

# MONTGOMERY COUNTY, MISSISSIPPI

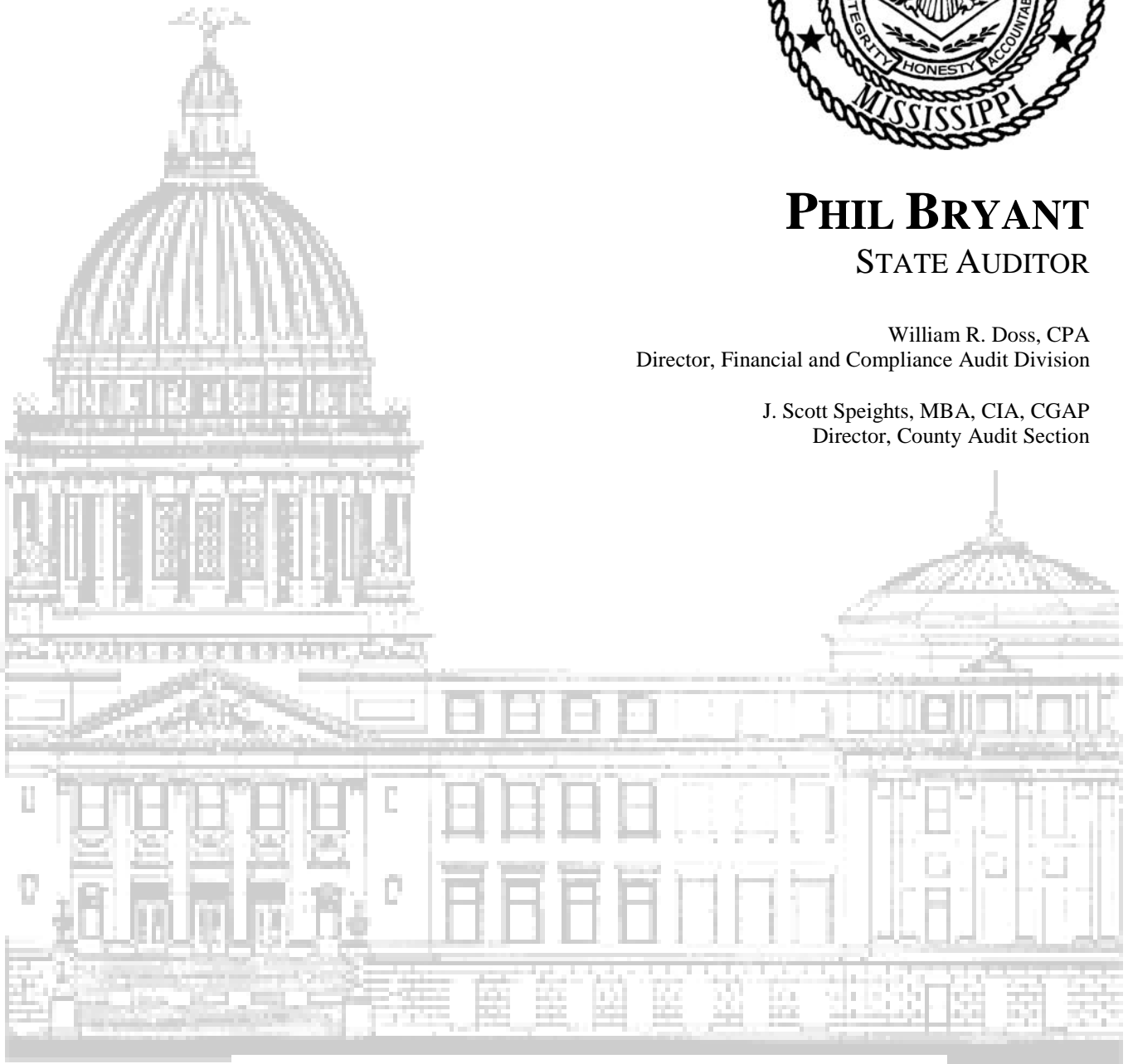
Audited Primary Government Financial Statements and Special Reports  
For the Year Ended September 30, 2006



**PHIL BRYANT**  
STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

J. Scott Speights, MBA, CIA, CGAP  
Director, County Audit Section



A Report from the County Audit Section

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MONTGOMERY COUNTY

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MONTGOMERY COUNTY

FINANCIAL SECTION

MONTGOMERY 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  
Montgomery County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montgomery 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.

Except as discussed in the following two paragraphs, 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.

Management did not maintain adequate subsidiary records documenting the accounts receivable of solid waste user fees or the aging of these accounts receivable. Due to the nature of the county's records, we were unable to satisfy ourselves as to the fair presentation of accounts receivable, net, reported on the Statement of Net Assets and in the Other Governmental Funds at \$102,977, as of September 30, 2006. Also, because of the nature of the accounts receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the Other Governmental Funds.

