



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

PHIL BRYANT
State Auditor

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

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Director, County Audit Section

LINCOLN COUNTY, MISSISSIPPI

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

LINCOLN COUNTY

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LINCOLN COUNTY

FINANCIAL SECTION

LINCOLN COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Lincoln County, Mississippi

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

Except as discussed in the following paragraph, 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 provide adequate records documenting the fines receivable and the related allowance for uncollectibles amount of the Circuit Court. Due to the lack of records, we were unable to satisfy ourselves as to the fair presentation of fines receivable and the related allowance for uncollectibles amount, net reported on the Statement of Net Assets and in the General Fund at \$6,863,879, as of September 30, 2005. Also, because of the lack of records documenting the fines receivable and the related allowance for uncollectibles, we could not satisfy ourselves as to the fair presentation of the related transactions of the Governmental Activities and the General Fund.

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

In our opinion, 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 Circuit Court fines receivable for the Governmental Activities and the General Fund as described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Governmental Activities and the General Fund for the primary government of Lincoln County, Mississippi, as of September 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Industrial II Park Fund and the aggregate remaining fund information for the primary government of Lincoln County, Mississippi, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 reported dated March 20, 2006, on our consideration of Lincoln County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

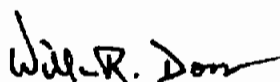
Lincoln County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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



PHIL BRYANT
State Auditor



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

March 20, 2006
[Except for Note 16 to which the date is March 12, 2007]

LINCOLN COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

LINCOLN COUNTY

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LINCOLN COUNTY
Statement of Net Assets
September 30, 2005

Exhibit 1

	Primary Government
	Governmental
	Activities
ASSETS	
Cash	\$ 6,840,194
Property tax receivable	6,658,894
Accounts receivable (net of allowance for uncollectibles of \$303,469)	328,758
Fines receivable (net of allowance for uncollectibles of \$5,288,682)	6,863,879
Intergovernmental receivables	613,461
Other receivables	474
Capital assets, net	69,851,651
Total Assets	<u>91,157,311</u>
LIABILITIES	
Claims payable	482,296
Claims and judgments payable	48,499
Intergovernmental payables	496,679
Matured bonds and interest payable	15,000
Accrued interest payable	66,805
Deferred revenue	6,658,894
Other payables	150,759
Long-term liabilities	
Due within one year:	
Capital debt	822,886
Non-capital debt	45,000
Due in more than one year:	
Capital debt	3,903,990
Non-capital debt	1,731,843
Total Liabilities	<u>14,422,651</u>
NET ASSETS	
Invested in capital assets, net of related debt	65,124,775
Restricted:	
Expendable:	
General government	488,653
Debt service	86,616
Public safety	28,668
Public works	4,227,347
Culture and recreation	121,827
Economic development	12,922
Capital projects	10,603
Unrestricted	6,633,249
Total Net Assets	<u>\$ 76,734,660</u>

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

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

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 3,901,219	393,563	418,082		(3,089,574)
Public safety	2,974,473	625,813	178,409	74,999	(2,095,252)
Public works	6,084,002	663,721	912,074	162,830	(4,345,377)
Health and welfare	253,865		62,760		(191,105)
Culture and recreation	260,814	22,380			(238,434)
Conservation of natural resources	104,716				(104,716)
Economic development and assistance	1,722,492				(1,722,492)
Interest on long-term debt	242,543				(242,543)
Total Governmental Activities	<u>\$ 15,544,124</u>	<u>1,705,477</u>	<u>1,571,325</u>	<u>237,829</u>	<u>(12,029,493)</u>
General revenues:					
Property taxes					\$ 6,080,094
Road & bridge privilege taxes					411,020
Grants and contributions not restricted to specific programs					1,133,824
Unrestricted interest income					125,731
Miscellaneous					300,668
Total General Revenues and Transfers					<u>8,051,337</u>
Changes in Net Assets					<u>(3,978,156)</u>
Net Assets - Beginning					81,331,117
Prior period adjustment					(618,301)
Net Assets - Beginning, as restated					<u>80,712,816</u>
Net Assets - Ending					<u>\$ 76,734,660</u>

