

LOWNDES COUNTY, MISSISSIPPI

Primary Government Financial Statements,
Supplementary Financial Information,
and Special Reports

September 30, 2005
(With Independent Auditors' Report Thereon)

LOWNDES COUNTY, MISSISSIPPI
September 30, 2005

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September 30, 2005

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INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT ON THE
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors
Lowndes County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lowndes County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the primary government of Lowndes 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 Lowndes 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.

**Members of the Board of Supervisors
Lowndes County, Mississippi
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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 Lowndes 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 May 12, 2006, on our consideration of Lowndes County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 3i through 3x and the Budgetary Comparison Schedules and corresponding notes on pages 32 through 34 are not required parts 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 inquires 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 performed for the purpose of forming opinions on the primary government financial statements of Lowndes County, Mississippi, taken as a whole. 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 primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.

Bryce L. Saunders & O'Neil, LLP

May 12, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2005

The following discussion and analysis by Lowndes County (the County) is designed to provide and assist the reader with (a) an overview of the County's financial activities for the year ending September 30, 2005, (b) any significant financial issues, (c) changes in the County's financial position, and (d) identify any significant deviations from the County's financial plan (the original budget). This discussion and analysis by management is designed to focus on the fiscal year being audited. Readers also might wish to view the financial statements and the notes to these statements to gain a better understanding of the County's financial picture.

The management discussion and analysis is a recent requirement from the Governmental Accounting Standards Board which issues the standards for auditing County governments. This requirement for management to write a discussion and analysis is only a part of an overall change in new auditing requirements coming from GASB Statement No. 34. The overall intent of the changes is to make government financial statements more like business ones which show economic gain and loss.

Financial Highlights

Lowndes County continues to be financially stable. This commitment has been through conservative budgeting, reappraisal, monitoring expenses and keeping debt low.

The County continues to grow economically which has produced a steady growth in tax revenues without tax increases. During the 2000 fiscal year, the County decreased the tax rate by lowering the millage 5.08 mills to 45.08 and has been kept at this rate through the 2006 budget year.

The total net assets of the county decreased by \$3.4 million from \$59.4 to \$56 million.

Total revenues for the County's governmental funds were \$27.5 million. Of these revenues \$16.4 million was in the General Fund (the County's primary operating fund) and \$ 5 million was in the County Road Fund. Tax revenues accounted for \$14.6 million which represents 53.2 per cent of total revenues.

Overall the County spent \$ 37.5 million which was \$ 10 million over revenues accounted for in the fiscal year 2005.

Among the major funds, the General Fund spent \$17.1 million which was \$1.3 million more than the \$15.8 million in FY 2004.

Another major fund, the Countywide Road Maintenance Fund spent \$ 6.5 million which was \$1.5 million more than the \$5 million in revenue it received.

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The county issued \$6.5 million in General Obligation Bonds during the year. These bonds went to fund an enlarged industrial development site in which steel maker SeverCorr will locate a \$900 million steel mill. This came after issuing \$940,000 in G.O. bonds in 2004 to help construct EuroCopter a helicopter assembly plant in western Lowndes County. During 2004, the county's long-term debt increased from \$8.4 million to \$8.6 million. During 2005, the county's long-term debt climbed to \$15.1 million.

Using the Annual Report

The primary focus of local government's financial statements in the past has been on fund-type information. This has been discarded. The new focus is the County as a whole (government-wide) and the major individual funds. The following discussion is intended to explain the County's basic financial statements which are comprised of 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a business like overview of the County's financial activities.

The focus of the Statement of Net Assets is designed to be similar to the bottom line for the County and its governmental and business-type activities. It presents financial information on all the County assets and liabilities with the difference being reported as net assets. Over time readers can use the increases and decreases in net assets as a possible indicator of the financial health of the County. Is it improving, staying the same or deteriorating?

Component Units which are other governmental units over which the county (the Board of Supervisors as a group) can exercise influence and/or be obligated to provide to provide financial assistance. These units are presented as a separate column in the government-wide statements and as individual activities in the Fund Financial Statement. No Component Units are presented in the County's Financial Statements.

The Statement of Activities is focused on the gross and net cost of various activities. These include activities of government, business-type and component units which are provided by the government's general tax and other revenues. This statement is intended to summarize and simplify the reader's analysis of the cost of various government services, business-type activities and component units.

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
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Governmental activities of the County include general government (basic services), public safety (sheriff, emergency management and fire protection), public works (roads and bridges), health and welfare, culture and recreation, education, economic development and interest on long-term debt. Included in basic services (general government) are costs for running the government, collecting taxes, appraising property and personal taxes, building inspection, supervisors, circuit clerk, chancery clerk and running the courts.

Fund Financial Statements. The focus is now on Major Funds rather than fund types. A fund is used to group related accounts for financial purposes or legal compliance. The funds of the County are divided into governmental, proprietary and fiduciary funds.

Governmental funds account for basically the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide statements, governmental funds financial statements focus on current sources and uses. This is the manner in which the County's financial plan or budget is typically developed. Governmental funds include general, special revenue, debt service and capital project funds.

Financial information for governmental funds is presented in the Governmental Funds Balance Sheet and the 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. Both of these reports are reconciled to provide a comparison between governmental funds and governmental activities.

Proprietary Funds. These are business-type funds. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statement. Examples of enterprise funds are solid waste, electric departments and water and waste systems. Internal service funds account for various internal county functions such as self-insured health plans. Lowndes County neither uses enterprise or internal service funds.

Fiduciary Funds. These funds are used to account for trust responsibilities of the government. These assets are usually restricted in purpose and do not represent discretionary assets, so they are not presented as part of the Government-Wide Financial Statements.

The County follows the Mississippi County Financial Accounting Manual issued by the Mississippi Office of the State Auditor to set up and maintain funds. The County adopts an annual operating budget for all governmental funds. As *required supplementary information*, this discussion and analysis includes a budgetary comparison statement for each major fund.

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2005

Government-Wide Financial Analysis

Statement of Net Assets

The following statement reflects the condensed Statement of Net Assets for the years ended September 30, 2005.

Lowndes County Statement of Net Assets Governmental Activities		
	<u>2004</u>	<u>2005</u>
Current Assets	\$ 20,664,409	22,894,963
Non-Current Assets	<u>57,863,712</u>	<u>60,933,940</u>
Total Assets	<u>78,528,121</u>	<u>83,828,903</u>
Current Liabilities	12,269,428	12,432,886
Long-Term Debt Outstanding	<u>7,699,195</u>	<u>15,368,721</u>
Total Liabilities	<u>19,968,623</u>	<u>27,801,607</u>
Net Assets		
Invested in Capital Assets net of Related Debt	49,373,883	54,571,009
Restricted	3,710,996	2,854,335
Unrestricted	<u>5,474,619</u>	<u>(1,398,048)</u>
Total Net Assets	\$ <u>58,559,498</u>	<u>56,027,296</u>

There are usually six basic normal financial transactions that will affect the Statement of Net Assets.

Net Result of Activities – This will either increase/decrease current assets and unrestricted assets. Net assets decreased by \$3,455,789. This was mainly due to spending more than revenues received.

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Management's Discussion and Analysis
September 30, 2005

Borrowing for Capital - This will increase current assets and long-term debt. The county's long-term debt increased from \$8.9 million in 2004 to \$15.3 million in 2005. Most of that increase came from the county issuing \$6.5 million in bonds.

