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**MISSISSIPPI MILITARY DEPARTMENT
(A Department of the State of Mississippi)**

**Financial Statements of Fund 3701 Selected
for Audit**

Years Ended June 30, 2011 and 2010

Internal Control and Compliance

Years Ended June 30, 2011 and 2010

**Mississippi Military Department
(A Department of the State of Mississippi)**

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June 30, 2011 and 2010

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INDEPENDENT AUDITORS' REPORT

Major General William Freeman, Jr.
The Adjutant General of Mississippi
Mississippi Military Department
Jackson, Mississippi

We have audited the accompanying financial statements of Special Revenue Fund 3701 of the Mississippi Military Department ("the Department") as of June 30, 2011 and 2010. These financial statements will be consolidated into the respective State of Mississippi's Comprehensive Annual Financial Report. The fund is the responsibility of the Department's management. Our responsibility is to express an opinion on the 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the Department's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of Special Revenue Fund 3701 of the Department are intended to present only the financial position and changes in financial position of that portion of the governmental activities of the Mississippi Military Department and of the State of Mississippi that is attributable to the transactions of Special Revenue Fund 3701. They do not purport to, and do not, present fairly the financial position of the Mississippi Military Department or the State of Mississippi as of June 30, 2011 and 2010, and the changes in financial position of each entity for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements of Special Revenue Fund 3701 referred to above present fairly, in all material respects, the financial position of Special Revenue Fund 3701 as of June 30, 2011 and 2010 and their changes in financial position thereof for the years 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 December 14, 2011, on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with other matters, in relation solely to Special Revenue Fund 3701. 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.

Management of the Department has not presented Management's Discussion and Analysis and has not presented a budget comparison schedule that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

This report is intended solely for the information and use of management, members of the Legislature and federal awarding agencies 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.

Carl Rigg & Ingram, LLC

Ridgeland, Mississippi
December 14, 2011

Financial Statements

**Mississippi Military Department
(A Department of the State of Mississippi)**

Balance Sheets of Special Revenue Fund 3701

<i>June 30,</i>	2011	2010
Assets		
Cash	\$ 8,203,602	\$ 4,440,956
Accounts receivable	1,014,370	1,850,208
Inventory	1,974,682	1,805,575
Total Assets	\$ 11,192,654	\$ 8,096,739
Liabilities and Fund Balance		
Accounts payable	\$ 2,192,357	\$ 2,099,922
Due to local governments	4,419	4,021
Accrued expenses	604,510	537,134
Deferred revenues	5,435,847	2,239,008
Total liabilities	8,237,133	4,880,085
Contingencies (Note 4)		
Nonspendable	1,974,682	1,805,575
Restricted	980,839	1,411,079
Total fund balance	2,955,521	3,216,654
Total liabilities and fund balance	\$ 11,192,654	\$ 8,096,739

See notes to financial statements.

**Mississippi Military Department
(A Department of the State of Mississippi)**

**Statements of Revenues, Expenditures and
Changes In Fund Balances of Special Revenue Fund 3701**

<i>Years ended June 30,</i>	2011	2010
Revenues:		
National Guard revenue	\$ 54,658,317	\$ 54,444,063
Donations	18,087	-
Other income	58,304	23,574
Total revenues	54,734,708	54,467,637
Expenditures:		
Salaries	18,772,424	18,034,361
Travel	158,455	166,497
Contractuals	30,816,577	26,262,701
Commodities	2,013,771	2,050,106
Capital outlay	3,985,393	8,320,460
Total expenditures	55,746,620	54,834,125
Excess of expenditures over revenues	(1,011,912)	(366,488)
Other financing sources:		
Transfers in	750,779	689,770
Net other financing sources	750,779	689,770
Excess (deficiency) of revenues and other financing sources (uses) over (under) expenditures	(261,133)	323,282
Fund balance, beginning of year	3,216,654	2,893,372
Fund balance, end of year	\$ 2,955,521	\$ 3,216,654

See notes to financial statements.

Mississippi Military Department (A Department of the State of Mississippi)

Notes to Financial Statements of Special Revenue Fund 3701

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Background Information

The Mississippi Military Department ("the Department") is a state agency whose main function is to provide trained military units and individuals to the Army and Air Force of the United States in time of war or national emergency. The Department also provides sufficient organization within the state so that trained and equipped forces can function efficiently at existing strength in the protection of life and property and the preservation of peace, order, and public safety under competent orders of the state authorities.

