

# LINCOLN COUNTY, MISSISSIPPI

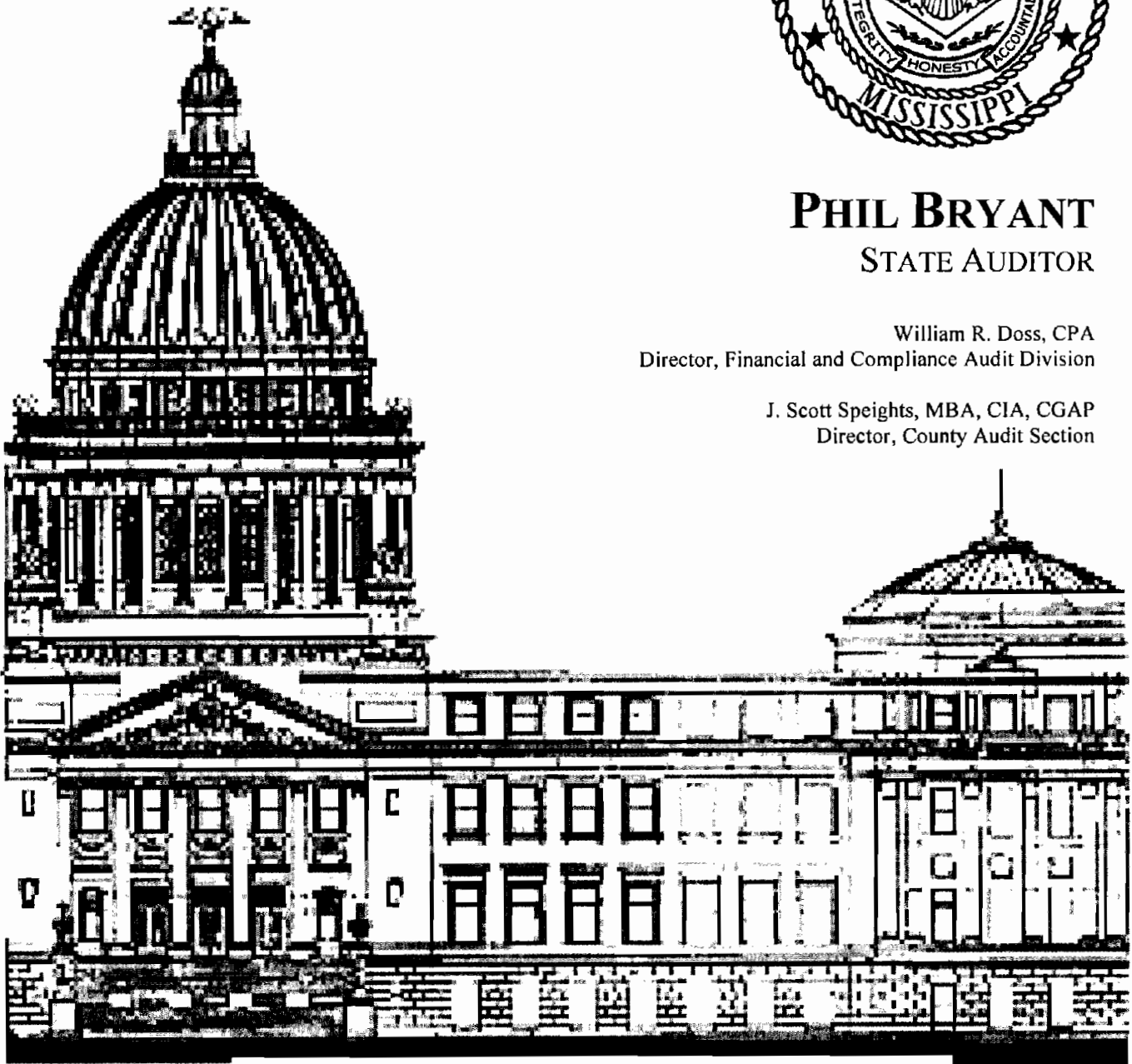
Audited Primary Government Financial Statements and Special Reports  
For the Year Ended September 30, 2006



**PHIL BRYANT**  
STATE AUDITOR

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Director, County Audit Section



A Report from the County Audit Section

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LINCOLN COUNTY

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LINCOLN COUNTY

FINANCIAL SECTION

LINCOLN COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Lincoln County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Lincoln County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of Lincoln 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 Lincoln County, Mississippi, as of September 30, 2006, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information for the primary government of Lincoln County, Mississippi, as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2007, on our consideration of Lincoln County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

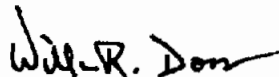
Lincoln County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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



PHIL BRYANT  
State Auditor



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

July 31, 2007

LINCOLN COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

LINCOLN COUNTY

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LINCOLN COUNTY  
Statement of Net Assets  
September 30, 2006

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
<b>ASSETS</b>	
Cash	\$ 7,184,796
Property tax receivable	7,082,254
Accounts receivable (net of allowance for uncollectibles of \$339,548)	313,428
Fines receivable (net of allowance for uncollectibles of \$7,226,799)	6,265,673
Intergovernmental receivables	278,569
Other receivables	94,333
Land	343,073
Other capital assets, net	69,424,992
Total Assets	<u>90,987,118</u>
<b>LIABILITIES</b>	
Claims payable	530,215
Claims and judgment payable	100,390
Intergovernmental payables	421,379
Matured bonds and interest payable	15,000
Accrued interest payable	94,463
Deferred revenue	7,082,254
Unearned revenue	95,692
Other payables	66,264
Long-term liabilities	
Due within one year:	
Capital debt	651,222
Non-capital debt	45,000
Due in more than one year:	
Capital debt	3,920,351
Non-capital debt	1,663,731
Total Liabilities	<u>14,685,961</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	65,196,492
Restricted:	
Expendable:	
General government	739,058
Debt service	27,970
Public safety	83,191
Public works	3,875,715
Culture and recreation	106,921
Economic development	8,296
Unemployment compensation	11,050
Capital projects	10,603
Unrestricted	6,241,861
Total Net Assets	<u>\$ 76,301,157</u>