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

LINCOLN COUNTY
Balance Sheet - Governmental Funds
September 30, 2005

Exhibit 3

	Major Funds			
	General Fund	Industrial Park II Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 1,163,725	12,922	4,535,182	5,711,829
Property tax receivable	4,274,764		2,384,130	6,658,894
Accounts receivable (net of allowance for uncollectibles of \$303,469)	328,758			328,758
Fines receivable (net of allowance for uncollectibles of \$5,288,682)	6,863,879			6,863,879
Intergovernmental receivables	239,183		374,278	613,461
Other receivables	474			474
Due from other funds			150,496	150,496
Total Assets	<u>\$ 12,870,783</u>	<u>12,922</u>	<u>7,444,086</u>	<u>20,327,791</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 139,101		343,195	482,296
Intergovernmental payables	449,209			449,209
Due to other funds	197,966			197,966
Matured bonds and interest payable			15,000	15,000
Deferred revenue	11,467,401		2,384,130	13,851,531
Other payables	150,759			150,759
Total Liabilities	<u>12,404,436</u>	<u>0</u>	<u>2,742,325</u>	<u>15,146,761</u>
Fund balances:				
Reserved for:				
Debt service			153,421	153,421
Unreserved, reported in:				
General Fund	466,347			466,347
Special Revenue Funds		12,922	4,537,737	4,550,659
Capital Project Funds			10,603	10,603
Total Fund Balances	<u>466,347</u>	<u>12,922</u>	<u>4,701,761</u>	<u>5,181,030</u>
Total Liabilities and Fund Balances	<u>\$ 12,870,783</u>	<u>12,922</u>	<u>7,444,086</u>	<u>20,327,791</u>

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

LINCOLN COUNTY

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2005Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 5,181,030
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$118,225,040.	69,851,651
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	7,192,637
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(6,503,719)
Accrued interest payable is not due and payable in the current period and, therefore, are not reported in the funds.	(66,805)
Internal Service Funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.	<u>1,079,866</u>
Total Net Assets - Governmental Activities	<u>\$ 76,734,660</u>

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

LINCOLN COUNTY

Exhibit 4

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

	Major Funds			
	General	Industrial	Other	Total
	Fund	Park II	Governmental	Governmental
	Fund	Fund	Funds	Funds
REVENUES				
Property taxes	\$ 3,726,853		2,353,241	6,080,094
Road and bridge privilege taxes			411,020	411,020
Licenses, commissions and other revenue	592,728		31,133	623,861
Fines and forfeitures	652,505		500	653,005
Intergovernmental revenues	801,570		2,163,788	2,965,358
Charges for services	169,889		1,204,592	1,374,481
Interest income	50,829		74,902	125,731
Miscellaneous revenues	118,302		50,022	168,324
Total Revenues	<u>6,112,676</u>	<u>0</u>	<u>6,289,198</u>	<u>12,401,874</u>
EXPENDITURES				
Current:				
General government	3,710,911		184,594	3,895,505
Public safety	2,466,853		643,638	3,110,491
Public works			4,402,785	4,402,785
Health and welfare	253,865			253,865
Culture and recreation			259,459	259,459
Conservation of natural resources	104,077			104,077
Economic development and assistance	90,356	1,584,374		1,674,730
Debt service:				
Principal	82,419		421,261	503,680
Interest	20,970		229,825	250,795
Bond issue costs		47,762		47,762
Total Expenditures	<u>6,729,451</u>	<u>1,632,136</u>	<u>6,141,562</u>	<u>14,503,149</u>
Excess of Revenues over (under) Expenditures	<u>(616,775)</u>	<u>(1,632,136)</u>	<u>147,636</u>	<u>(2,101,275)</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	199,963	1,675,000	646,175	2,521,138
Proceeds from sale of capital assets			182,373	182,373
Compensation for loss of capital assets	3,023			3,023
Transfers in			176,310	176,310
Transfers out	(54,000)		(122,310)	(176,310)
Discount on bonds issued		(29,942)		(29,942)
Total Other Financing Sources and Uses	<u>148,986</u>	<u>1,645,058</u>	<u>882,548</u>	<u>2,676,592</u>
Net Changes in Fund Balances	<u>(467,789)</u>	<u>12,922</u>	<u>1,030,184</u>	<u>575,317</u>
Fund Balances - Beginning	701,504	0	3,904,209	4,605,713
Prior period adjustment	232,632		(232,632)	0
Fund Balances - Beginning, as restated	<u>934,136</u>	<u>0</u>	<u>3,671,577</u>	<u>4,605,713</u>
Fund Balances - Ending	<u>\$ 466,347</u>	<u>12,922</u>	<u>4,701,761</u>	<u>5,181,030</u>