Spending Borrowed Proceeds on New Capital - This will reduce current assets and increase capital assets. This also will increase the amount invested in capital assets and related net debt which will not change the invested in capital assets, net of debt. The County spent the \$459 thousand it borrowed mainly on road equipment.

Spending of Non-borrowed Current Assets on New Capital - This will reduce current assets, increase capital assets, reduce unrestricted assets, and increase invested in capital assets, net of debt. Lowndes spent \$488,615 on new equipment during 2005, mainly heavy road equipment.

Principal Payment on Debt - This will reduce current assets, reduce long-term debt, reduce unrestricted net assets, and increase invested in capital assets, net of debt. The County reduced debt principal by \$1.1 million.

Reduction of Capital Assets through Depreciation — This will reduce capital assets and invested in capital assets, net of debt. This is a non-cash expense. The County recorded depreciation of \$2.0 million in FY 2005.

Changes in Net Assets

Lowndes County's total revenues for the fiscal year ended September 30, 2005 was \$27.5 million up \$2.2 million from a year ago. The total cost for services provided by the County was \$31.2 million up \$7.2 million from a year ago. The difference left the County with a net asset decrease of \$3.4 million compared to a \$1.1 million increase the year before. The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2004 and 2005.

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2005

	<u>2004</u>	<u>2005</u>
<u>Revenues:</u>		
Program Revenues		
Charges for Services	\$ 2,812,578	1,978,853
Operating Grants	4,079,684	4,720,984
Capital Grants	2,288,467	3,793,161
General Revenues		
Property Taxes	13,061,516	13,699,075
Road & Bridge Privilege Taxes	708,626	664,260
Other Revenues	<u>2,328,469</u>	<u>2,910,793</u>
Total Revenues	<u>25,279,340</u>	<u>27,767,126</u>
<u>Expenses:</u>		
General Government	6,312,759	5,194,434
Public Safety	7,588,587	7,747,859
Public Works	6,996,605	7,327,779
Economic Development	1,155,667	8,831,120
Interest on Debt	393,452	444,468
Other Expenses	<u>1,648,950</u>	<u>1,677,255</u>
Total Expenses	<u>24,096,020</u>	<u>31,222,915</u>
Increase in Net Assets	\$ <u>1,183,320</u>	\$ <u>(3,455,789)</u>

Governmental Activities:

The following table presents the cost of six of the major services provided by the County. These are General Government, Public Safety, Public Works, Health and Welfare, Culture and Recreation and Economic Development.

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2005

The table summarizes what some of major services cost the taxpayers of Lowndes County during fiscal years 2004 and 2005:

	<u>2005</u>		
	<u>Total</u> <u>Costs</u>	<u>Service</u> <u>Revenues</u>	<u>Net</u> <u>Costs</u>
General Government	\$ 5,194,434	3,033,235	\$2,161,199
Public Safety	7,747,859	3,918,960	3,828,899
Public Works	7,327,779	3,460,302	3,867,477
Health and Welfare	571,745	45,247	526,498
Culture and Recreation	905,756	16,614	889,142
Economic Development	8,831,120	2,280	8,828,840

	<u>2004</u>		
	<u>Total</u> <u>Costs</u>	<u>Service</u> <u>Revenues</u>	<u>Net</u> <u>Costs</u>
General Government	\$ 6,312,759	3,951,760	2,360,999
Public Safety	7,588,587	2,212,812	5,375,775
Public Works	6,996,605	2,942,697	4,053,908
Health and Welfare	508,091	45,099	462,992
Culture and Recreation	898,851	20,323	878,528
Economic Development	1,155,667	2,182	1,153,485
Interest on L-T Debt	393,452	-	393,452

Financial Analysis of the County's Funds

Governmental Funds:

As of year end, the government funds reported, as audited, a fund balance of \$10,312,642. This is a decrease of \$1.4 million from the prior year's fund balance of \$11,775,315.

The General Fund, the County's principal operating fund had an ending fund balance of \$5,566,321, a decrease of \$371,347 from the prior year. The Countywide Road Fund fell \$599,542 from \$407,188 to (\$192,354).

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2005

Capital Assets and Debt Administration

Capital Assets:

As of September 30, 2005, Lowndes County had a total of \$121 million invested in a variety of capital assets. The largest investments are in roads and bridges (infrastructure) with a total of \$78.7 million (65%). Roads and bridges and other infrastructure are now included, as required by GASB 34) in the County's financial records. GASB 34 also requires depreciation, a non-cash expense, to be now recorded. Accumulated depreciation was \$60,488,751 at September 30, 2005, with \$43,563,261 some 72 percent being charged to infrastructure. The county's total assets net of depreciation is \$60.4 million, See capital assets discussion on page 23.

Debt:

At the end of the year (September 30, 2005), the County had \$15.1 million in borrowed outstanding long-term debt. This includes General Obligations Bonds, loans and capital lease purchases. This is \$6526, 032 million more than the prior year. Of the outstanding debt \$848,371 of principal and \$579,242 of interest is due within one year.

Long-Term Debt
As of September 30, 2004

	<u>Prior Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 9/30/2005</u>
General Obligation Bonds	\$ 6,452,000	6,500,100	553,000	12,399,100
Loans Payable	1,383,348	689,426	241,664	1,831,110
Capital Leases Payable	798,335	525,370	394,200	929,505
Total Debt Payable	\$ <u>8,633,683</u>	<u>7,714,896</u>	<u>1,188,864</u>	<u>15,159,715</u>

During the year, the county issued \$6,500,100 in General Obligation Bonds to purchase land for the construction a steel mill.

The State of Mississippi limits the amount of debt Counties can issue to 15% of total assessed value. During this year, Lowndes County is at 3.0 percent well below its current limit.

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
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Budget — Original vs. Final

The following is a review of the significant changes from the original budget to the final for the major governmental funds. The County's budget is a financial plan for the various departments and their management to follow during the year. This plan is made in the summer before the fiscal year starts in October. These estimates and projections change as the year progresses. Some changes to the budget are made by budget amendment and the remainder is amended at the end of the year to reflect actual revenues received and expenditures made.

Budget Analysis Summary

	<u>Original</u>	<u>Final</u>	<u>Variance</u>
General Fund			
Revenues	\$ 15,453,721	16,299,096	845,375
Expenditures	16,255,721	16,398,292	(142,571)
County-wide Road Fund			
Revenues	3,774,533	3,592,768	(181,765)
Expenditures	3,774,533	4,158,455	(388,922)
Economic Development Fund			
Revenues	32,545	29,790	(2,755)
Expenditures	317,304	7,049,084	(6,731,780)

In the General Fund, \$385,556 more came from property taxes in 2005 along with intergovernmental and interest income showing increases. Fines were slightly up, while licenses, commissions and charges for revenues were less than expected. On the expense side, the county was slightly over budget. See budget comparison on page 32.

Economic Factors

While property taxes, the main source of revenue for Counties, in some other counties in Mississippi have been stagnant or leveling off, Lowndes continues to grow at three to four percent per year. This trend is also expected next year. Lowndes County has an unemployment rate of 7.7% while the State average was 5.1 %.

LOWNDES COUNTY, MISSISSIPPI
Management's Discussion and Analysis
September 30, 2005

Financial Contact

The County's financial statements and schedules are designed to present users (citizens, taxpayers, customers, investors and creditors) with a general overview of the County's finances and to demonstrate the County's accountability and fiduciary responsibilities for the funds it receives and the services it provides. If you have questions about the report or need additional financial information, contact the County's Chief Financial Officer, Davis W. Basinger, CPA, on the second floor of the Court House, 502 2nd Ave. North, P.O. Box 1364, Columbus, Mississippi 39703.