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

LINCOLN COUNTY  
Statement of Activities  
For the Year Ended September 30, 2006

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 5,807,429	727,265	361,076		(4,719,088)
Public safety	2,975,903	557,236	626,941		(1,791,726)
Public works	4,513,935	907,201	1,230,436	41,005	(2,335,293)
Health and welfare	216,720		41,311		(175,409)
Culture and recreation	236,059	24,613	3,912		(207,534)
Conservation of natural resources	104,719				(104,719)
Economic development and assistance	101,312				(101,312)
Interest on long-term debt	402,297				(402,297)
Total Governmental Activities	\$ 14,358,374	2,216,315	2,263,676	41,005	(9,837,378)
General revenues:					
Property taxes				\$ 6,785,420	
Road & bridge privilege taxes				427,384	
Grants and contributions not restricted to specific programs				1,471,205	
Unrestricted interest income				173,487	
Miscellaneous				336,403	
Total General Revenues				9,193,899	
Changes in Net Assets					(643,479)
Net Assets - Beginning					76,734,660
Prior period adjustment					209,976
Net Assets - Beginning, as restated					76,944,636
Net Assets - Ending					\$ 76,301,157

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

LINCOLN COUNTY  
 Balance Sheet - Governmental Funds  
 September 30, 2006

Exhibit 3

	<u>Major Fund</u>		Total Governmental Funds
	General Fund	Other Governmental Funds	
<b>ASSETS</b>			
Cash	\$ 1,039,575	4,992,311	6,031,886
Property tax receivable	4,358,996	2,723,258	7,082,254
Accounts receivable (net of allowance for uncollectibles of \$339,548)		313,428	313,428
Fines receivable (net of allowance for uncollectibles of \$7,226,799)	6,265,673		6,265,673
Intergovernmental receivables	223,451	55,118	278,569
Other receivables	94,333		94,333
Due from other funds		186,998	186,998
<b>Total Assets</b>	<b>\$ 11,982,028</b>	<b>8,271,113</b>	<b>20,253,141</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Claims payable	\$ 140,304	389,911	530,215
Intergovernmental payables	396,860		396,860
Due to other funds	121,532	89,985	211,517
Matured bonds and interest payable		15,000	15,000
Deferred revenue	10,624,669	3,036,686	13,661,355
Unearned revenue		95,692	95,692
Other payables	66,264		66,264
<b>Total Liabilities</b>	<b>11,349,629</b>	<b>3,627,274</b>	<b>14,976,903</b>
Fund balances:			
Reserved for:			
Debt service		122,433	122,433
Unemployment compensation		11,050	11,050
Unreserved - undesignated, reported in:			
General Fund	632,399		632,399
Special Revenue Funds		4,499,753	4,499,753
Capital Project Funds		10,603	10,603
<b>Total Fund Balances</b>	<b>632,399</b>	<b>4,643,839</b>	<b>5,276,238</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 11,982,028</b>	<b>8,271,113</b>	<b>20,253,141</b>

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

LINCOLN COUNTY

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2006

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 5,276,238
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$118,913,182.	69,768,065
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	6,579,101
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(6,280,304)
Accrued interest payable is not due and payable in the current period and, therefore, are not reported in the funds.	(94,463)
Internal Service Funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.	<u>1,052,520</u>
Total Net Assets - Governmental Activities	<u>\$ 76,301,157</u>

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

## LINCOLN COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2006

	<u>Major Fund</u>	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
<b>REVENUES</b>			
Property taxes	\$ 4,266,399	2,519,021	6,785,420
Road and bridge privilege taxes		427,384	427,384
Licenses, commissions and other revenue	724,866	14,224	739,090
Fines and forfeitures	658,322	250	658,572
Intergovernmental revenues	1,065,185	2,735,314	3,800,499
Charges for services	133,390	1,274,186	1,407,576
Interest income	86,246	87,241	173,487
Miscellaneous revenues	124,796	87,170	211,966
Total Revenues	<u>7,059,204</u>	<u>7,144,790</u>	<u>14,203,994</u>
<b>EXPENDITURES</b>			
<b>Current:</b>			
General government	3,779,967	1,138,853	4,918,820
Public safety	2,378,933	614,585	2,993,518
Public works		5,137,520	5,137,520
Health and welfare	211,449	5,271	216,720
Culture and recreation		236,507	236,507
Conservation of natural resources	104,007		104,007
Economic development and assistance	96,686	4,626	101,312
<b>Debt service:</b>			
Principal	97,272	842,634	939,906
Interest	20,463	354,176	374,639
Total Expenditures	<u>6,688,777</u>	<u>8,334,172</u>	<u>15,022,949</u>
Excess of Revenues over (under) Expenditures	<u>370,427</u>	<u>(1,189,382)</u>	<u>(818,955)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term capital debt issued		739,603	739,603
Proceeds from sale of capital assets		341,775	341,775
Transfers in		326,685	326,685
Transfers out	(204,375)	(122,310)	(326,685)
Total Other Financing Sources and Uses	<u>(204,375)</u>	<u>1,285,753</u>	<u>1,081,378</u>
Net Changes in Fund Balances	<u>166,052</u>	<u>96,371</u>	<u>262,423</u>
Fund Balances - Beginning	466,347	4,714,683	5,181,030
Prior period adjustment		(167,215)	(167,215)
Fund Balances - Beginning, as restated	<u>466,347</u>	<u>4,547,468</u>	<u>5,013,815</u>
Fund Balances - Ending	<u>\$ 632,399</u>	<u>4,643,839</u>	<u>5,276,238</u>

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

LINCOLN COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2006

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 262,423
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of \$1,476,310 exceeded capital outlays of \$1,232,871 in the current period.	(243,439)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$124,437 and the proceeds from the sale of \$341,775 in the current period.	(217,338)
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.	(598,206)
Solid waste 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.	(15,330)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$939,906 exceeded debt proceeds of \$739,603.	200,303
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Decrease in compensated absences liability	23,112
Increase in accrued interest payable	(27,658)
An Internal Service Fund is used by management to charge the cost of insurance to individual funds. The net revenue (expense) is reported within governmental activities.	<u>(27,346)</u>
Change in Net Assets of Governmental Activities	<u>\$ (643,479)</u>

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

LINCOLN COUNTY  
Statement of Net Assets - Proprietary Fund  
September 30, 2006

Exhibit 5

	Governmental Activities
	<u>Self-insurance</u>
	<u>Internal Service</u>
	<u>Fund</u>
ASSETS	
Current assets:	
Cash	\$ 1,152,910
Total Assets	<u>\$ 1,152,910</u>
LIABILITIES	
Current liabilities:	
Claims and judgments payable	\$ 100,390
Total Liabilities	<u>\$ 100,390</u>
NET ASSETS	
Restricted for health insurance	\$ 1,052,520
Total Net Assets	<u>\$ 1,052,520</u>