Management did not maintain adequate subsidiary records documenting the fines receivable of the Justice Court and Circuit Court or the aging of these fines receivable. Due to the nature of the county's records, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported on the Statement of Net Assets and in the General Fund at \$490,721, as of September 30, 2006. Also, because of the nature of the fines receivable records, we could not satisfy ourselves as to the fair presentation of the related transactions of the General Fund.

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

In our opinion, except for the effects of such adjustments if any, as might have been determined to be necessary had we been able to examine evidence to determine the net realizable value of solid waste accounts receivable for the Other Governmental Funds as described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the aggregate remaining fund information for the primary government of Montgomery County, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments if any, as might have been determined to be necessary had we been able to examine evidence to determine the net realizable value of the Justice Court and Circuit Court fines receivable for the General Fund as described in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the General Fund for the primary government of Montgomery County, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence to determine the net realizable value of solid waste accounts receivable for the Other Governmental Funds described in the third paragraph and the Justice Court and Circuit Court fines receivable for the General Fund as described in the fourth paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities for the primary government of Montgomery County, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Unit System Road and Bridge Maintenance Fund for the primary government of Montgomery County, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

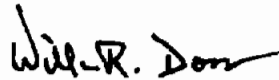
In accordance with *Government Auditing Standards*, we have also issued our report dated March 30, 2007, on our consideration of Montgomery County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant 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.

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

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



PHIL BRYANT  
State Auditor



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

March 30, 2007

MONTGOMERY COUNTY

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MONTGOMERY COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

MONTGOMERY COUNTY  
Statement of Net Assets  
September 30, 2006

Exhibit I

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Cash	\$ 2,719,145
Accrued interest receivable	363
Property tax receivable	2,461,474
Accounts receivable (net of allowance for uncollectibles of \$41,220)	102,977
Fines receivable (net of allowance for uncollectibles of \$ 362,005)	490,721
Intergovernmental receivables	111,448
Other receivables	12,082
Capital assets:	
Land and construction in progress	1,217,536
Other capital assets, net	4,791,022
Total Assets	<u>11,906,768</u>
<b>LIABILITIES</b>	
Claims payable	87,004
Intergovernmental payables	107,485
Deferred revenue	2,461,474
Amounts held in custody for others	15,961
Long-term liabilities	
Due within one year:	
Capital debt	395,225
Non-capital debt	14,317
Due in more than one year:	
Capital debt	371,389
Non-capital debt	7,152
Total Liabilities	<u>3,460,007</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	5,241,944
Restricted:	
Expendable:	
General government	191,731
Debt service	76,406
Public safety	46,287
Public works	1,309,959
Health and welfare	1,566
Capital projects	114,746
Unrestricted	1,464,122
Total Net Assets	<u>\$ 8,446,761</u>

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

MONTGOMERY 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	\$ 2,000,224	436,131			(1,564,093)
Public safety	1,039,477	117,282	94,111	5,141	(822,943)
Public works	1,706,401	196,384	743,310	851,003	84,296
Health and welfare	216,894		38,730	23,414	(154,750)
Culture and recreation	63,012		21,139		(41,873)
Education	21,590				(21,590)
Conservation of natural resources	66,613				(66,613)
Economic development and assistance	109,520		12,436		(97,084)
Interest on long-term debt	15,770				(15,770)
Total Governmental Activities	<u>\$ 5,239,501</u>	<u>749,797</u>	<u>909,726</u>	<u>879,558</u>	<u>(2,700,420)</u>
General revenues:					
Property taxes				\$ 3,406,407	
Road & bridge privilege taxes				127,340	
Grants and contributions not restricted to specific programs				194,273	
Unrestricted interest income				131,966	
Miscellaneous				57,616	
Total General Revenues				<u>3,917,602</u>	
Changes in Net Assets					1,217,182
Net Assets - Beginning					<u>7,229,579</u>
Net Assets - Ending					<u>\$ 8,446,761</u>