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

LOWNDES COUNTY, MISSISSIPPI

Statement of Net Assets

September 30, 2005

	<u>Primary Government Governmental Activities</u>
ASSETS	
Cash	\$ 8,162,811
Property tax receivable	11,095,295
Intergovernmental receivables	988,440
Fines receivable, net	281,306
Loans receivable, net	2,066,986
Other receivables	251,810
Deferred debt expense, net	48,315
Capital assets, net	<u>60,933,940</u>
Total assets	<u>83,828,903</u>
LIABILITIES	
Claims payable	263,080
Intergovernmental payables	722,797
Accrued expenses	180,186
Other payables	251,198
Deferred revenue	11,015,625
Long-term liabilities:	
Due within one year:	
Capital	832,865
Non-capital	352,371
Due in more than one year:	
Capital	5,530,066
Non-capital	<u>8,653,419</u>
Total liabilities	<u>27,801,607</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,571,009
Restricted for debt service	142,920
Restricted for other purposes	2,711,415
Unrestricted net assets	<u>(1,398,048)</u>
Total net assets	<u>\$ 56,027,296</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
Statement of Activities
Year Ended September 30, 2005

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Primary Governmental Activities
Governmental activities:				
General government	\$ 5,194,434	570,419	2,462,816	-
Public safety	7,747,859	1,213,915	986,560	1,718,485
Public works	7,327,779	1,779,905	1,269,328	2,013,069
Health and welfare	571,745	-	-	45,247
Culture and recreation	905,756	16,614	-	-
Education	32,750	-	-	-
Conservation of natural resources	167,004	-	-	16,360
Economic development and assistance	8,831,120	-	2,280	-
Interest on long-term debt	444,468	-	-	-
Total governmental activities	31,222,915	1,978,853	4,720,984	3,793,161
General revenues:				
Property taxes				\$ 13,699,075
In lieu taxes				959,399
Road and bridge privilege taxes				664,260
Interest income				477,370
Gain on sale of assets				212,642
Miscellaneous revenues				1,261,382
Total general revenues				17,274,128
Change in net assets				(3,455,789)
Net assets - beginning of year, as previously reported				58,559,498
Net assets adjustment				923,587
Net assets - beginning of year, restated				59,483,085
Net assets - end of year				56,027,296

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
 Balance Sheet - Governmental Funds
 September 30, 2005

ASSETS	<u>General</u>	<u>Economic Development</u>	<u>Countywide Roads</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 5,429,178	935,057	-	1,798,576	8,162,811
Property tax receivable	8,214,340	-	1,602,119	1,278,836	11,095,295
Fines receivable, net	281,306	-	-	-	281,306
Intergovernmental receivables	520,700	-	65,488	402,252	988,440
Due from other funds	342,253	-	96,724	24,189	463,166
Loans receivable	175,000	976,986	-	915,000	2,066,986
Other receivables	162,107	-	23,155	66,548	251,810
Total assets	<u>\$ 15,124,884</u>	<u>1,912,043</u>	<u>1,787,486</u>	<u>4,485,401</u>	<u>23,309,814</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:					
Claims Payable	\$ 122,847	-	38,008	102,225	263,080
Intergovernmental payables	677,629	-	-	45,168	722,797
Due to other funds	120,913	-	339,713	2,540	463,166
Other payables	251,198	-	-	-	251,198
Deferred revenue	8,385,976	-	1,602,119	1,308,836	11,296,931
Total liabilities	<u>9,558,563</u>	<u>-</u>	<u>1,979,840</u>	<u>1,458,769</u>	<u>12,997,172</u>

FUND BALANCES:

Reserved for loans receivable	175,000	976,986	-	915,000	2,066,986
Unreserved, reported in:					
General funds	5,391,321	-	-	-	5,391,321
Special revenue funds	-	935,057	(192,354)	1,968,712	2,711,415
Debt service funds	-	-	-	142,920	142,920
Total fund balances	<u>5,566,321</u>	<u>1,912,043</u>	<u>(192,354)</u>	<u>3,026,632</u>	<u>10,312,642</u>
Total liabilities and fund balances	<u>\$ 15,124,884</u>	<u>1,912,043</u>	<u>1,787,486</u>	<u>4,485,401</u>	<u>23,309,814</u>

See accompanying notes to financial statements.

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

Fund balances - total governmental funds	\$	10,312,642
Amounts reported for governmental activities in Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds		
Governmental capital assets		121,422,691
Less accumulated depreciation		<u>(60,488,751)</u>
		60,933,940
Fines receivable are not available to pay for current period expenditures and therefore are deferred in the general funds.		
		281,306
Interest payable used in the governmental activities are not payable from current resources and therefore are not reported in the governmental funds		
		(180,186)
Long-term liabilities are not due and payable in the current year and therefore are not reported in the governmental funds		
		(15,368,721)
Deferred debt expense is not a financial resource and therefore is not reported in the governmental funds		
		<u>48,315</u>
Net Assets of Governmental Activities	\$	<u><u>56,027,296</u></u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended September 30, 2005

	General	Economic Development	Countywide Roads	Other Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$ 10,164,878	-	1,974,520	1,559,677	13,699,075
In lieu taxes	739,552	-	219,847	-	959,399
Road and bridge privilege taxes	-	-	664,260	-	664,260
Licenses, commissions and other revenue	825,894	-	-	16,614	842,508
Fines and forfeitures	553,797	-	-	46,976	600,773
Intergovernmental revenues	2,729,094	-	1,737,784	3,397,253	7,864,131
Charges for services	499,177	-	-	655,937	1,155,114
Interest income	385,170	29,790	-	62,410	477,370
Miscellaneous revenues	575,755	-	496,166	189,461	1,261,382
Total revenues	<u>16,473,317</u>	<u>29,790</u>	<u>5,092,577</u>	<u>5,928,328</u>	<u>27,524,012</u>
EXPENDITURES					
Current Operating:					
General government	6,433,680	-	-	-	6,433,680
Public safety	6,608,113	-	-	3,635,915	10,244,028
Public works	91,707	-	6,303,406	2,355,355	8,750,468
Health and welfare	525,624	-	-	51,838	577,462
Culture and recreation	848,192	-	-	57,564	905,756
Education	32,750	-	-	-	32,750
Conservation of natural resources	157,927	-	-	20,406	178,333
Economic development and assistance	1,379,373	6,664,689	-	787,058	8,831,120
Debt Service:					
Principal	748,775	166,296	248,794	25,000	1,188,865
Interest	288,480	19,098	22,623	63,910	394,111
Total expenditures	<u>17,114,621</u>	<u>6,850,083</u>	<u>6,574,823</u>	<u>6,997,046</u>	<u>37,536,573</u>
OTHER FINANCING SOURCES (USES)					
Long-term debt issued	689,426	6,500,100	525,370	-	7,714,896
Proceeds from sale of assets	287,632	-	164,108	-	451,740
Transfers in	4,078	-	-	848,122	852,200
Transfers out	(846,581)	-	-	(5,619)	(852,200)
Net other financing sources (uses)	<u>134,555</u>	<u>6,500,100</u>	<u>689,478</u>	<u>842,503</u>	<u>8,166,636</u>
Net change in fund balances	<u>(506,749)</u>	<u>(320,193)</u>	<u>(792,768)</u>	<u>(226,215)</u>	<u>(1,845,925)</u>
Fund balances - beginning of year					
as previously reported	5,937,668	2,232,236	407,188	3,198,223	11,775,315
Fund balance adjustments	135,402	-	193,226	54,624	383,252
Fund balances - beginning of year, restated	<u>6,073,070</u>	<u>2,232,236</u>	<u>600,414</u>	<u>3,252,847</u>	<u>12,158,567</u>
Fund balances - end of year	<u>\$ 5,566,321</u>	<u>1,912,043</u>	<u>(192,354)</u>	<u>3,026,632</u>	<u>10,312,642</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities
 Governmental Funds
 Year Ended September 30, 2005