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

LINCOLN COUNTY

Exhibit 4-1

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

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 575,317
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of \$2,998,872 exceeded capital outlays \$1,284,838 in the current period.	(1,714,034)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$130,490 and the proceeds from the sale and compensation for losses of \$185,396 in the current period.	(54,906)
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.	(761,938)
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.	(206,312)
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 \$2,521,138 exceeded debt repayments of \$503,680.	(2,017,458)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Increase in compensated absences liability.	(19,551)
Reduction in accrued interest payable.	38,194
An Internal Service Fund is used by management to charge the cost of insurance to individual funds. The net revenue (expense) is reported within governmental activities.	<u>182,532</u>
Change in Net Assets of Governmental Activities	<u>\$ (3,978,156)</u>

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

LINCOLN COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2005

Exhibit 5

	Governmental
	<u>Activities</u>
	Self-insurance
	Internal Service
	<u>Fund</u>
ASSETS	
Current assets:	
Cash	\$ 1,128,365
Total Assets	<u>\$ 1,128,365</u>
LIABILITIES	
Current liabilities:	
Claims and judgments payable	\$ 48,499
Total Liabilities	<u>\$ 48,499</u>
NET ASSETS	
Restricted for health insurance	\$ 1,079,866
Total Net Assets	<u>\$ 1,079,866</u>

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

LINCOLN COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2005

	Governmental Activities
	Self-insurance Internal Service Fund
Operating Revenues	
Premiums	\$ 1,052,017
Operating Expenses	
Claims payments	593,413
Administrative fees	302,107
Total Operating Expenses	895,520
Operating Income (Loss)	156,497
Nonoperating Revenues (Expenses)	
Interest income	26,035
Net Nonoperating Revenue (Expenses)	26,035
Changes in Net Assets	182,532
Net Assets - Beginning	897,334
Net Assets - Ending	\$ 1,079,866

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

LINCOLN COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2005

Exhibit 7

	Governmental Activities
	Self-insurance Internal Service Fund
Cash Flows From Operating Activities	
Receipts for premiums	\$ 1,052,017
Payments for insurance claims	(694,345)
Payments to administrator for services	(302,107)
Net Cash Provided (Used) by Operating Activities	<u>55,565</u>
Cash Flows From Investing Activities	
Interest on deposits	26,035
Net Cash Provided (Used) by Investing Activities	<u>26,035</u>
Net Increase (Decrease) in Cash and Cash Equivalents	81,600
Cash and Cash Equivalents at Beginning of Year	<u>1,046,765</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,128,365</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ <u>156,497</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in claims and judgments liability	(100,932)
Total Adjustments	<u>(100,932)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 55,565</u>

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

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

Exhibit 8

		Agency Funds
ASSETS		
Cash	\$	282,246
Due from other funds		47,470
Total Assets	\$	<u>329,716</u>
LIABILITIES		
Amounts held in custody for others	\$	40,600
Intergovernmental payables		289,116
Total Liabilities	\$	<u>329,716</u>

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

LINCOLN COUNTY

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

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Lincoln County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Lincoln County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

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

- Lincoln-Lawrence-Franklin Regional Library
- Lincoln County Economic Development District

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. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

LINCOLN COUNTY

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

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

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

LINCOLN COUNTY

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

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.