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

LINCOLN COUNTY

Exhibit 6

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Year Ended September 30, 2006

	Governmental Activities
	<u>Self-insurance Internal Service Fund</u>
Operating Revenues	
Premiums	\$ <u>1,114,601</u>
Operating Expenses	
Claims payments	867,615
Administrative fees	<u>318,849</u>
Total Operating Expenses	<u>1,186,464</u>
Operating Income (Loss)	<u>(71,863)</u>
Nonoperating Revenues (Expenses)	
Interest income	<u>44,517</u>
Net Nonoperating Revenue (Expenses)	<u>44,517</u>
Changes in Net Assets	(27,346)
Net Assets - Beginning	<u>1,079,866</u>
Net Assets - Ending	<u>\$ <u>1,052,520</u></u>

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

LINCOLN COUNTY  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2006

Exhibit 7

	Governmental Activities
	<u>Self-insurance Internal Service Fund</u>
Cash Flows From Operating Activities	
Receipts for premiums	\$ 1,114,601
Payments for insurance claims	(815,724)
Payments to administrator for services	(318,849)
Net Cash Provided (Used) by Operating Activities	<u>(19,972)</u>
Cash Flows From Investing Activities	
Interest on deposits	44,517
Net Cash Provided (Used) by Investing Activities	<u>44,517</u>
Net Increase (Decrease) in Cash and Cash Equivalents	24,545
Cash and Cash Equivalents at Beginning of Year	<u>1,128,365</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,152,910</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ <u>(71,863)</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in claims and judgments liability	<u>51,891</u>
Total Adjustments	<u>51,891</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (19,972)</u>

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

LINCOLN COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 526,717
Due from other funds	24,519
Total Assets	<u>\$ 551,236</u>
<b>LIABILITIES</b>	
Amounts held in custody for others	\$ 272,969
Intergovernmental payables	278,267
Total Liabilities	<u>\$ 551,236</u>

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

## LINCOLN COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

- Lincoln-Lawrence-Franklin Regional Library
- Lincoln County Economic Development District
- Lincoln County Multi-Purpose Complex Commission

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

## LINCOLN COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2006

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

#### Fund Financial Statements:

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

#### C. Measurement Focus and Basis of Accounting.

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

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

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

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

## LINCOLN COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2006

The county reports the following major Governmental Fund:

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

Additionally, the county reports the following fund types:

#### GOVERNMENTAL FUND TYPES

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

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

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

#### PROPRIETARY FUND TYPE

Internal Service Funds - These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

#### FIDUCIARY FUND TYPE

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

#### D. Account Classifications.

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

#### E. Deposits and Investments.

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

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

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

F. Receivables.

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

G. Interfund Transactions and Balances.

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

H. Capital Assets.

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Lincoln County elected to report general infrastructure assets acquired after September 30, 1980, on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements 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 and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

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

## LINCOLN COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2006

#### I. Long-term Liabilities.

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

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

#### J. Equity Classifications.

##### Government-wide Financial Statements:

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

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

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

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

##### Fund Financial Statements:

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

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

#### K. Property Tax Revenues.

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

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

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

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

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

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

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
To correct error in capital assets, net	\$ 377,191
To correct a prior year error in intergovernmental revenue	<u>(167,215)</u>
Total prior period adjustments	<u>\$ 209,976</u>

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances.

<u>Explanation</u>	<u>Amount</u>
To correct a prior year error in intergovernmental revenue	<u>\$ (167,215)</u>

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$7,711,513, and the bank balance was \$8,107,671. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**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.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General	\$ 97,013
Other Governmental Funds	Other Governmental Funds	89,985
Agency Funds	General	<u>24,519</u>
Total		<u>\$ 211,517</u>

The receivables represent the tax revenue collected but not settled until October, 2006 and loans made to funds for cash flow purposes. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 204,375
Other Governmental Funds	Other Governmental Funds	<u>122,310</u>
Total		<u>\$ 326,685</u>

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

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2006, consisted of the following:

<u>Description</u>	<u>Amount</u>
Legislative tax credit	\$ 223,451
State domestic preparedness equipment support program	<u>55,118</u>
Total	<u>\$ 278,569</u>

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2006:

	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments *</u>	<u>Balance Sept. 30, 2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 343,073				343,073
Total non-depreciable capital assets	<u>343,073</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>343,073</u>
<u>Depreciable capital assets:</u>					
Infrastructure	170,498,504				170,498,504
Buildings	10,659,840				10,659,840
Improvements other than buildings	68,235				68,235
Mobile equipment	4,298,038	435,997	57,176	(103,682)	4,573,177
Furniture and equipment	586,122	57,271	134,402	5,700	514,691
Leased property under capital leases	1,622,879	739,603	436,737	97,982	2,023,727
Total depreciable capital assets	<u>187,733,618</u>	<u>1,232,871</u>	<u>628,315</u>	<u>0</u>	<u>188,338,174</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	109,359,534	610,275		(12)	109,969,797
Buildings	4,991,037	188,571		(3)	5,179,605
Improvements other than buildings	16,374	2,729			19,103
Mobile equipment	2,993,016	387,754	40,989	(406,592)	2,933,189
Furniture and equipment	412,786	54,698	131,857	3,961	339,588
Leased property under capital leases	452,293	232,283	238,131	25,455	471,900
Total accumulated depreciation	<u>118,225,040</u>	<u>1,476,310</u>	<u>410,977</u>	<u>(377,191)</u>	<u>118,913,182</u>
Total depreciable capital assets, net	<u>69,508,578</u>	<u>(243,439)</u>	<u>217,338</u>	<u>377,191</u>	<u>69,424,992</u>
Governmental activities capital assets, net	<u>\$ 69,851,651</u>	<u>(243,439)</u>	<u>217,338</u>	<u>377,191</u>	<u>69,768,065</u>

\* Adjustments are to correct prior year ending balances.

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 874,046
Public safety	166,065
Public works	435,480
Conservation	<u>719</u>
 Total depreciation expense	 \$ <u><u>1,476,310</u></u>

As of September 30, 2006, the county had the following commitment:

On October 19, 2004, the Lincoln County Board of Supervisors entered into a tax pledge agreement with the City of Brookhaven to finance the City's Tax Increment Limited Obligation Bonds. The bonds were issued in the amount of \$825,000 for the cost of constructing public infrastructure improvements for the Ergon Properties project. The county pledged to provide 28.5% of the debt service on the City's Tax Increment Limited Obligation Bonds. The county's payments are paid annually from the revenues generated by tax increment financing.