Net Change in Fund Balances - total governmental funds	\$	(1,845,925)
Amounts reported for governmental activities in 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 depreciated over their estimated useful lives:		
Expenditures for capital assets	7,177,787	
Less current year depreciation	<u>(2,025,425)</u>	5,152,362
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		30,470
Compensated absences not payable from current year resources are not reported as expenditures of the current year. In the Statement of Activities, these costs represent expenses of the current year		22,788
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.		
Debt proceeds	(7,714,896)	
Repayment of debt	1,188,865	
Amortization and accretion of debt issue costs, discounts, and premiums	<u>(5,907)</u>	(6,531,938)
Accrued interest expense reported in the Statement of Net Assets does not require the use of current financial resources and is therefore not reported as expenditures in the governmental funds		(44,450)
When recognizing the sale of capital assets, the governmental funds report the total proceeds of the sale. Only the gain or loss on the sale is reported on the Statement of Activities		(239,098)
Other		<u>2</u>
Change in Net Assets - governmental activities	\$	<u>(3,455,789)</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
Statement of Fiduciary Assets and Liabilities
September 30, 2005

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 9,922
Intergovernmental receivables	<u>19,299</u>
Total assets	\$ <u>29,221</u>
LIABILITIES	
Intergovernmental payables	\$ <u>29,221</u>
Total liabilities	\$ <u>29,221</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) Significant Accounting Policies

(a) Financial Reporting Entity

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

Management has chosen to omit from these financial statements the following component units that 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.

- Fire Districts
- Industrial Development Authority

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

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) **Significant Accounting Policies (continued)**

(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 non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other non-exchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, 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.

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(1) **Significant Accounting Policies (continued)**

(b) **Basis of Presentation (continued)**

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, proprietary and fiduciary. Major individual governmental funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and presented in a single column.

(c) **Measurement Focus and Basis of Accounting**

The government-wide and fiduciary fund financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared 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 sixty days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liability is 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.

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) **Significant Accounting Policies (continued)**

(c) **Measurement Focus and Basis of Accounting (continued)**

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.

Countywide Road Maintenance Fund - This fund is used to account for revenues from specific revenue sources that are restricted for construction and maintenance of county roads.

Economic Development Fund - This fund is used to account for revenues from specific revenue sources that are restricted for aiding and developing industry.

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 expendable trusts) that are legally restricted to expenditures for specified purposes. Special Revenue Funds account for, among others, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

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

Fiduciary Fund 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.

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) **Significant Accounting Policies (continued)**

(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.

(g) **Inter-fund 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." Inter-fund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(1) **Significant Accounting Policies (continued)**

(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 statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

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

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

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) **Significant Accounting Policies (continued)**

(i) **Long-term Liabilities**

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

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt using the effective interest method.

(j) **Equity Classifications**

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) Significant Accounting Policies (continued)

(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 that resulted from the assessments of the previous year.

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

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

(l) Intergovernmental Revenues in Governmental Funds

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

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(1) **Significant Accounting Policies (continued)**

(m) **Compensated Absences**

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

(2) **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, and 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 the new statement have been incorporated into the financial statements and the accompanying notes.

(3) **Fund Balance and Net Asset Adjustment**

A summary of significant September 30, 2004, net asset adjustments in the statement of activities follows:

<u>Description</u>		<u>Amount</u>
Overstatement of accumulated depreciation.	\$	540,335
Effect of fund balance adjustments (see below).		<u>383,252</u>
Total Net Asset Adjustment	\$	<u>923,587</u>

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(3) Fund Balance and Net Asset Adjustment (Continued)

A summary of significant September 30, 2004, fund balance adjustments in the statement of revenues, expenditures, and changes in fund balances follows:

<u>Description</u>	<u>Amount</u>
General fund -	
To record grant and other receivables.	\$ 135,402
Countywide roads fund -	
To record grant and other receivables.	193,226
Other governmental funds -	
To record grant and other receivables.	<u>54,624</u>
Total Fund Balance Adjustments	\$ <u>383,252</u>

(4) Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$8,172,733, and the bank balance was \$10,094,915. 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, collateralization of the entity's funds is monitored by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County. However, four accounts with a total bank balance of \$871,866 at September 30, 2005 were inadvertently not collateralized at September 30, 2005.

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(5) Inter-Fund Transactions and Balances

The following is a summary of inter-fund balances at September 30, 2005:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Countywide roads fund	\$ 339,713
General fund	Non-major special revenue funds	2,540
Countywide roads fund	General fund	96,724
Non-major special revenue funds	General fund	<u>24,189</u>
Total		\$ <u>463,166</u>

The receivables in the general fund represent loans to other funds to temporarily fund operating needs. The receivables in all other funds represent tax revenue collected but not settled until October 2005. All inter-fund balances are expected to be repaid within one year of the date of the financial statements.

Transfers In/Out:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Non-major special revenue funds	General fund	\$ 800,873
Non-major special revenue funds	Non-major special revenue funds	<u>51,327</u>
Total		\$ <u>852,200</u>

The principal purpose of inter-fund transfers was to provide funds for capital and operating needs.

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(6) Intergovernmental Receivables

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

<u>Description</u>	<u>Amount</u>
Legislative tax credit	\$ 303,561
Federal grants receivable	53,127
State grants receivable	384,667
Other State receivables	185,703
Receivables from local governments	<u>61,382</u>
Total Intergovernmental Receivables	\$ <u>988,440</u>

(7) Loans Receivable

Loans receivable at September 30, 2005, consist of the following:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
American Trouser	01-29-92	4.50 %	12-01-01	\$ 2,575
Chamber of Commerce Incubator	04-21-92	3.00 %	04-30-12	24,109
City of Columbus – ½ of Recreation	05-04-94	5.00 %	05-04-09	175,000
Industrial Development Fire	08-23-96	4.25 %	10-01-05	2,594
MS Precision Casting (MBIA)	07-01-02	0.00 %	02-01-11	337,000
MS Precision Casting (CDBG)	07-01-02	4.50 %	10-01-08	472,802
MS Precision Casting	07-01-02	4.00 %	06-28-08	137,906
Golden Triangle Regional Airport Auth.	06-11-04	3.9-5.1 %	11-01-15	<u>915,000</u>
Total Loans Receivable				\$ <u>2,066,986</u>