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

MONTGOMERY COUNTY  
 Balance Sheet - Governmental Funds  
 September 30, 2006

Exhibit 3

	Major Funds			Total Governmental Funds
	General Fund	Unit System Road and Bridge Maintenance Fund	Other Governmental Funds	
<b>ASSETS</b>				
Cash	\$ 1,102,964	911,836	704,345	2,719,145
Accrued interest receivable	363			363
Property tax receivable	1,645,686	281,588	534,200	2,461,474
Accounts receivable (net of allowance for uncollectibles of \$41,220)			102,977	102,977
Fines receivable (net of allowance for uncollectibles of \$362,005)	490,721			490,721
Intergovernmental receivables	52,735		58,713	111,448
Other receivables	3,759		8,323	12,082
Due from other funds		20,635	15,423	36,058
Total Assets	<u>\$ 3,296,228</u>	<u>1,214,059</u>	<u>1,423,981</u>	<u>5,934,268</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Claims payable	\$ 5,447	3,553	78,004	87,004
Intergovernmental payables	102,595			102,595
Due to other funds	40,948			40,948
Deferred revenue	2,136,407	281,588	637,177	3,055,172
Amounts held in custody for others	15,961			15,961
Total Liabilities	<u>2,301,358</u>	<u>285,141</u>	<u>715,181</u>	<u>3,301,680</u>
Fund balances:				
Reserved for:				
Debt service			76,406	76,406
Unreserved - undesignated, reported in:				
General Fund	994,870			994,870
Special Revenue Funds		928,918	517,648	1,446,566
Capital Project Funds			114,746	114,746
Total Fund Balances	<u>994,870</u>	<u>928,918</u>	<u>708,800</u>	<u>2,632,588</u>
Total Liabilities and Fund Balances	<u>\$ 3,296,228</u>	<u>1,214,059</u>	<u>1,423,981</u>	<u>5,934,268</u>

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

MONTGOMERY 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	\$ 2,632,588
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 \$5,576,692.	6,008,558
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	593,698
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(788,083)</u>
Total Net Assets - Governmental Activities	\$ <u><u>8,446,761</u></u>

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

## MONTGOMERY COUNTY

Exhibit 4

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

	Major Funds			Total Governmental Funds
	General Fund	Unit System Road and Bridge Maintenance Fund	Other Governmental Funds	
<b>REVENUES</b>				
Property taxes	\$ 2,174,142	500,232	732,033	3,406,407
Road and bridge privilege taxes		127,340		127,340
Licenses, commissions and other revenue	156,952		5,022	161,974
Fines and forfeitures	154,838		2,771	157,609
Intergovernmental revenues	266,020	1,251,924	465,613	1,983,557
Charges for services			370,065	370,065
Interest income	124,203		7,763	131,966
Miscellaneous revenues	30,421	27,195		57,616
Total Revenues	<u>2,906,576</u>	<u>1,906,691</u>	<u>1,583,267</u>	<u>6,396,534</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,840,458		124,945	1,965,403
Public safety	666,040		359,911	1,025,951
Public works	4,774	2,289,643	884,182	3,178,599
Health and welfare	115,633		98,111	213,744
Culture and recreation	63,012			63,012
Education	207			207
Conservation of natural resources	66,613			66,613
Economic development and assistance	97,084		12,436	109,520
Debt service:				
Principal	22,634		42,384	65,018
Interest	8,074		9,330	17,404
Total Expenditures	<u>2,884,529</u>	<u>2,289,643</u>	<u>1,531,299</u>	<u>6,705,471</u>
Excess of Revenues over (under) Expenditures	<u>22,047</u>	<u>(382,952)</u>	<u>51,968</u>	<u>(308,937)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued		343,049		343,049
Long-term non-capital debt issued	12,500			12,500
Proceeds from sale of capital assets	7,800	13,250		21,050
Transfers in	26,000		78,387	104,387
Transfers out	(78,387)		(26,000)	(104,387)
Total Other Financing Sources and Uses	<u>(32,087)</u>	<u>356,299</u>	<u>52,387</u>	<u>376,599</u>
Net Changes in Fund Balances	(10,040)	(26,653)	104,355	67,662
Fund Balances - Beginning	<u>1,004,910</u>	<u>955,571</u>	<u>604,445</u>	<u>2,564,926</u>
Fund Balances - Ending	<u>\$ 994,870</u>	<u>928,918</u>	<u>708,800</u>	<u>2,632,588</u>

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

## MONTGOMERY 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	\$ 67,662
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 capital outlays of \$1,783,907 exceeded depreciation of \$372,499 in the current period.	1,411,408
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$12,090 and the proceeds from the sale of \$ 21,050 in the current period.	(33,140)
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.	54,621
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.	5,528
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 proceeds of \$355,549 exceeded debt repayments of \$65,018.	(290,531)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by the amount of the decrease in accrued interest payable.	<u>1,634</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,217,182</u>

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

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

Exhibit 5

	<u>Agency Funds</u>
<b>ASSETS</b>	
Due from other funds	\$ 4,890
Total Assets	<u>\$ 4,890</u>
<b>LIABILITIES</b>	
Intergovernmental payables	\$ 4,890
Total Liabilities	<u>\$ 4,890</u>

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

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

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Montgomery 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 Montgomery 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.

- Tyler Holmes Hospital
- East Montgomery County Hospital
- Montgomery County Economic Development District

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

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

B. 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.

## MONTGOMERY 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. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the county.

#### Fund Financial Statements:

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

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

The Government-wide and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

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

The county reports the following major Governmental Funds:

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

Unit System Road & Bridge Maintenance Fund - This fund is used to account for monies from specific revenue sources that are restricted for road maintenance.