(7) 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, 2006, to January 1, 2007. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The county is exposed to risk of loss relating to employee health, accident and dental coverage. Beginning in 1999 and pursuant to Section 25-15-101, Miss. Code Ann. (1972), the county established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss.

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

The county has purchased coinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$35,000, and the aggregate policy covers all submitted claims in excess of \$371,741.

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2006, the amount of these liabilities was \$100,390. An analysis of claims activities is presented below:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2004 - 2005	\$ 149,431	593,413	694,345	48,499
2005 - 2006	\$ 48,499	867,615	815,724	100,390

(8) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2006:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 1,853,390
Furniture and equipment	<u>170,337</u>
Total	2,023,727
Less: Accumulated depreciation	<u>471,900</u>
Leased Property Under Capital Leases	<u>\$ 1,551,827</u>

The following is a schedule by years of the total payments due as of September 30, 2006:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 390,715	45,331
2008	529,507	30,175
2009	346,249	15,828
2010	183,321	5,327
2011	53,558	725
2012 - 2016	<u>1,643</u>	<u>6</u>
Total	<u>\$ 1,504,993</u>	<u>97,392</u>

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

(9) Long-term Debt.

Debt outstanding as of September 30, 2006, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Jail bond	\$ 2,340,000	5.10/6.50%	05/18
Public improvement bond	405,000	4.90/5.10%	11/10
Industrial taxable bond	<u>1,630,000</u>	5.50/6.25%	06/25
Total General Obligation Bonds	<u>\$ 4,375,000</u>		
B. Capital Leases:			
IBM computer	\$ 132,074	3.23%	04/09
John Deere front end loader	61,257	2.99%	05/09
Caterpillar motor grader	137,611	2.99%	06/09
John Deere 410G backhoe	13,049	3.26%	08/07
Asphalt spray patching machine	23,450	3.21%	06/07
Case motor grader	116,003	3.15%	03/08
Case motor grader	116,003	3.15%	03/08
New Holland tractor, tiger boom mower & tiger side rotary mower	47,034	3.29%	05/09
2006 International truck	37,993	3.49%	08/09
Massey Ferguson tractor & mower	26,260	2.98%	12/08
Massey Ferguson tractor & side mower	27,271	3.23%	03/09
Holland tractor, tiger boom mower & side mower	43,358	3.23%	03/09
Massey Ferguson tractor, John Deere tractor & boom mower	58,735	3.23%	03/09
Case 580 extendahoe	65,822	3.90%	11/09
2006 Caterpillar motor grader	154,490	3.77%	12/10
Two 2006 Caterpillar motor graders	308,981	3.77%	12/10
Durapatcher	46,052	3.77%	03/11
Excavator	<u>89,550</u>	3.98%	10/11
Total Capital Leases	<u>\$ 1,504,993</u>		
C. Other Loans:			
Speculative Building CAP loan	\$ 65,327	4.00%	06/17
Industrial Park Bond CAP loan	<u>256,253</u>	4.00%	05/11
Total Other Loans	<u>\$ 321,580</u>		

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

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

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 270,000	241,491
2008	280,000	225,741
2009	300,000	210,109
2010	310,000	194,309
2011	340,000	178,014
2012 - 2016	1,400,000	664,861
2017 - 2021	970,000	283,140
2022 - 2026	505,000	80,720
Total	<u>\$ 4,375,000</u>	<u>2,078,385</u>

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 35,507	12,094
2008	36,954	10,647
2009	38,459	9,141
2010	39,396	7,579
2011	23,454	6,394
2012 - 2016	132,408	16,832
2017 - 2021	15,402	171
Total	<u>\$ 321,580</u>	<u>62,858</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, 2006, the amount of outstanding debt was equal to 1.5% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

	Balance <u>Oct. 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	Balance <u>Sept. 30, 2006</u>	Amount due within one <u>year</u>
Compensated absences	\$ 101,843		23,112		78,731	
General obligation bonds	4,630,000		255,000		4,375,000	270,000
Capital leases	1,417,751	739,603	652,361		1,504,993	390,715
Other loans	354,125		32,545		321,580	35,507
Total	<u>\$ 6,503,719</u>	<u>739,603</u>	<u>963,018</u>	<u>0</u>	<u>6,280,304</u>	<u>696,222</u>

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

(10) Contingencies.

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

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

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the King's Daughters Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2006, is \$7,465,000.

(11) No Commitment Debt (Not Included in Financial Statements).

No commitment debt is repaid only by the entities for whom the debt was issued and includes debt that either bears the county's name or for which a moral responsibility may exist that is not an enforceable promise to pay. No commitment debt explicitly states the absence of obligation by the county other than possibly an agreement to assist creditors in exercising their rights in the event of default. Because a default may adversely affect the county's own ability to borrow, the principal amount of such debt outstanding at year end is disclosed as follows:

<u>Description</u>	<u>Balance at Sept. 30, 2006</u>
New Sight Volunteer Fire Department truck loan	\$ 94,661
Bogue Chitto Volunteer Fire Department truck loan	35,470
Heucks Retreat Volunteer Fire Department truck loan	130,866
Hog Chain Volunteer Fire Department truck loan	<u>96,248</u>
Total	<u>\$ 357,245</u>

(12) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Copiah-Lincoln Community College operates in a district composed of the Counties of Adams, Copiah, Franklin, Jefferson, Lawrence, Lincoln and Simpson. The Lincoln County Board of Supervisors appoints six of the 27 members of the college board of trustees. The county appropriated \$1,052,927 for maintenance and support of the college in fiscal year 2006.

LINCOLN COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2006

Southwest Mississippi Planning and Development District operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The Lincoln County Board of Supervisors appoints four of the 40 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$16,000 for support of the district in fiscal year 2006.

Southwest Mississippi Mental Health Complex operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The Lincoln County Board of Supervisors appoints one of the ten members of the board of commissioners. The county contributes a small part of the entity's total revenues. The county appropriated \$32,775 for support of the district in fiscal year 2006.

Southwest Mississippi Partnership operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The entity is governed by ten members appointed by each county's lead industrial foundation or chamber of commerce. If no industrial foundation or chamber of commerce is present, the member is appointed by the county's Board of Supervisors. The member counties provide only modest financial support for the entity. Lincoln County provided none.

(13) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% 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, 2006, 2005 and 2004 were \$396,972, \$343,575 and \$296,618, respectively, equal to the required contributions for each year.