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(8) Capital Assets

The following is a summary of capital assets activity 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>
<u>Governmental Activities:</u>					
Land	\$ 915,630	220,817	(140,925)	-	995,522
Infrastructure	77,028,309	1,703,744	-	-	78,732,053
Buildings	25,701,197	772,543	-	3,691,131	30,164,871
Construction in progress	808,558	3,424,529	-	(3,691,131)	541,956
Mobile equipment	7,758,839	373,004	(619,930)	88,420	7,600,333
Other equipment	1,473,617	115,611	-	191,635	1,780,863
Leased property under capital lease	<u>1,319,609</u>	<u>567,539</u>	<u>-</u>	<u>(280,055)</u>	<u>1,607,093</u>
Total	<u>115,005,759</u>	<u>7,177,787</u>	<u>(760,855)</u>	<u>-</u>	<u>121,422,691</u>
<u>Less accumulated depreciation:</u>					
Infrastructure	43,449,003	740,865	-	(626,607)	43,563,261
Buildings	9,292,208	531,156	-	-	9,823,364
Mobile equipment	5,137,869	497,713	(521,757)	47,748	5,161,573
Other equipment	1,244,099	83,795	-	189,712	1,517,606
Leased property under capital lease	<u>402,241</u>	<u>171,894</u>	<u>-</u>	<u>(151,188)</u>	<u>422,947</u>
Total	<u>59,525,420</u>	<u>2,025,425</u>	<u>(521,757)</u>	<u>(540,335)</u>	<u>60,488,751</u>
Net capital assets – governmental activities	\$ <u>55,480,339</u>	<u>5,152,362</u>	<u>(239,098)</u>	<u>540,335</u>	<u>60,933,940</u>

Depreciation expense was charged to the following functions:

<u>Description</u>	<u>Amount</u>
Governmental activities:	
General government	\$ 301,308
Public safety	537,440
Public works	1,182,935
Health and welfare	1,255
Conservation of natural resources	<u>2,487</u>
Total governmental activities depreciation expense	\$ <u>2,025,425</u>

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(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) Operating Lease

In 1993, the County leased its hospital facilities to Baptist Memorial Health Care Development Corporation ("Baptist"). The term of the lease is 35 years, with the lessee having the option to extend the lease for three consecutive five-year terms for a maximum lease term of 50 years. To meet the rent provisions of the lease, the lessee shall satisfy all hospital long-term debt, make certain expenditures, and assume certain contracts, obligations and liabilities. The County is currently in negotiations to sell the hospital facilities to Baptist.

(11) Capital Leases

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ <u>1,607,093</u>
Total	1,607,093
Less accumulated depreciation	<u>(422,947)</u>
Leased Property Under Capital Leases	\$ <u>1,184,146</u>

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(11) Capital Leases (Continued)

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

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 336,865	25,595
2007	268,742	14,806
2008	145,110	8,393
2009	139,619	3,846
2010	<u>39,169</u>	<u>398</u>
Total payments	\$ <u>929,505</u>	<u>53,038</u>

(12) Long-term Debt

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

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates (%)</u>	<u>Final Maturity Date</u>
Governmental Activities:			
(a) <u>General Obligation Bonds:</u>			
Economic development	\$ 6,500,100	4.125	7/2025
Jail bonds	4,744,000	5.05	12/2012
Fire & recreation improvements	240,000	4.9 – 5.0	3/2009
Airport bonds	<u>15,000</u>	3.875 – 5.125	11/2015
Total General Obligation Bonds	\$ <u>12,399,100</u>		

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(12) Long-term Debt (continued)

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates (%)</u>	<u>Final Maturity Date</u>
(b) <u>Capital Leases:</u>			
5 sheriff's vehicles	\$ 32,923	3.99	1/2007
5 sheriff's vehicles	36,058	3.62	1/2007
5 sheriff's vehicles	63,225	2.94	4/2007
2 International trucks	8,746	5.59	2/2006
2 International trucks	38,560	3.89	1/2007
5 tractors	37,538	3.18	3/2007
2 International trucks	73,340	3.44	4/2007
2 dump trucks	141,937	2.99	5/2009
Backhoe	38,094	3.04	7/2007
2 excavators	271,541	3.09	10/2009
3 dump trucks	<u>187,543</u>	3.19	1/2010
Total Capital Leases	\$ <u>929,505</u>		
(c) <u>Other Loans</u>			
City of Columbus CAP	\$ 296,836	4.25	8/2013
Econ. & community development	24,109	3.00	4/2012
MS Precision Casting (MBIA)	337,000	0.00	2/2011
MS Precision Casting (CDBG)	483,739	4.50	10/2008
Economic development (Baldor)	<u>689,426</u>	3.50	1/2016
Total Other Loans	\$ <u>1,831,110</u>		

The Baldor loan is a non-interest bearing loan with a principal balance of \$850,000. Interest at 3.5% has been imputed on this loan bringing the imputed principal balance to \$689,426.

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(12) Long-term Debt (continued)

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

Governmental Activities:

<u>Year Ending</u> <u>September 30,</u>	<u>General Obligation Bonds</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 576,000	549,543	272,371	29,699
2007	606,000	520,020	278,888	64,186
2008	882,566	489,084	306,574	36,477
2009	925,902	446,324	174,294	28,522
2010	915,664	402,883	165,540	24,525
2011-2015	3,771,947	1,383,149	551,318	62,353
2016-2020	2,419,972	727,341	82,125	2,874
2021-2025	<u>2,301,049</u>	<u>292,426</u>	<u>-</u>	<u>-</u>
Total	\$ <u>12,399,100</u>	<u>4,810,770</u>	<u>1,831,110</u>	<u>248,636</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 3.05% of the latest property assessments.

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

	<u>Balance</u> <u>Oct. 1,</u> <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance</u> <u>Sept. 30,</u> <u>2005</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
Governmental Activities:						
Compensated absences	\$ 231,795	-	(22,789)	-	209,006	-
General obligation bonds	6,452,000	6,500,100	(553,000)	-	12,399,100	576,000
Capital leases	798,335	525,370	(394,200)	-	929,505	336,865
Other loans	<u>1,383,348</u>	<u>689,426</u>	<u>(241,664)</u>	<u>-</u>	<u>1,831,110</u>	<u>272,371</u>
Total	\$ <u>8,865,478</u>	<u>7,714,896</u>	<u>(1,211,653)</u>	<u>-</u>	<u>15,368,721</u>	<u>1,185,236</u>

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(13) Deficit Fund Balances of Individual Funds

The following funds reported deficits in fund balances at September 30, 2004:

<u>Fund</u>	<u>Fund Balance</u>
Special revenue funds -	
FAA airport grant	\$ (529)
Law library	(553)
Emergency management certification grant	(1,229)
Environmental grant	(4,046)
Countywide road	(192,354)

These deficits are the result of claims payable accruals and are not cash basis deficit fund balances.

(14) 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.

LOWNDES COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2005

(15) Joint Ventures

The County participates in the following joint ventures:

The County is a participant with the City of Columbus in a joint venture, authorized by Section 61-3-5, Mississippi Code Ann. (1972), to operate Columbus/Lowndes Airport Authority. The joint venture was created to provide airport facilities. The joint venture is governed by a four-member board of commissioners appointed equally. The County made no appropriation for airport maintenance in 2005. However, the County provides financial support when needed. Complete financial statements for the Columbus/Lowndes Airport Authority can be obtained from Post Office Box 1408, Columbus, Mississippi 39703.

The County is a participant with the City of Columbus in a joint venture, authorized by Section 55-9-27, Mississippi Code Ann. (1972), to operate the Columbus/Lowndes Recreation Authority. The joint venture was created to provide recreation facilities. The joint venture is governed by a five-member board. Each entity appoints two of the five board members, with the fifth member being appointed by both. By contractual agreement, the County's appropriation from the General Fund to the joint venture was \$525,645. Complete financial statements for the Columbus/Lowndes Recreation Authority can be obtained from Post Office Box 2245, Columbus, Mississippi 39704.