Purpose of Special Revenue Fund 3701

Special Revenue Fund 3701 is related to National Guard military operations and maintenance projects and special military operations and projects. The National Guard Bureau enters into cooperative agreements for Army National Guard Facilities Programs with States to provide Federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, and modernization, including operations and maintenance and minor construction costs.

Basis of Presentation

The accompanying program specific financial statements have been prepared in conformity with generally accepted accounting principles ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). Governmental Fund types are used for Special Revenue Fund 3701. This fund type is accounted for on a flow of current financial resources measurement focus. These focus measures financial resources available to the entity in the near future as a result of transactions and events of the fiscal period reported. The modified accrual basis of accounting is utilized. Under this method, revenues are recognized when they become measurable and available, and expenditures are generally recognized when they are incurred. In connection with the preparation of the financial statements, management of the Department evaluated subsequent events through December 14, 2011, which is the date the financial statements were available to be issued.

Use of Estimates

The Department's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing its financial statements, the Department is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the balance sheets and the reported amounts of revenues and expenditures for the years then ended. Actual results could differ significantly from those estimates.

Fund Accounting

The financial activities of the Army National Guard fund is recorded in individual funds and account groups used to report financial position and results of operations. Fund accounting is used to demonstrate legal compliance and to aid financial management by segregating transactions relating to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with specific regulations, restrictions or limitations. The Department funds presented herein utilize the special revenue fund category, which is further divided into separate "fund types". Special revenue funds are

**Mississippi Military Department
(A Department of the State of Mississippi)**

Notes to Financial Statements of Special Revenue Fund 3701

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (Continued)

used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The individual fund included in the accompanying financial statements is described as follows:

Fund 3701 – Mississippi Army National Guard Maintenance and Operation Fund

Accounts Receivable

Receivables are reported net of allowances for uncollectible accounts, where applicable. A significant portion (\$1,002,753 in 2011 and \$1,838,591 in 2010) of the accounts receivable for Fund 3701 is receivable from the federal government.

Inventory

Inventory is stated using the average cost basis of accounting.

Fund Balance

Inventories are not in spendable form and are thus reflected as nonspendable fund balance. Remaining fund balances are restricted for military operations.

Future Accounting Pronouncements

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement identifies net position as the residual of all other elements presented in a statement of financial position. This statement amends existing net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The provisions of this Statement are effective for periods beginning after December 15, 2011. Management has not completed its evaluation to determine the effect, if any, the adoption of this statement will have on the Department's financial statements.

Deferred Revenue

The Department is required to submit a quarterly request for advance funding to receive the necessary federal funding to continue operations. The deferred revenues represent amounts received from the federal government in excess of money spent for approved expenditures per the master cooperative agreement.

Risk Management

The Department is exposed to various risks of loss to torts; theft of, damage to, and destruction of assets; error and omissions; and natural disasters. The State of Mississippi has elected to finance most exposures to risk through the retention of risk. The State utilizes the internal service Risk Management Fund to account for these activities.

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(A Department of the State of Mississippi)**

Notes to Financial Statements of Special Revenue Fund 3701

NOTE 2 – CASH AND OTHER DEPOSITS

Cash consists of pooled cash held by the Treasurer of the State of Mississippi. The collateral for public entities' deposits in financial institutions are 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 entities' funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

NOTE 3 – TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES

Transfers from other Department funds and other state agencies to Special Revenue Fund 3701 are detailed in the chart below.

<i>Years ended June 30,</i>	Special Revenue Fund 3701	
	2011	2010
Mississippi Military Department - General Fund No. 2701	\$ 750,779	\$ 700,104
Mississippi Emergency Management Agency	-	(10,334)
	\$ 750,779	\$ 689,770

NOTE 4 – CONTINGENCIES

The Department is involved in litigation arising out of the normal course of operations and, in management's opinion, the outcome of these matters is not expected to have a material adverse effect on the Department's financial position.

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

Major General William Freeman, Jr.
The Adjutant General of Mississippi
Mississippi Military Department
Jackson, Mississippi

We have audited the financial statements of Special Revenue Fund 3701 of the Mississippi Military Department (the "Department") as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management, members of the Legislature and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Con. Reggs & Ingram, LLC

Ridgeland, Mississippi
December 14, 2011