(14) Subsequent Events.

Subsequent to September 30, 2006, Lincoln County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
12/01/06	3.75/4.50%	\$ 2,200,000	General Obligation Improvement bonds	Industrial Park - Series 2006 Fund
11/01/06	4.25%	9,000,000	Hospital Revenue bond	General Fund revenue
12/25/06	4.09%	64,970	Lease purchase	District 1 Road Fund revenue
12/25/06	4.09%	47,660	Lease purchase	District 1 Road Fund revenue
12/25/06	4.09%	57,000	Lease purchase	General Fund revenue
10/02/06	5.50%	166,287	Lease purchase	General Fund revenue
12/25/06	4.09%	54,105	Lease purchase	District 3 Road Fund revenue

LINCOLN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

LINCOLN COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 4,084,865	4,327,568	4,327,568	
Licenses, commissions and other revenue	403,000	718,044	718,044	
Fines and forfeitures	706,750	586,962	586,962	
Intergovernmental revenues	683,300	765,857	765,857	
Charges for services	200,000	133,390	133,390	
Interest income	68,000	86,157	86,157	
Miscellaneous revenues	18,150	136,971	136,971	
Total Revenues	<u>6,164,065</u>	<u>6,754,949</u>	<u>6,754,949</u>	<u>0</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,966,696	3,470,536	3,450,541	19,995
Public safety	2,176,760	2,435,735	2,435,735	
Health and welfare	225,743	214,768	214,768	
Conservation of natural resources	89,624	104,828	104,828	
Economic development and assistance	77,000	96,608	96,608	
Debt service:				
Principal	44,082	97,272	97,272	
Interest	9,029	20,463	20,463	
Total Expenditures	<u>5,588,934</u>	<u>6,440,210</u>	<u>6,420,215</u>	<u>19,995</u>
Excess of Revenues over (under) Expenditures	<u>575,131</u>	<u>314,739</u>	<u>334,734</u>	<u>(19,995)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Compensation for loss of capital assets		8,509	8,509	
Transfers out			(204,374)	(204,374)
Other financing sources			870	870
Total Other Financing Sources and Uses	<u>0</u>	<u>8,509</u>	<u>(194,995)</u>	<u>(203,504)</u>
Net Change in Fund Balance	575,131	323,248	139,739	(223,499)
Fund Balances - Beginning	<u>500,000</u>	<u>378,213</u>	<u>378,213</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,075,131</u>	<u>701,461</u>	<u>517,952</u>	<u>(223,499)</u>

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

LINCOLN COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2006

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund:

	Governmental Fund Type <u>General Fund</u>
Budget (Cash Basis)	\$ 139,739
Increase (Decrease)	
Net adjustments for revenue accruals	294,876
Net adjustments for expenditure accruals	<u>(268,563)</u>
GAAP Basis	\$ <u><u>166,052</u></u>

LINCOLN COUNTY

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LINCOLN COUNTY

SUPPLEMENTAL INFORMATION

LINCOLN COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>MAJOR FEDERAL AWARDS</b>			
U.S. Department of Housing and Urban Development Community Development Block Grants/ Brownfields economic development initiative	14.246	B-04-SP-MS-0387	\$ <u>415,175</u>
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation			
Highway planning and construction	20.205	BR NBIS 065 B (43)(F)	5,300
Highway planning and construction	20.205	BR NBIS 066 B (43)(F)	31,630
Highway planning and construction	20.205	PLH 0275 16 B (PE-2)	8,619
Highway planning and construction	20.205	ER 0043 28 B	<u>320,286</u>
Total U.S. Department of Transportation			<u>365,835</u>
Total Expenditures of Major Federal Awards			<u>781,010</u>
<b>OTHER FEDERAL AWARDS</b>			
U.S. Department of Justice Bulletproof vest partnership program	16.607	N/A	<u>287</u>
U.S. Election Assistance Commission/Passed-through the Mississippi Secretary of State's Office			
Help America Vote Act requirements payments (Note B)	90.401	N/A	<u>218,260</u>
U.S. Department of Homeland Security/ Passed-through the Mississippi Department of Public Safety State domestic preparedness equipment support program State Office of Homeland Security Homeland Security Cluster			
State domestic preparedness equipment support program	97.004	04LE043	54,219
State domestic preparedness equipment support program	97.004	04HS043	49,087
State domestic preparedness equipment support program	97.004	04CS043	<u>6,031</u>
Total U. S. Department of Homeland Security			<u>109,337</u>
Total Expenditures of Other Federal Awards			<u>327,884</u>
Total Expenditures of Federal Awards			<u>\$ 1,108,894</u>

LINCOLN COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2006

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

Note B - Help America Vote Act requirements payments (CFDA #90.401)

Of the federal expenditures presented in the schedule, federal awards totaling \$218,260 represent non-cash awards for computerized voting machines during the fiscal year ended September 30, 2006.

LINCOLN COUNTY

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LINCOLN COUNTY

SPECIAL REPORTS

LINCOLN COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Lincoln County, Mississippi

We have audited the primary government financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Lincoln County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated July 31, 2007. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. 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 Lincoln County, Mississippi's ability to initiate, 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 items 06-1 and 06-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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 are material weaknesses.

Compliance and Other Matters

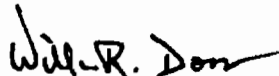
As part of obtaining reasonable assurance about whether Lincoln County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which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

However, we noted certain instances of noncompliance which we have reported to the management of Lincoln County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated July 31, 2007, included within this document.

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



PHIL BRYANT  
State Auditor



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

July 31, 2007



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Lincoln County, Mississippi

### Compliance

We have audited the compliance of Lincoln 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, 2006. Lincoln County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lincoln County, Mississippi's management. Our responsibility is to express an opinion on Lincoln 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 Lincoln 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 Lincoln County, Mississippi's compliance with those requirements.

In our opinion, Lincoln 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, 2006.

## Internal Control Over Compliance

The management of Lincoln 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 Lincoln 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.

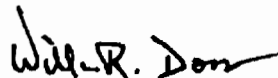
We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Lincoln County, Mississippi's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 06-3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. 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.



PHIL BRYANT  
State Auditor



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

July 31, 2007



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Lincoln County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Lincoln County, Mississippi, as of and for the year ended September 30, 2006. 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 Lincoln 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 Lincoln 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.

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

Purchase Clerk.