The County is a participant with the Counties of Choctaw, Clay, Noxubee, Oktibbeha and Webster and the Cities of Ackerman, Columbus, Eupora, Louisville, Macon, Starkville and West Point in a joint venture, authorized by Section 17-17-307, Mississippi Code Ann. (1972), to operate the Golden Triangle Regional Solid Waste Management Authority. The joint venture was created to provide a regional disposal site for solid waste. The County appoints one of the 38 members of the board of directors. The authority is funded by user fees based on the volume of solid waste. Complete financial statements for the Golden Triangle Regional Solid Waste Management Authority can be obtained from Post Office Box DN, Mississippi State, Mississippi 39762.

The County is a participant with the City of Columbus in a joint venture, authorized by Section 39-3-8, Mississippi Code Ann. (1972), to operate the Lowndes County Library System. The joint venture was created to provide library services. Each member appoints five of the ten board members. By contractual agreement, the County's appropriation to the joint venture was \$292,967 in 2005. Complete financial statements for the Lowndes County Library System can be obtained from 314 North Seventh Street, Columbus, Mississippi 39701.

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(16) Jointly Governed Organizations

The County participates in the following jointly governed organizations:

Community Counseling Services operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The County appoints one of the seven members of the board of commissioners. The County appropriated \$81,717 for support of the agency in 2005.

East Mississippi Community College operates in a district composed of the counties of Clay, Kemper, Lauderdale, Lowndes, Noxubee and Oktibbeha. The County appoints two of the twelve members of the college board of trustees. The County appropriated \$1,016,474 for maintenance and support of the college in 2005.

Golden Triangle Planning and Development District operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The County appoints four of the 28 members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$90,000 to the district in 2005.

Golden Triangle Regional Airport Authority operates in a district composed of the Counties of Lowndes and Oktibbeha and the Cities of Columbus, Starkville and West Point. The County appoints one of the five members of the board of commissioners. The County provided no financial support to the authority in 2005.

Mississippi Regional Housing Authority IV operates in a district composed of the Counties of Carroll, Choctaw, Clay, Grenada, Lowndes, Montgomery, Oktibbeha, Webster and Winston. The County appoints one of the nine board members. The counties generally provide no financial support to the organization.

LOWNDES COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2005

(17) Defined Benefit Pension Plan

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

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the County is required to contribute at an actuarially determined rate. The current rate is 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 \$893,794, \$796,289, and \$848,507, respectively, equal to the required contributions for each year.

(18) Subsequent Event

In January 2006, the County leased a tractor/truck under a capital lease for \$78,867 at 3.91% interest. In March 2006, the County leased an excavator under a capital lease for \$169,000 at 3.9% interest. Both of these capital leases will be repaid from taxes levied for road maintenance.

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule

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

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance From Final Budget</u>
REVENUES				
Property taxes	\$ 10,506,521	10,892,077	10,892,077	-
Licenses, commissions and other revenue	836,400	806,129	806,129	-
Fines and forfeitures	528,500	550,659	550,659	-
Intergovernmental revenues	2,401,500	2,772,461	2,772,461	-
Charges for services	585,000	458,366	458,366	-
Interest income	280,000	376,378	376,378	-
Miscellaneous revenues	315,800	443,026	443,026	-
Total revenues	<u>15,453,721</u>	<u>16,299,096</u>	<u>16,299,096</u>	<u>-</u>
EXPENDITURES				
Current Operating:				
General government	6,990,491	6,793,758	6,793,758	-
Public safety	6,236,119	6,493,828	6,493,828	-
Public works	128,806	91,640	91,640	-
Health and welfare	485,584	525,107	525,107	-
Culture and recreation	848,822	849,488	849,488	-
Education	32,750	32,750	32,750	-
Conservation of natural resources	154,203	157,740	157,740	-
Economic development and assistance	365,000	365,000	365,000	-
Debt Service:				
Principal	732,545	807,889	807,889	-
Interest	281,401	281,092	281,092	-
Total expenditures	<u>16,255,721</u>	<u>16,398,292</u>	<u>16,398,292</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	6,575	6,575	-
Transfers in	-	4,078	4,078	-
Transfers out	(1,296,800)	(846,581)	(846,581)	-
Net other financing sources (uses)	<u>(1,296,800)</u>	<u>(835,928)</u>	<u>(835,928)</u>	<u>-</u>
Net change in fund balances	<u>(2,098,800)</u>	<u>(935,124)</u>	<u>(935,124)</u>	<u>-</u>
Fund balances - beginning of year	4,482,000	5,389,904	5,412,728	22,824
Fund balances - end of year	<u>\$ 2,383,200</u>	<u>4,454,780</u>	<u>4,477,604</u>	<u>22,824</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 Economic Development Fund
 Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance From Final Budget</u>
REVENUES				
Interest income	\$ 32,545	29,790	29,790	-
Total revenues	<u>32,545</u>	<u>29,790</u>	<u>29,790</u>	<u>-</u>
EXPENDITURES				
Current Operating:				
Economic development and assistance	75,000	6,863,691	6,863,691	-
Debt Service:				
Principal	216,800	165,879	165,879	-
Interest	25,504	19,514	19,514	-
Total expenditures	<u>317,304</u>	<u>7,049,084</u>	<u>7,049,084</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	-	6,500,100	6,500,100	-
Net other financing sources (uses)	<u>-</u>	<u>6,500,100</u>	<u>6,500,100</u>	<u>-</u>
Net change in fund balances	(284,759)	(519,194)	(519,194)	-
Fund balances - beginning of year	<u>1,468,259</u>	<u>1,244,585</u>	<u>2,431,236</u>	<u>1,186,651</u>
Fund balances - end of year	<u>\$ 1,183,500</u>	<u>725,391</u>	<u>1,912,042</u>	<u>1,186,651</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 Countywide Roads Fund
 Year Ended September 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance From Final Budget</u>
REVENUES				
Property taxes	\$ 2,561,833	2,192,167	2,192,167	-
Road and bridge privilege taxes	645,000	655,634	655,634	-
Intergovernmental revenues	567,700	690,137	690,137	-
Miscellaneous revenues	-	54,830	54,830	-
Total revenues	<u>3,774,533</u>	<u>3,592,768</u>	<u>3,592,768</u>	<u>-</u>
EXPENDITURES				
Current Operating:				
Public works	3,561,400	3,887,038	3,887,038	-
Debt Service:				
Principal	195,400	248,794	248,794	-
Interest	17,733	22,623	22,623	-
Total expenditures	<u>3,774,533</u>	<u>4,158,455</u>	<u>4,158,455</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of assets	-	177,900	177,900	-
Net other financing sources (uses)	<u>-</u>	<u>177,900</u>	<u>177,900</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>(387,787)</u>	<u>(387,787)</u>	<u>-</u>
Fund balances - beginning of year	<u>500,000</u>	<u>387,787</u>	<u>387,787</u>	<u>-</u>
Fund balances - end of year	<u>\$ 500,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

See accompanying notes to financial statements.

LOWNDES COUNTY, MISSISSIPPI
Notes to Required Supplementary Information
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.