## MONTGOMERY COUNTY

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

Additionally, the county reports the following fund types:

#### GOVERNMENTAL FUND TYPES

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

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

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

#### FIDUCIARY FUND TYPE

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

#### D. Account Classifications.

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

#### E. Deposits and Investments.

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

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

#### F. Receivables.

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

#### 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.

MONTGOMERY COUNTY

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

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. The extent to which capital assets 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. Montgomery County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years

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.

## MONTGOMERY COUNTY

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

#### 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 improvement of those assets.

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

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

##### Fund Financial Statements:

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

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

#### K. Property Tax Revenues.

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

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

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

MONTGOMERY COUNTY

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

L. Intergovernmental Revenues in Governmental Funds.

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

(2) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$2,719,145, and the bank balance was \$3,155,935. 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.

(3) 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>
Unit System Road and Bridge Maintenance	General	\$ 20,635
Other Governmental Funds	General	15,423
Agency Funds	General	<u>4,890</u>
Total		<u>\$ 40,948</u>

The receivables represent the tax revenue collected but not settled until October, 2006. All interfund balances are expected to be repaid within one year from the date of the financial statements.

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

B. Transfers In/Out:

General Fund	Other Governmental Funds	\$ 26,000
Other Governmental Funds	General Fund	<u>78,387</u>
Total		<u>\$ 104,387</u>

The principal purpose of interfund transfers was to provide funds for budgetary obligations 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.

(4) Intergovernmental Receivables.

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

Governmental Activities:	
Legislative tag credit	\$ 52,735
Community development block grants	<u>58,713</u>
Total Governmental Activities	<u>\$ 111,448</u>

(5) Capital Assets.

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

Governmental activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sept. 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 243,123		10,000		233,123
Construction in progress	<u>504,370</u>	<u>700,628</u>		(220,585)	<u>984,413</u>
Total non-depreciable capital assets	<u>747,493</u>	<u>700,628</u>	<u>10,000</u>	<u>(220,585)</u>	<u>1,217,536</u>
<u>Depreciable capital assets:</u>					
Infrastructure	839,538	556,490		220,585	1,616,613
Buildings	4,965,180				4,965,180
Mobile equipment	3,029,093	498,429	111,382		3,416,140
Furniture and equipment	<u>341,421</u>	<u>28,360</u>			<u>369,781</u>
Total depreciable capital assets	<u>9,175,232</u>	<u>1,083,279</u>	<u>111,382</u>	<u>220,585</u>	<u>10,367,714</u>

MONTGOMERY COUNTY

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

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sept. 30, 2006
<u>Less accumulated depreciation for:</u>					
Infrastructure	52,660	56,581			109,241
Buildings	2,984,048	29,248			3,013,296
Mobile equipment	2,015,163	223,413	88,242		2,150,334
Furniture and equipment	240,564	63,257			303,821
Total accumulated depreciation	<u>5,292,435</u>	<u>372,499</u>	<u>88,242</u>	<u>0</u>	<u>5,576,692</u>
 Total depreciable capital assets, net	 <u>3,882,797</u>	 <u>710,780</u>	 <u>23,140</u>	 <u>220,585</u>	 <u>4,791,022</u>
 Governmental activities capital assets, net	 <u>\$ 4,630,290</u>	 <u>1,411,408</u>	 <u>33,140</u>	 <u>0</u>	 <u>6,008,558</u>

\* This adjustment is to transfer completed construction in progress to infrastructure.

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 34,821
Public safety	63,535
Public works	249,610
Health and welfare	3,150
Culture and recreation	<u>21,383</u>
 Total governmental activities depreciation expense	 <u>\$ 372,499</u>

(6) 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.

MONTGOMERY COUNTY

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

(7) Long-term Debt.

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

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General Obligation Bond:			
Multi-purpose building	\$ <u>175,000</u>	4.60/5.00%	03/2011
B. Other Loans:			
East Montgomery County Hospital	\$ 10,276	5.00%	11/2006
Two 2006 Mack CHN613 trucks and one 2006 Mack CV713 truck	260,020	4.04%	04/2007
2006 Mack CHN613 tractor truck	83,029	3.85%	04/2007
Computer hardware and land records software	11,193	4.50%	06/2009
MDA Cap Loan - Multi-purpose building	154,492	3.00%	07/2014
MDA Cap Loan - Mental health building	<u>94,073</u>	3.00%	05/2022
Total Other Loans	\$ <u>613,083</u>		

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

Governmental Activities:

<u>Year Ending September 30</u>	<u>General Obligation</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 30,000	7,765	379,542	24,828
2008	35,000	6,252	27,076	6,607
2009	35,000	4,590	26,470	5,725
2010	35,000	2,875	24,261	4,959
2011	40,000	1,000	24,999	4,221
2012 - 2016			91,043	10,731
2017 - 2021			33,946	3,351
2022 - 2026			<u>5,746</u>	<u>56</u>
Total	\$ <u>175,000</u>	<u>22,482</u>	<u>613,083</u>	<u>60,478</u>

MONTGOMERY COUNTY

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

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 less than 1% 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 Oct. 1, 2005	Additions	Reductions	Adjustments	Balance Sept. 30, 2006	Amount due within one year
Governmental Activities:						
General obligation bonds	\$ 205,000		30,000		175,000	30,000
Other loans	292,552	355,549	35,018		613,083	379,542
Total	\$ 497,552	355,549	65,018	0	788,083	409,542

(8) 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.