Finding

Section 31-7-103, Miss. Code Ann. (1972), requires a requisition, purchase order and receiving report for all purchases, except for those items enumerated by the Office of the State Auditor under the authority of Section 31-7-113, Miss. Code Ann. (1972), and except for purchases of not more than \$100. Some purchase transaction documents appeared to have been prepared after the fact as indicated by the open purchase order test. Failure to prepare purchasing documents prior to the delivery of the commodities may indicate that an individual other than the Purchase Clerk is actually placing the order for commodities. This could result in commodities being ordered from a vendor who did not receive the awarded quote or bid or items being ordered that were not needed or used by the county.

Recommendation

The Purchase Clerk should ensure that the required purchase documents are issued in their proper time sequence, and all purchases should be made by the Purchase Clerk, as required by law.

Purchase Clerk's Response

I will make sure the above recommendation is followed now and in the future.

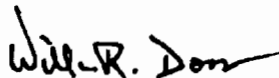
In our opinion, except for the noncompliance referred to in the preceding paragraph, Lincoln County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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 Lincoln County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT  
State Auditor



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

July 31, 2007

LINCOLN COUNTY

Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2006

Schedule 1

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

LINCOLN COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2006

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
08/21/06	Kohler transfer switch	\$ 4,988	Kossen	Needed for generator in case of emergency.

LINCOLN COUNTY  
Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2006

Schedule 3

<u>Date</u>	<u>Item Purchased</u>		<u>Amount Paid</u>	<u>Vendor</u>
12/06/05	Software	\$	12,938	Business Communications, Inc.

LINCOLN COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors  
Lincoln County, Mississippi

In planning and performing our audit of the financial statements of Lincoln County, Mississippi for the year ended September 30, 2006, we considered Lincoln County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Lincoln 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 July 31, 2007, on the financial statements of Lincoln County, Mississippi.

Due to the reduced scope, 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 areas that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your responses are disclosed below:

Board of Supervisors.

1. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for the proceedings of the Board of Supervisors. Interfund transfers were made without board orders spread on the minutes. The failure to obtain board approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

The Board will be presented with a "transfer request" memo for all fund transfers.

2. Finding

No additional compensation in the form of overtime pay or compensation time may be paid to employees unless there was a policy authorizing such payment spread upon the Board of Supervisors' minutes and in effect when the extra work was done. The county does not have a policy that allows the payment of compensation time. As reported in the last three years' audit reports, the county paid employees compensation time upon separation from employment with the county. During the fiscal year ended September 30, 2006, payments were made to employees upon separation of service in the gross amount of \$31,616 for 2,002 comp hours.

Recommendation

The Board of Supervisors should not pay employees for compensation time unless there is a county policy authorizing such payment.

Board of Supervisors' Response

The Board is in the process of adopting an amendment to the personnel policy that addresses the payment of comp time until the new personnel policy is completed and adopted.

3. Finding

Section 19-3-35, Miss. Code Ann. (1972), states that the Board of Supervisors shall publish within 15 days of adjournment a recap of all expenditures of the county as a whole. The recap was not published from November 2006 through May 2007. The failure to publish a recap of expenditures of the county could result in local government taxpayers being uninformed in regard to expenditure activity of the county.

Recommendation

The Board of Supervisors should publish the recap, as required by law.

Board of Supervisors' Response

This has been corrected and we are sending the docket to the newspaper via email.

4. Finding

Section 31-7-57(2), Miss. Code Ann. (1972), states that the Board of Supervisors may not ratify any purchase or pay for the same out of county funds unless said purchase was made in the manner provided by law. Section 31-7-113, Miss. Code Ann. (1972), gives the Office of the State Auditor the authority to prescribe the forms and procedures for implementing the central purchasing system. During the year the Board of Supervisors approved payment of invoices for which no purchase orders were given. The Board of Supervisors has not established corrective policy and procedures to make sure that all purchases are made in accordance with state purchasing system laws. Officials who authorize payment for purchases not made in the manner provided by law could be personally liable for up to the full amount of the expenditure.

### Recommendation

The Board of Supervisors should establish corrective policy and procedures to ensure that all purchases are made in accordance with the central purchasing system laws. The Board of Supervisors should carefully review all claims presented to them for approval and should not approve payment for any purchases which are not made in the manner provided by law.

### Board of Supervisors' Response

Regarding the purchase of the copiers set forth on minutes of the Board of October 3, 2005, the Board acknowledges that these were expenditures of public funds which, while not following the Public Purchases Act, did result in lawful objectives, same being the purchase of copy machines that were needed for the Sheriff's Department. The public sustained no loss inasmuch as the machines were worth the amounts paid for them, and neither the Sheriff nor any other officer personally profited as a result of these purchases. If necessary, we will be happy to provide affidavits of the above facts. Safeguards are in place at the present time that would prohibit similar acts in the future.

### 5. Finding

Section 19-3-68, Miss. Code Ann. (1972), specifies the requirements governing the use of a county credit card for travel. The Chancery Clerk or County Purchase Clerk shall maintain complete records of all credit card numbers and all receipts and other documents relating to the use of such credit cards. The supervisor and county employees shall furnish receipts for the use of such credit cards each month to the Chancery Clerk or Purchase Clerk, who shall submit a written report monthly to the Board of Supervisors. The report shall include an itemized list of all expenditures and use of the credit card for the month, and such expenditures may be allowed for payment by the county in the same manner as other items on the claims docket. The issuance of a credit card to a supervisor or county employee under the provisions of this section does not authorize the supervisor or county employee to use the credit card to make any expenditure that is not otherwise authorized by law. Any supervisor or county employee who uses the credit card to make an expenditure that is not approved for payment by the board shall be personally liable for the expenditure and shall reimburse the county accordingly.

Travel charges to the credit card were not in complete compliance with this section. The credit card was used to pay for travel expenses of a non-county employee. There are no written reports itemizing the expenditures made on the credit card. Failure to enforce these requirements could result in the misuse of the credit card for unauthorized and unallowed expenditures.

### Recommendation

The Board of Supervisors should ensure that a monthly report itemizing the expenditures and the use of the card is submitted to the Board of Supervisors as required. The Board of Supervisors should only approve charges made to the credit card that are in compliance with this section.

### Board of Supervisors' Response

The Purchase Clerk will hold and issue credit cards to officials and employees who travel and will not purchase any non-employee airline tickets.

### Auditor's Note

The travel expenses paid for the non-county employee were reimbursed to the county.

Chancery Clerk.