LOWNDES COUNTY, MISSISSIPPI
Notes to Required Supplementary Information
September 30, 2005

(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>General</u>	<u>Economic Development</u>	<u>Countywide Roads</u>
Budget (cash basis)	\$ (935,124)	(519,194)	(387,787)
Increase (decrease):			
Net adjustment for revenue accruals	1,144,168	199,000	2,011,387
Net adjustment for expenditure accruals	<u>(715,793)</u>	<u>1</u>	<u>(2,416,368)</u>
GAAP Basis	\$ <u>(506,749)</u>	<u>(320,193)</u>	<u>(792,768)</u>

SUPPLEMENTAL INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LOWNDES COUNTY
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2005

Federal Grantor/ Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development -			
Community Development Block Grant	14.228	1114-97-044-HMG-01	21,095
Community Development Block Grant	14.228	1120-03-044-ED-01	515,550
Community Development Block Grant	14.228	1120-04-044-ED-02	2,964
Community Development Block Grant	14.228	1121-04-044-EM-01	<u>98,408</u>
Total Department of Housing and Urban Development			<u>638,017</u>
U.S. Department of Justice - Office of Justice Programs -			
Passed Through the Mississippi Department of Public Safety -			
Local Law Enforcement Block Grant	16.592	04LB1441	2,113
Triad	16.XXX	5CA1441	<u>5,000</u>
Total Department of Justice			<u>7,113</u>
U.S. Department of Transportation - Federal Highway			
Administration - Passed Through the Mississippi			
Department of Transportation:			
Airport Improvement Program	20.106	3-28-0019-008-2005	10,061
Highway Planning and Construction	20.205	BR NBIS 061 B	110
Highway Planning and Construction	20.205	BR NBIS 062 B	<u>550</u>
Total Department of Transportation			<u>10,721</u>
Department of Homeland Security - Federal Emergency Management			
Agency - Passed Through the Mississippi Emergency Management Agency:			
State Domestic Preparedness Equipment Support Program	97.004	3SSG-3001	22,510
Disaster Grants - Public Assistance	97.036	1443-DR-MS	1,367,546
Disaster Grants - Public Assistance	97.036	1550-DR-MS	48,719
Emergency Management Performance Grants	97.042	EMAP-04/05	26,064
Citizens Corps	97.053	03CC013	7,800
Citizens Corps	97.053	04CC013	3,000
State Homeland Security Grant Program	97.067	04HS044	54,322
State Homeland Security Grant Program	97.067	3SUP-42	30,687
State Homeland Security Grant Program	97.067	3SUP-42B	<u>3,900</u>
Total Department of Homeland Security			<u>1,564,548</u>
Total expenditures of federal awards			\$ <u>2,220,399</u>

See accompanying notes to schedule of expenditures of federal awards.

LOWNDES COUNTY, MISSISSIPPI
Notes to Schedule of Expenditures of Federal Awards
September 30, 2005

(1) **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal awards activity of Lowndes County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

(2) **Sub-recipients**

Lowndes County provided \$10,061 of federal awards to sub-recipients during the year ended September 30, 2005.

SPECIAL REPORTS

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

Members of the Board of Supervisors
Lowndes County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information Lowndes County, Mississippi, as of and for the year ended September 30, 2005, and have issued our report thereon dated May 12, 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 as required by accounting principles generally accepted in the United States of America. Except for the limitation referred to above, 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 Lowndes County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lowndes County, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as Findings 05-1 and 05-2.

**Members of the Board of Supervisors
Lowndes County, Mississippi
Page two**

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to the management of Lowndes County, Mississippi, in a separate communication dated May 12, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lowndes County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance 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.

Bryan G. Saunders & O'Neil, LLC.

May 12, 2006

INDEPENDENT AUDITORS' 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
Lowndes County, Mississippi**

Compliance

We have audited the compliance of Lowndes 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. Lowndes County, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lowndes County, Mississippi's management. Our responsibility is to express an opinion on Lowndes 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 Lowndes 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 Lowndes County, Mississippi's compliance with those requirements.

In our opinion, Lowndes 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. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-3.

Internal Control Over Compliance

The management of Lowndes 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 Lowndes 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.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lowndes County, Mississippi's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. A reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 05-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

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

Bruno, Saunders & O'Neil, LLP.

May 12, 2006

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
Lowndes County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Lowndes 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 Lowndes 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 Lowndes 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, Lowndes 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 Lowndes 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.

Breazeale, Saunders & O'Neil, Ltd.

May 12, 2006

Schedule 1

LOWNDES COUNTY, MISSISSIPPI
Schedule of Purchases Not Made From the Lowest Bidder
September 30, 2005

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reasons for For Accepting Other Than the Lowest Bid</u>
10/04-3/05	road patch material	\$ 38.00/ton	Cold Mix, Inc.	\$ 33.45/ton	quality of product
4/05-9/05	road patch material	\$ 36.00/ton	Cold Mix, Inc.	\$ 31.90/ton	quality of product

Schedule 2

LOWNDES COUNTY, MISSISSIPPI
Schedule of Emergency Purchases
September 30, 2005

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
11/04	lock repairs	\$ 118	Lathan's Lock-N-Key	security
8/05	chain saw repair	49	Biddy Saw Works	Hurricane Katrina
8/05	saws, chains, files	3,886	Mini Motors	Hurricane Katrina
9/05	Visqueen	16	New Home Bldg. Store	Hurricane Katrina
9/05	Repair parts	57	Biddy Saw Works	Hurricane Katrina
9/05	Saw repair	40	Biddy Saw Works	Hurricane Katrina
9/05	repair parts	46	NAPA	Hurricane Katrina

Schedule 3

LOWNDES COUNTY, MISSISSIPPI
Schedule of Purchases made
Noncompetitively from a Sole Source
September 30, 2005

<u>Items</u>	<u>Purchased</u>	<u>Vendor</u>	<u>Amount</u>
none			

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LOWNDES COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
September 30, 2005

Section 1: Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the primary government financial statements of Lowndes County, Mississippi.
2. No instances of noncompliance material to the primary government financial statements of Lowndes County, Mississippi that would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
3. Two reportable conditions in internal control over financial reporting were disclosed during the audit of the primary government financial statements are reported in Section 2 of this Schedule.
4. One instance of non-compliance with requirements of major federal award programs is reported in Section 3 of this Schedule.
5. One reportable condition in internal control over compliance with requirements of major federal award programs is reported in Section 3 of this Schedule.
6. One audit finding that is required to be reported in accordance with Section 510(a) of OMB Circular A-133 is reported in Section 3 of this Schedule.
7. The programs tested as major programs were:

14.228	Community Development Block Grant
97.036	FEMA Public Assistance Grant
8. The threshold for distinguishing Types A and B programs is \$300,000.
9. Lowndes County, Mississippi, was not determined to be a low-risk auditee.

LOWNDES COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
September 30, 2005

Section 2: Financial Statement Findings

Compliance

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

Internal Control

05-1 Finding – Chancery Clerk, Sheriff

In general, internal controls over cash could be strengthened at each sub-office. The bookkeeper generally maintains the accounting records, makes deposits, writes checks, in some cases signs checks, and prepares bank reconciliations.

Recommendation

In each sub-office, the bookkeeper should not be allowed to write and sign checks and make deposits. Ideally, bank reconciliations should be prepared by someone other than the bookkeeper. However, if the bookkeeper does prepare the bank reconciliations, at a minimum, the Clerk (or Sheriff) should receive the bank statements unopened from the bank, open and thumb through the bank statement, then forward to the bookkeeper. All bank reconciliations should be reviewed on a timely basis, and at least once each year, on a surprise basis, someone other than the bookkeeper should reconcile the bank statement. All checks not signed by the Clerk (or Sheriff) should require the signatures of two authorized check signers.

05-2 Finding – Road Department

The County did not adequately document the costs of its infrastructure improvements projects in 2005.