(9) Joint Venture.

The county participates in the following joint venture:

Montgomery County is a participant with the City of Winona in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Winona-Montgomery County Airport Authority. The joint venture was created to construct, manage, control and operate the Winona-Montgomery County Airport and is governed by a five member board of commissioners appointed as follows: Montgomery County, two; City of Winona, two; jointly, one. By contractual agreement, all costs of the airport shall be borne equally by both parties. The county paid \$4,774 for maintenance and support of the airport in fiscal year 2006. Financial statements for the Winona-Montgomery County Airport Authority were not available.

## MONTGOMERY COUNTY

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

#### (10) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Region Six Mental Health/Mental Retardation Center/Life Help operates in a district composed of the counties of Attala, Carroll, Grenada, Holmes, Humphreys, Leflore, Montgomery and Sunflower. The Montgomery County Board of Supervisors appoints one of the eight members of the board of commissioners. The county appropriated \$22,598 for support of the center in fiscal year 2006.

North Central Planning and Development District operates in a district composed of the counties of Attala, Carroll, Grenada, Holmes, Leflore, Montgomery and Yalobusha. The Montgomery County Board of Supervisors appoints four of the 28 members of the district board of directors. The county appropriated \$28,084 for the maintenance and support of the district in fiscal year 2006.

Holmes Community College operates in a district composed of the counties of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo. The Montgomery County Board of Supervisors appoints two of the 22 members of the college board of trustees. The county appropriated \$124,290 for maintenance and support of the college in fiscal year 2006.

Mid-Mississippi Regional Library System operates in a district composed of the counties of Attala, Holmes, Leake, Montgomery and Winston. The Montgomery County Board of Supervisors appoints one of the five members of the library board of directors. The county appropriated \$109,637 for maintenance and support of the library in fiscal year 2006.

Mississippi Regional Housing Authority IV operates in a district composed of the counties of Carroll, Choctaw, Clay, Grenada, Lowndes, Montgomery, Oktibbeha, Webster and Winston. The Montgomery County Board of Supervisors appoints one of the nine members of the board of commissioners. The county did not appropriate for maintenance and support of the authority in fiscal year 2006.

#### (11) Defined Benefit Pension Plan.

Plan Description. Montgomery 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 \$164,601, \$145,563 and \$143,485, respectively, equal to the required contributions for each year.

MONTGOMERY COUNTY

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MONTGOMERY COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

MONTGOMERY COUNTY

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MONTGOMERY 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	\$ 2,165,809	1,909,763	2,177,643	267,880
Licenses, commissions and other revenue	129,622	124,025	113,353	(10,672)
Fines and forfeitures	167,000	155,652	156,041	389
Intergovernmental revenues	261,000	287,466	269,762	(17,704)
Interest income	40,000	63,057	124,366	61,309
Miscellaneous revenues	189,600	191,024	145,244	(45,780)
Total Revenues	<u>2,953,031</u>	<u>2,730,987</u>	<u>2,986,409</u>	<u>255,422</u>
<b>EXPENDITURES</b>				
Current:				
General government	1,849,338	1,931,528	1,931,528	
Public safety	647,403	664,740	664,740	
Public works	9,421	4,774	4,774	
Health and welfare	129,852	123,381	123,381	
Culture and recreation	87,712	84,765	84,765	
Education	700	207	207	
Conservation of natural resources	71,899	66,832	66,832	
Economic development and assistance	96,084	97,084	97,084	
Total Expenditures	<u>2,892,409</u>	<u>2,973,311</u>	<u>2,973,311</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>60,622</u>	<u>(242,324)</u>	<u>13,098</u>	<u>255,422</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term non-capital debt issued			12,500	12,500
Compensation for loss of capital assets			2,330	2,330
Transfers in	116,000	110,000	118,981	8,981
Transfers out	(169,222)	(179,368)	(179,368)	
Total Other Financing Sources and Uses	<u>(53,222)</u>	<u>(69,368)</u>	<u>(45,557)</u>	<u>23,811</u>
Net Change in Fund Balance	7,400	(311,692)	(32,459)	279,233
Fund Balances - Beginning	<u>900,000</u>	<u>1,386,166</u>	<u>987,256</u>	<u>(398,910)</u>
Fund Balances - Ending	<u>\$ 907,400</u>	<u>1,074,474</u>	<u>954,797</u>	<u>(119,677)</u>