6. Finding

Section 27-105-5, Miss. Code Ann. (1972), gives the responsibility to the State Treasurer for the collateralization of public deposits. However, the county is still required to perform certain duties related to the collateralization of public funds. As reported in the last two years' audit reports, the following duties were not performed:

- a. The quarterly report from the State Treasurer was not reconciled to the county's bank records.
- b. Bank officials were not notified when increases in deposits exceeded 25% of the average daily balance.
- c. The annual report was not submitted to the State Treasurer.

Without accurate and timely reconciliation of the quarterly reports, the risk increases that the county's total deposits may not be properly collateralized.

Recommendation

The Chancery Clerk should ensure the reconciliation function is prepared quarterly, the annual report is submitted and the bank is notified when appropriate.

Chancery Clerk's Response

The Chancery Clerk will ensure reconciliation is prepared quarterly, the annual report is submitted by October 31<sup>st</sup> and the bank is notified when appropriate.

7. Finding

Section 9-1-43, Miss. Code Ann. (1972), limits the compensation of Chancery Clerks to \$90,000 after making deductions for employee salaries and related salary expenses and expenses allowed as deductions by Schedule C of the Internal Revenue Code. Public Employees' Retirement System contributions for the benefit of the Chancery Clerk in the amount of \$4,317 for the 2006 calendar year were deducted against income and are not valid Schedule C expenses. Claiming expenses that are not allowable caused the salary limit to be exceeded. Amounts over the salary limitation should be paid to the General Fund of the county.

Recommendation

The Chancery Clerk should pay the amount of the disallowed expenses to the General Fund of the county. An amended report should be filed for 2006 with both the Office of the State Auditor and the Public Employees' Retirement System.

Chancery Clerk's Response

The Chancery Clerk agrees to pay disallowed expenses to the General Fund in the amount of \$4,317, and file a 2006 amended report to the Office of the State Auditor and the Public Employees' Retirement System.

Auditor's Note

The Chancery Clerk repaid \$4,317 to the General Fund on August 27, 2007, as evidenced by receive warrant number 13094.

8. Finding

Section 27-33-37(m), Miss. Code Ann. (1972), specifies the amounts to be paid the Chancery Clerk for processing homestead applications. The Chancery Clerk received \$410 more than the law allows for processing homestead applications.

Recommendation

The Chancery Clerk should receive no more than the law allows for processing homestead applications and refund the excess fee amount to the General Fund.

Chancery Clerk's Response

The Chancery Clerk agrees to repay to the General Fund \$410 for indicated homestead application which represents those that reapply. It should be noted the Chancery Clerk was never told or had knowledge of Section 27-33-37.

Auditor's Note

The Chancery Clerk repaid \$410 to the General Fund on August 27, 2007, as evidenced by receive warrant number 13095.

9. Finding

Section 25-7-9(1)(f), Miss. Code Ann. (1972), allows the Chancery Clerk to receive \$20 per day for himself and one deputy for each day's attendance on the Board of Supervisors. The Chancery Clerk was paid \$965 in excess of the statutory allowance.

Recommendation

The Chancery Clerk should receive no more than the law allows for attending board meetings and refund the excess fee amount to the General Fund.

Chancery Clerk's Response

The Chancery Clerk was told by Human Resources of the error and agrees with the difference in board meeting payments. However, this was not a Clerk error.

Auditor's Note

The Chancery Clerk repaid \$965 to the General Fund on August 27, 2007, as evidenced by receive warrant number 13093.

10. Finding

Section 7-7-221, Miss. Code Ann. (1972), requires the Clerk of the Board to publish a synopsis of the annual audit report as soon as possible after receipt of the report. The Clerk of the Board shall forward a copy of the published synopsis to the State Auditor.

The 2003 audit report was released on December 21, 2004. The 2004 audit report was released on December 16, 2005. The 2005 audit report was released on March 20, 2006. The State Auditor has not received a synopsis for the 2003 audit report, the 2004 audit report or the 2005 audit report.

### Recommendation

The Chancery Clerk should publish a synopsis of the annual audit report when the report is received, and forward the synopsis to the State Auditor.

### Chancery Clerk's Response

The Chancery Clerk is aware of the finding and agrees synopsis for periods indicated should be published.

Circuit Clerk.

### 11. Finding

An effective system of internal control should include properly maintaining cash journals, reconciling the bank statements to the cash journals and maintaining a subsidiary bond ledger. The following deficiencies in internal controls were noted:

- a. The December 2006 fee account bank statement was not reconciled to the cash journal.
- b. The subsidiary bond ledger did not agree to the cash journal.
- c. Annual reports for the 2005 and 2006 calendar years did not agree to cash journals.

Failure to reconcile the bank statements to the cash journals and to properly maintain a subsidiary bond ledger could result in the loss of public funds.

### Recommendation

The Circuit Clerk should ensure that the bank statements are reconciled to the cash journal, a subsidiary bond ledger is maintained and the cash journal agrees to the annual report.

### Circuit Clerk's Response

I will see that these things are done in the future.

### 12. Finding

Section 9-1-43(1), Miss. Code Ann. (1972), limits the compensation of the Circuit Clerk to \$90,000 after making deductions for employee salaries and related salary expenses and expenses allowed as deductions by Schedule C of the Internal Revenue Code. All fees received in excess of this amount, less any allowable expenses, are to be deposited by the clerk into the county's General Fund on or before April 15<sup>th</sup> for the preceding calendar year. The salary limitation was exceeded by \$15,729. Expenses of \$11,365 for the 2005 calendar year and \$8,535 for the 2006 calendar year were not properly documented and thus not allowed.

### Recommendation

The Circuit Clerk should settle the \$15,729 which represents the amount the salary limitation was exceeded and settle \$19,900 which represents the disallowed expenses to the General Fund.

### Circuit Clerk's Response

I will settle the \$15,729 within one month from today. As far as amounts paid to part-time employees, this is the first time I have been asked for time sheets, and no one ever told me they needed them during the audit. I will get the time sheet signed by employees and re-submit them. I thought the cancelled checks would be sufficient.

Purchase Clerk.

13. Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Purchase Clerk to execute a bond for \$75,000. The Purchase Clerk was replaced by another employee in July 2006. No bond was located for the new Purchase Clerk.

Recommendation

The Purchase Clerk should ensure that the bond is executed.

Purchase Clerk's Response

Currently the Purchase Clerk is correctly bonded.

Sheriff.

14. Finding

Effective controls over the accounting of cash include monthly reconciliations of the bank account to the cash journal book balance. As reported in the prior year audit report, the bank statements were not reconciled to the cash journal for the entire year. The failure to implement controls over cash could result in the loss or misappropriation of public funds.