Recommendation

Costs of infrastructure additions or significant improvements should be documented either on the forms included in the *Mississippi County Financial Accounting Manual* on pages E-41 through E-45 or on other forms that contain the same information as those forms do.

LOWNDES COUNTY, MISSISSIPPI
Schedule of Findings and Questioned Costs
September 30, 2005

Section 3: Federal Award Findings and Questioned Costs

Compliance and Internal Control

05-3 Program

CFDA 97.036 – Disaster Grants – Public Assistance
Grant Number 1443-DR-MS
U.S. Dept. of Homeland Security
Passed Through the Mississippi Emergency Management Agency

Finding

The County is not required to document its actual costs for small projects under this grant. PW-35 began as a small project but was later amended to become a large project after much of the work on the project had been completed. Since the project had begun as a small project, the County did not maintain adequate documentation to supports its costs on the project.

Questioned Cost

The total cost charged to this project in 2005 of \$39,486 is questioned.

Recommendation

The County should consider at the outset of future disaster grants which projects could potentially grow from small projects into large projects. For any projects identified, the County should maintain documentation of its actual costs in order to obtain reimbursement of those costs in the event the project does become a large project.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

LOWNDES COUNTY, MISSISSIPPI
Summary Schedule of Prior Audit Findings
September 30, 2005

04-2 Program

Community Development Block Grant – States Program – CFDA 14.228
Grant # 1120-044-ED-01
U.S. Dept. of Housing and Urban Development
Passed Through the Mississippi Development Authority

Finding

As reported in the prior year, the County had authorized the Golden Triangle Regional Airport Authority to approve payment of American Eurocopter community development block grant invoices without the appropriate purchasing documents and without claims being submitted for Board of Supervisors' approval.

Upon receipt of the prior year audit report, the County followed the prior auditors' recommendation that all claims be properly documented and approved the Board of Supervisors.

Questioned Cost

This finding did not result in any questioned cost.

Recommendation

As the County has already taken corrective action on this finding, we make no further recommendation.

Follow Up

Corrective action was taken during the 2004 fiscal year and throughout the 2005 fiscal year.

CORRECTIVE ACTION PLAN

BOARD OF
SUPERVISORS

DISTRICT 1

Harry Sanders
President

DISTRICT 2

Tommy Southerland

DISTRICT 3

Mike Smith
Vice - President

DISTRICT 4

Jim Terry

DISTRICT 5

Leroy Brooks



BOARD ATTORNEY

Tim Hudson

COUNTY ENGINEER

Robert L. Calvert P.E.

CHANCERY CLERK

Lisa Neese

ADMINISTRATOR

Nick Hairston

ROAD MANAGER

Rockey Allen

CHIEF FINANCIAL OFFICER

Davis W. Basinger, C.P.A.

LOWNDES COUNTY

August 1, 2006

Office of State Auditor
501 Northwest Street, Suite 801
Jackson, MS 39201

RE: Corrective Action Plan, Lowndes County, Mississippi

Resolution of the findings from the Schedule of Findings and Questioned costs are addressed below following the numbers on the schedule.

05-1 We will implement the recommended changes to strengthen internal controls over cash at the sub-offices.

05-2 Lowndes County will follow the auditor's recommendation and document the costs of infrastructure improvement projects on the forms prescribed by the Mississippi Auditor's Office.

05-3 We will follow the auditor's recommendation.

Harry Sanders, Board President

Lisa Neese, Chancery Clerk

Nick Hairston, County Administrator

Dave Basinger, Chief Financial Officer

LOWNDES COUNTY, MISSISSIPPI

**LIMITED INTERNAL CONTROL
AND COMPLIANCE REVIEW
MANAGEMENT REPORT**

SEPTEMBER 30, 2005

**LIMITED INTERNAL CONTROL
AND COMPLIANCE REVIEW
MANAGEMENT REPORT**

**Members of the Board of Supervisors:
Lowndes County, Mississippi**

In planning and performing our audit of the financial statements of Lowndes County, Mississippi for the year ended September 30, 2005, we considered Lowndes County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Lowndes County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated May 12, 2006, on the financial statements of Lowndes County, Mississippi.

These review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your responses are disclosed below:

**Members of the Board of Supervisors
Lowndes County, Mississippi
Page two**

Finding - Sheriff

The Sheriff's office personnel policy states that employees accrue "10 working days (80 hrs)" vacation after one year and "15 working days (120 hrs)" after ten years. In 2001 the Sheriff's office changed their workweek whereby employees now work 7 12-hour days every two weeks instead of working 10 8-hour days. Employees are now being granted 120 and 180 hours vacation per year, instead of 80 and 120. This results in employees being granted 50% more vacation than the personnel policy allows. Also, the personnel policy states that while "unused leave can be carried over from year to year" upon termination an employee "shall be paid for the amount of accumulated and unused vacation, not to exceed fifteen (15) days." Several employees have accumulated over 400 hours unused vacation and one has accumulated over 2,200 hours (both numbers include the excess hours due to the 12-hour workday). Sheriff department records show that the employee with over 2,200 accumulated hours of vacation has worked 18 years without taking a single hour of vacation. This does not seem reasonable.

Recommendation

We recommend the sheriff's office adjust accumulated vacation hours to correct the over-accrual of vacation hours since 2001, and review their procedures for tracking vacation taken to ensure that all vacation taken is properly accounted for. We also recommend the Sheriff's department consider implementing a policy requiring employees to take 40 consecutive vacation hours each year. Required minimum vacations are an important aspect of good internal controls.

Response

We will make the necessary changes to our personnel policy as recommended by the auditor.

Finding – Finance Department

The County's bank deposits are collateralized by the banks through a program administered by the Mississippi State Treasury Department. Each quarter, the Treasury Department sends a report to the County showing the total amount that is collateralized. However, this report does not clearly distinguish exactly which accounts are being collateralized. At September 30, 2005, two of the County's bank accounts and three of the sub-office bank accounts were not collateralized. The total bank balance of these accounts was \$871,866.

**Members of the Board of Supervisors
Lowndes County, Mississippi
Page three**

Recommendation

When we communicated this finding to the Finance Director, he immediately wrote a letter to the bank requesting they properly collateralize the uncollateralized accounts. We concur with this action. We also recommend the County request a report from the State Treasurer's office which more clearly shows exactly which bank accounts are being collateralized each quarter so he can better monitor the collateralization of the County's bank accounts.

Response

We will follow the recommendation, requesting a report from the State Treasurer's office which shows which bank accounts are being collateralized.

Finding – Finance Department

Proper authorization for the rates of pay of several employees selected in our payroll test work was not on file in the Finance Department.

Recommendation

The Finance Department should obtain a copy of the Board approved authorization of the rate of pay for every employee.

Response

We will follow the recommendation placing a copy of board approved authorization of the rate of pay of each employee and in the case on those who don't get board approval the department head's or elected official's approval.

Finding – Justice Court Clerk

The original date a fine is levied is being changed to the dates the fine is turned over to a collection agency in the fines receivable module of the Delta Accounting System. This causes aging schedules and analysis of delinquent fines to be inaccurate.

**Members of the Board of Supervisors
Lowndes County, Mississippi
Page four**

Recommendation

The levy date for a fine should not be changed. When a fine is turned over to a collection agency, a note should be added in the Delta Accounting System to document that it was turned over for collection.

Response

I will comply with this recommendation.

Bruce L. Saunders ; D'Neil, LRO.

May 12, 2006