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

MONTGOMERY COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Unit System Road and Bridge Maintenance 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	\$ 505,334	448,400	500,894	52,494
Road and bridge privilege taxes	105,000	95,000	127,992	32,992
Licenses, commissions and other revenue	478,000	526,000	540,754	14,754
Miscellaneous revenues	6,500	10,034	70,758	60,724
Total Revenues	<u>1,094,834</u>	<u>1,079,434</u>	<u>1,240,398</u>	<u>160,964</u>
<b>EXPENDITURES</b>				
Current:				
Public works	<u>1,214,834</u>	<u>1,595,415</u>	<u>1,595,415</u>	
Total Expenditures	<u>1,214,834</u>	<u>1,595,415</u>	<u>1,595,415</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(120,000)</u>	<u>(515,981)</u>	<u>(355,017)</u>	<u>160,964</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued			343,049	343,049
Transfers in		64,000		(64,000)
Total Other Financing Sources and Uses	<u>0</u>	<u>64,000</u>	<u>343,049</u>	<u>279,049</u>
Net Change in Fund Balance	(120,000)	(451,981)	(11,968)	440,013
Fund Balances - Beginning	<u>700,000</u>	<u>954,143</u>	<u>923,804</u>	<u>(30,339)</u>
Fund Balances - Ending	<u>\$ 580,000</u>	<u>502,162</u>	<u>911,836</u>	<u>409,674</u>

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

MONTGOMERY 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 and the major Special Revenue Fund:

	<u>Governmental Fund Types</u>	
	General Fund	Unit System Road and Bridge Maintenance Fund
Budget (Cash Basis)	\$ (32,459)	(11,968)
Increase (Decrease)		
Net adjustments for revenue accruals	(443,791)	(1,314)
Net adjustments for expenditure accruals	<u>466,210</u>	<u>(13,371)</u>
GAAP Basis	<u>\$ (10,040)</u>	<u>(26,653)</u>

MONTGOMERY COUNTY

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MONTGOMERY COUNTY

SPECIAL REPORTS

MONTGOMERY 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  
Montgomery County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Montgomery 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 March 30, 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. Our report includes qualified opinions on the governmental activities and the aggregate remaining fund information because the county did not maintain adequate subsidiary records documenting the accounts receivable of the solid waste user fees or the aging of these accounts receivable and a qualified opinion on the governmental activities and the General Fund because the county did not maintain adequate subsidiary records documenting the fines receivable of the Justice Court and Circuit Court or the aging of these fines receivable. Except for the limitations related to the qualified opinions, 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 Montgomery 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 Montgomery 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 as items 06-1, 06-2 and 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 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 consider the reportable conditions described above to be material weaknesses.

Compliance and Other Matters

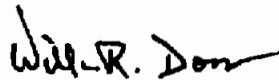
As part of obtaining reasonable assurance about whether Montgomery County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which 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 Montgomery 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 March 30, 2007, included within this document.

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 specified 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

March 30, 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  
Montgomery County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Montgomery 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 Montgomery 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 Montgomery 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 certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were 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 documents did not have detailed descriptions or specific quantities noted on the documents. Failure to properly complete purchase documents could cause the county to pay more for items than were ordered or to pay for items that were not ordered.

Recommendation

The Purchase Clerk should ensure that purchase transaction documents are present, completed with sufficient detail, including specific amounts, as required, and in the proper time sequence.

Purchase Clerk's Response

- I will ensure that purchase documents are present, completed with sufficient details, including specific amounts as required, and in the proper time sequence.


In our opinion, except for the noncompliance referred to in the preceding paragraph, Montgomery 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 Montgomery County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT  
State Auditor



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

March 30, 2007

MONTGOMERY 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.

MONTGOMERY 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>
10/03/05	Factory rebuilt motor grader engine	\$ 17,200	Stribling Equipment	Engine needed for motor grader in order to clean up debris and grade roads damaged by Hurricane Katrina.
2/21/06	Clean up fuel spill	7,199	United States Environmental Services, L.L.C.	Services were needed to clean up fuel spill at county barn.

MONTGOMERY 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>
5/08/06	Historical software program with maintenance developed for Montgomery County	\$	10,000	LMI Technologies

MONTGOMERY 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  
Montgomery County, Mississippi

In planning and performing our audit of the financial statements of Montgomery County, Mississippi for the year ended September 30, 2006, we considered Montgomery 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 Montgomery 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 March 30, 2007, on the financial statements of Montgomery 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:

Chancery Clerk.

1. 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 received payment for 54 meetings from October 2005 through September 2006. The board only met on 42 different days. The Chancery Clerk was paid \$480 in excess of the statutory allowance.

### Recommendation

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

### Chancery Clerk's Response

I repaid the county on March 30, 2007.

### Auditor's Note

On April 2, 2007, the Chancery Clerk paid \$480 to the General Fund as evidenced by receive warrant number 6738.

Circuit Clerk.