Recommendation

The Sheriff should ensure the bank statement is reconciled to the cash journal book balance on a monthly basis.

Sheriff's Response

The Sheriff will implement a cash journal to correct the problem.

15. Finding

An effective system of internal control over the inmate canteen account should include reconciling the individual inmate accounts to the activity in the canteen account. As reported in the prior year audit report, the inmates' accounts were not reconciled to the cash balance in the canteen fund. The failure to reconcile inmate accounts could lead to loss or misappropriation of inmate funds.

Recommendation

The Sheriff should ensure the canteen bank account is reconciled to current inmate balances on a monthly basis.

Sheriff's Response

The Sheriff has already implemented a new inmate canteen system.

The Mississippi Office of the State Auditor has taken exception to certain costs. The details of the exception and disposition are as follows:

Exception Issued On:

Terry Lynn Watkins, Circuit Clerk

Nature of Exception:

Repayment to county of excess compensation over salary cap limit and undocumented expenses. See Circuit Clerk's Finding #12 described in this report.

Amount of Exception:

\$35,629

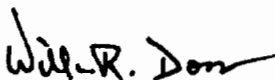
Disposition of Exception:

This matter has been referred to the Investigative Division of the Office of the State Auditor.

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



PHIL BRYANT  
State Auditor



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

July 31, 2007

LINCOLN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LINCOLN COUNTY

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LINCOLN COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

***Financial Statements:***

- |    |   |             |
|----|---|-------------|
| 1. | Type of auditor's report issued on the primary government financial statements:     | Unqualified |
| 2. | Internal control over financial reporting:  |             |
| a. | Material weakness identified?   | No          |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | Yes         |
| 3. | Noncompliance material to the primary government financial statements?              | No          |

***Federal Awards:***

- |     |   |             |
|-----|---|-------------|
| 4.  | Internal control over major programs:   |             |
| a.  | Material weakness identified?   | No          |
| b.  | Reportable condition identified that is not considered to be a material weakness?   | Yes         |
| 5.  | Type of auditor's report issued on compliance for major federal programs:   | Unqualified |
| 6.  | Any audit finding reported as required by Section ____.510(a) of Circular A-133?  | Yes         |
| 7.  | Federal programs identified as major programs:  |             |
| a.  | CFDA #14.246, Community Development Block Grants/Brownfields economic development initiative  |             |
| b.  | CFDA #20.205, Highway planning and construction   |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?  | No          |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No          |

LINCOLN COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2006

Section 2: Financial Statement Findings

County Administrator.

Reportable Condition

06-1. Finding

For effective internal control over cash, the receipt of revenue should be recorded in the county's records and deposited on a timely basis. A receipt from the Chancery Clerk for reimbursement for his employee payroll was recorded on December 30, 2005. The deposit cleared the bank on September 29, 2006. A receipt from the Chancery Clerk for reimbursement for his employee payroll was recorded on September 30, 2006, for \$85,502.55; however, the deposit cleared the bank on June 27, 2007. Another receipt from the Chancery Clerk for reimbursement for his employee payroll for \$29,400.15 was recorded on December 31, 2006. The deposit cleared the bank on March 30, 2007. Failure to deposit Chancery Clerk payroll reimbursement receipts on a timely basis essentially results in an "interest-free" loan to the Chancery Clerk and could result in the loss or misappropriation of public funds.

Recommendation

The County Administrator should ensure all receipts of revenue are deposited on a timely basis.

Tax Assessor-Collector.

Reportable Condition

06-2. Finding

An effective system of internal control over cash includes maintaining a cash journal. A report should be prepared monthly documenting the distribution of the cash. As reported in the prior year audit report, the Tax Assessor-Collector prepared a cash distribution report; however, the balances did not reconcile with supporting documentation. Errors on the cash journal resulted from the incorrect recording of receipts and disbursements. Failure to properly maintain the cash journal could result in incorrect settlements and the loss of public funds.

Recommendation

The Tax Assessor-Collector should maintain a cash journal and reconcile to supporting documentation.

LINCOLN COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2006

Section 3: Federal Award Findings and Questioned Costs

06-3. Finding

20.205 Highway planning and construction  
Grant number ER 0043 28 B  
U. S. Department of Transportation - Federal Highway Administration/  
Passed-through the Mississippi Department of Transportation

Reportable Condition

Compliance Requirement: Procurement and Suspension and Debarment

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

Recommendation

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

LINCOLN COUNTY

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LINCOLN COUNTY

AUDITEE'S CORRECTIVE ACTION PLAN

LINCOLN COUNTY

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# Lincoln County Board of Supervisors

Lincoln County Mississippi  
P.O. Box 555  
301 South First Street  
Brookhaven, Mississippi 39602-0555  
Telephone 601/835-3421 • Fax 601/835-3423

**Board of Supervisors**  
Dist. 1 Jerry Wilson  
Dist. 2 Bobby Watts  
Dist. 3 Nolan Williamson  
Dist. 4 Doug Moak  
Dist. 5 Gary Walker

**Chancery Clerk**  
Tillmon Bishop  
**Board Attorney**  
Robert O. Allen  
**County Administrator**  
David A. Fields

## **CORRECTIVE ACTION PLAN** **September 30, 2006**

Office of the State Auditor  
PO Box 956  
Jackson, MS 39205

Gentlemen:

Lincoln County respectfully submits the following corrective action plan for the year ended September 30, 2006.

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

### **SECTION 2: FINANCIAL STATEMENT FINDINGS**

- 06-1 Corrective Action Planned: All revenue will be deposited in the county depository immediately after the funds are received.
- Anticipated Completion: August 23, 2007
- Responsible Person: David A. Fields, Administrator
- 06-2 Corrective Action Planned: This was due to a manual settlement and then included in regular settlements which made a shortage. This finding was corrected and reconciled to the cash journal.
- Anticipated Completion: August 23, 2007
- Responsible Person: Nancy Jordan, Tax Assessor/Collector

### SECTION 3: FEDERAL AWARD FINDINGS

06-3 Corrective Action Planned: We will follow OMB Circular A-133 Compliance Supplement, Part 3(I) concerning suspended or debarred entities from this point forward.

Anticipated Completion: August 23, 2007

Responsible Person: David A. Fields, Administrator

Sincerely,

A handwritten signature in black ink, appearing to read "D.A. Fields", written in a cursive style.

David A. Fields  
County Administrator  
601-835-3421