | \$ | 176,822 |
| Expendable Commodities: | | |
| Gasoline and petroleum products | | 7,205 |
| Repair parts | | 6,243 |
| Contractual Services | | <u>100,656</u> |
| Solid Waste Cash Basis Operating Expenditures | | 290,926 |
| Full Cost Expenses: | | |
| Depreciation on equipment | | 61,262 |
| Interest on solid waste debt | | 7,274 |
| Indirect administrative costs | | <u>3,003</u> |
| Solid Waste Full Cost Operating Expenses | \$ | <u><u>362,465</u></u> |

LAWRENCE COUNTY

SPECIAL REPORTS

LAWRENCE COUNTY

(This page left blank intentionally)



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Lawrence County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lawrence County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated March 6, 2006. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

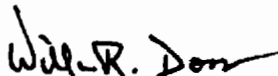
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lawrence County, Mississippi's primary government 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 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.



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 6, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Lawrence County, Mississippi

Compliance

We have audited the compliance of Lawrence County, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Lawrence County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lawrence County, Mississippi's management. Our responsibility is to express an opinion on Lawrence County, Mississippi's compliance based on our audit.

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

In our opinion, Lawrence County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

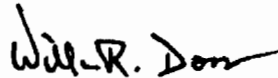
The management of Lawrence County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lawrence County, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 6, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM, INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES (REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))

Members of the Board of Supervisors
Lawrence County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Lawrence County, Mississippi, as of and for the year ended September 30, 2005. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Lawrence County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Lawrence 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.

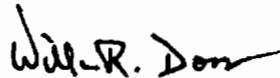
In our opinion, Lawrence County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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

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



PHIL BRYANT
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

March 6, 2006

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2005

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

LAWRENCE COUNTY
 Schedule of Emergency Purchases
 For the Year Ended September 30, 2005

Schedule 2

| <u>Date</u> | <u>Item Purchased</u> | <u>Amount Paid</u> | <u>Vendor</u> | <u>Reason for Emergency Purchase</u> |
|-------------|-----------------------|--------------------|---------------------------------|--------------------------------------|
| 09/05/05 | Hardware supplies \$ | 113 | Lawrence County Building Supply | Damage caused by Hurricane Katrina |
| 09/05/05 | Gas propane | 105 | Herring Gas Co. | Damage caused by Hurricane Katrina |
| 09/05/05 | Generator | 1,950 | Brookhaven Rent All | Damage caused by Hurricane Katrina |
| 09/05/05 | Gas | 2,617 | H.L. Quick, Inc. | Damage caused by Hurricane Katrina |
| 09/05/05 | Gas | 3,885 | Buffalo Services | Damage caused by Hurricane Katrina |
| 09/05/05 | Drive shaft | 131 | Gold Nugget of Brookhaven | Damage caused by Hurricane Katrina |
| 09/05/05 | Chainsaw | 355 | Mike's Service | Damage caused by Hurricane Katrina |

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2005

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

LAWRENCE COUNTY

(This page left blank intentionally)

LAWRENCE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LAWRENCE COUNTY

(This page left blank intentionally)

LAWRENCE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the primary government financial statements: | Unqualified |
| 2. | Internal control over financial reporting: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that is not considered to be a material weakness? | None Reported |
| 3. | Noncompliance material to the primary government financial statements? | No |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Internal control over major programs: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that is not considered to be a material weakness? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit findings reported as required by Section ____ .510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Highway planning and construction, CFDA #20.205 | |
| b. | Disaster grants - public assistance, CFDA #97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings 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.