### 2. Finding

An effective system of internal control should include an adequate separation of duties. Cash collection and disbursement functions are not adequately separated for effective internal control. One person receipts funds, prepares all deposits, calculates the monthly settlements, posts the cash journal, reconciles the bank statements and disburses all funds. Failure to have an adequate separation of duties could result in the loss of public funds.

### Recommendation

The Circuit Clerk should implement a system for review of the accounting records by another person.

### Circuit Clerk's Response

The full-time deputy, the part-time deputy and the Circuit Clerk receipt funds as they are paid in person in the office and as they are received by mail. (The part-time deputy works during court and during elections.) Each of us assists customers everyday. It depends on which one of us is the 'least' busy when someone comes in the office for help. This is a small office, and each one of us handles whatever comes up in the course of a work day.

The Circuit Clerk has always handled all of the accounts including Civil and Criminal Clearing Accounts, Jury Account, Fee Account, etc., and all of the corresponding bank accounts. The Circuit Clerk feels more confident in keeping the books. The auditors always do a thorough review of the accounting records. By doing the accounting in this office, the Circuit Clerk knows what has been done and is able to answer any questions that the auditor might have.

Sheriff.

### 3. Finding

An effective system of internal control should include an adequate separation of duties. Cash collection and disbursement functions are not adequately separated for effective internal control. One person receipts funds, prepares all deposits, calculates the monthly settlements, posts the cash journal, reconciles the bank statements and disburses all funds. Failure to have an adequate separation of duties could result in the loss of public funds.

### Recommendation

The Sheriff should implement a system for review of the accounting records by another person.

### Sheriff's Response

I will review the cash journal and bank statement monthly.

#### 4. Finding

Section 45-5-9, Miss. Code Ann. (1972), requires Sheriff's deputies hired under this section to execute a bond for \$25,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The deputies' bonds were written for an indefinite period of time. This would limit the amount available for recovery if a loss occurred over multiple terms.

### Recommendation

The Sheriff should ensure that the deputies cancel the current bonds and secure new ones for the duration of the current term.

### Sheriff's Response

The Sheriff's deputies will acquire new bonds as required by law. They will be renewed by the Sheriff every four years.

#### 5. Finding

Section 99-27-37, Miss. Code Ann. (1972), authorizes the establishment of a fund for the purpose of defraying expenses incurred by law enforcement in the procuring of evidence in drug and alcohol cases. An effective system of internal control over these funds should include proper documentation of all funds received and expended. The forms used to document expenditures from this fund were not always properly completed. Dates, descriptions of purchases and signatures were left off some of the forms filed as documentation for expenses. Also, some forms were not filed in the notebook kept in the office to document these expenditures. The Sheriff has not established procedures to document the balance for funds received from the county and amounts paid for information. Failure to have an adequate accounting of this fund could result in the loss of public funds.

### Recommendation

The Sheriff should establish procedures to document the balance available to purchase information on a current basis and ensure that the forms used to document purchases of information are all properly completed.

### Sheriff's Response

I will appoint the chief deputy to maintain a ledger for the information fund. The ledger will provide the date of disbursement, name of individual receiving disbursement, amount of disbursement and the purpose of the disbursement.

The ledger will provide amount of funds received from the county, a beginning monthly balance and an ending monthly balance. In addition, all vouchers for information will be completed in their entirety and maintained in a notebook labeled Information Fund Expenditures.

Justice Court Judge.

6. Finding

Section 9-11-7, Miss. Code Ann. (1972), requires the Justice Court Judge to execute a bond for \$10,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by securing a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Justice Court Judge's bond was written for an indefinite period of time. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The Justice Court Judge should cancel the current bond and secure a new one for the duration of the current term.

Justice Court Judge's Response

I will comply.

County Administrator.

7. Finding

Section 19-4-9, Miss. Code Ann. (1972), requires the County Administrator to obtain a bond that is payable, conditioned and approved as provided by law in a penalty equal to three percent (3%) of the sum of all the state and county taxes shown by the assessment rolls and the levies to have been collectible in the county for the year immediately preceding the commencement of the term of office for such administrator; however, such bond shall not exceed \$100,000.00. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by securing a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The County Administrator's bond was less than the amount required and was included on a "blanket bond" with 36 other bonded positions. Also, the County Administrator's bond was written as "indefinite" coverage, rather than for the term. This limits the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The County Administrator should cancel the current bond and secure a new bond for the position of County Administrator for \$100,000 that is for the duration of the current term.

County Administrator's Response

I will cancel the current bond and secure a bond for the position of County Administrator for \$100,000 for the duration of the current term.

Justice Court Clerk and Deputy Justice Court Clerks.

8. Finding

Section 9-11-29, Miss. Code Ann. (1972), requires every Justice Court Clerk and Deputy Justice Court Clerk to execute a bond for \$50,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Justice Court Clerk and Deputy Justice Court Clerks were bonded for an indefinite period of time rather than the term. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The Justice Court Clerk and Deputy Justice Court Clerks should cancel the current bonds and secure new ones for the duration of the current term.

Justice Court Clerk's and Deputy Justice Court Clerks' Response

I have spoken with the Chancery Clerk, Tee Golding, and he is to correct this bonding error.

Purchase Clerk and Assistant Purchase Clerk.

9. Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Purchase Clerk to execute a bond for \$75,000 and the Assistant Purchase Clerk to execute a bond for \$10,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by securing a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Purchase Clerk's and Assistant Purchase Clerk's bonds were written for an indefinite time rather than a term. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The Purchase Clerk and Assistant Purchase Clerk should cancel the current bonds and secure new ones for the duration of the current term.

Purchase Clerk's and Assistant Purchase Clerk's Response

We will secure new bonds for the duration of the current term.

Inventory Control Clerk and Assistant Inventory Control Clerk.

10. Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Inventory Control Clerk to execute a bond for \$75,000 and the Assistant Inventory Control Clerk to execute a bond for \$10,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by securing a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Inventory Control Clerk's and Assistant Inventory Control Clerk's bonds were written for an indefinite time rather than a term. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The Inventory Control Clerk and Assistant Inventory Control Clerk should cancel the current bonds and secure new ones for the duration of the current term.

Inventory Control Clerk's and Assistant Inventory Control Clerk's Response

We will secure new bonds.

Receiving Clerk and Assistant Receiving Clerks.

11. Finding

Section 31-7-124, Miss. Code Ann. (1972), requires the Receiving Clerk to execute a bond for \$75,000 and the Assistant Receiving Clerks to execute a bond for \$10,000 to be payable, conditioned and approved as provided by law. Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by securing a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Receiving Clerk's and Assistant Receiving Clerks' bonds were written for an indefinite time rather than a term. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The Receiving Clerk and Assistant Receiving Clerks should cancel the current bonds and secure new ones for the duration of the current term.

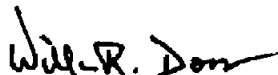
Receiving Clerk's and Assistant Receiving Clerks' Response

A new bond is being processed.

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

March 30, 2007

MONTGOMERY COUNTY

SCHEDULE OF FINDINGS

MONTGOMERY COUNTY

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MONTGOMERY COUNTY

Schedule of Findings  
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:     |               |
|    | Governmental activities   | Qualified     |
|    | General Fund  | Qualified     |
|    | Unit System Road and Bridge Maintenance Fund  | Unqualified   |
|    | Aggregate remaining fund information  | Qualified     |
| 2. | Internal control over financial reporting:  |               |
| a. | Material weaknesses identified?   | Yes           |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the primary government financial statements?              | No            |

Section 2: Financial Statement Findings

Tax Assessor-Collector.

06 - 1. Finding

Management did not maintain adequate subsidiary records documenting the accounts receivable of the solid waste user fees and the aging of these receivables. Therefore, the Independent Auditor's Report is qualified on the governmental activities and on the aggregate remaining fund information because we were not able to satisfy ourselves as to the fair presentation of the solid waste accounts receivable in the governmental activities and the Other Governmental Funds.

Recommendation

The Tax Assessor-Collector should establish procedures documenting the accounts receivable records and the aging of the solid waste fees.

Tax Assessor-Collector's Response

Now that we are aware of this, we will consult with the Board of Supervisors and provide this information.

MONTGOMERY COUNTY

Schedule of Findings  
For the Year Ended September 30, 2006

Circuit Clerk.

06-2. Finding

Control procedures were inadequate for determining the aging of Circuit Court fines receivable. The Circuit Clerk did not maintain the listing of the individual accounts used in preparing the accounts receivable aging schedule. Therefore, the Independent Auditors' Report is qualified on the governmental activities and the General Fund because we were not able to satisfy ourselves as to the fair presentation of the Circuit Court fines receivable in the governmental activities and the General Fund.

Recommendation

The Circuit Clerk should establish procedures to identify the individual fines that comprise each category of the aged fines receivable records.

Circuit Clerk's Response

Individual accounts receivable sheets are maintained along with an accounts receivable ledger showing the actual balance at the end of each month. These are used in determining the aging report at the end of each fiscal year. A recommendation will be made to the new Circuit Clerk to purchase the software to computerize this process.

Justice Court Clerk.

06-3. Finding

Management did not maintain adequate subsidiary records documenting the fines receivable in the Justice Court and the aging of these receivables. Therefore, the Independent Auditors' Report is qualified on the governmental activities and the General Fund because we were not able to satisfy ourselves as to the fair presentation of the Justice Court fines receivable in the governmental activities and the General Fund.

Recommendation

The Justice Court Clerk should establish procedures documenting the subsidiary fines receivable records and the aging of these receivables.

Justice Court Clerk's Response

I was told previously not to keep the full printout of the aged receivable but just the final sheet. I will now be keeping the full report.