Industrial Park II Fund - This fund is used to account for monies from specific revenue sources that are restricted for economic development.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

PROPRIETARY FUND TYPE

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

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

E. Deposits and Investments.

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

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

LINCOLN COUNTY

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

H. Capital Assets.

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

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

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

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

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

LINCOLN COUNTY

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

I. Long-term Liabilities.

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

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

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

K. Property Tax Revenues.

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

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

LINCOLN COUNTY

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

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

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

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

(2) Changes in Accounting Standards.

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

(3) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

<u>Explanation</u>	<u>Amount</u>
Exhibit 2 - Statement of Activities.	
Capital assets	\$ <u>(618,301)</u>
Exhibit 4 - Statement of Revenues, Expenditures and Change in Fund Balances:	
To correct a prior year error in General Fund	\$ 232,632
To correct a prior year error in Other Governmental Funds	<u>(232,632)</u>
Total	\$ <u>0</u>

LINCOLN COUNTY

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

(4) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$7,122,440, and the bank balance was \$7,409,831. 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.

(5) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General	\$ 150,496
Agency Funds	General	<u>47,470</u>
Total		<u>\$ 197,966</u>

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

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 54,000
Other Governmental Funds	Other Governmental Funds	<u>122,310</u>
Total		<u>\$ 176,310</u>

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

LINCOLN COUNTY

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

(6) Intergovernmental Receivables.

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

<u>Description</u>	<u>Amount</u>
Disaster grants - public assistance	\$ 374,278
Legislative tax credit	<u>239,183</u>
Total	<u>\$ 613,461</u>

(7) Capital Assets.

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

	<u>Balance</u> <u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments *</u>	<u>Balance</u> <u>Sept. 30, 2005</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 343,073				343,073
Total non-depreciable capital assets	<u>343,073</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>343,073</u>
<u>Depreciable capital assets:</u>					
Infrastructure	170,498,504				170,498,504
Buildings	10,659,840				10,659,840
Improvements other than buildings	68,235				68,235
Mobile equipment	4,109,124	427,504	467,635	229,045	4,298,038
Furniture and equipment	545,221	40,901			586,122
Leased property under capital leases	1,231,010	816,433	5,100	(419,464)	1,622,879
Total depreciable capital assets	<u>187,111,934</u>	<u>1,284,838</u>	<u>472,735</u>	<u>(190,419)</u>	<u>187,733,618</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	107,173,157	2,186,377			109,359,534
Buildings	4,802,466	188,571			4,991,037
Improvements other than buildings	13,645	2,729			16,374
Mobile equipment	2,489,944	383,584	412,780	532,268	2,993,016
Furniture and equipment	382,148	43,653		(13,015)	412,786
Leased property under capital leases	354,755	193,958	5,049	(91,371)	452,293
Total accumulated depreciation	<u>115,216,115</u>	<u>2,998,872</u>	<u>417,829</u>	<u>427,882</u>	<u>118,225,040</u>
Total depreciable capital assets, net	<u>71,895,819</u>	<u>(1,714,034)</u>	<u>54,906</u>	<u>(618,301)</u>	<u>69,508,578</u>
Governmental activities capital assets, net	<u>\$ 72,238,892</u>	<u>(1,714,034)</u>	<u>54,906</u>	<u>(618,301)</u>	<u>69,851,651</u>

LINCOLN COUNTY

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

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

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 253,266
Public safety	205,486
Public works	2,538,131
Conservation of natural resources	719
Culture and recreation	<u>1,270</u>
 Total governmental activities depreciation expense	 \$ <u><u>2,998,872</u></u>

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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

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

The county has purchased coinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$35,000, and the aggregate policy covers all submitted claims in excess of \$288,156.

LINCOLN COUNTY

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

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2005, the amount of these liabilities was \$48,499. An analysis of claims activities is presented below:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2003 - 2004	\$ 87,145	769,264	706,978	149,431
2004 - 2005	\$ 149,431	593,413	694,345	48,499

(9) Capital Leases.

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 1,428,703
Furniture and equipment	<u>194,176</u>
Total	1,622,879
Less: Accumulated depreciation	<u>452,293</u>
Leased Property Under Capital Leases	<u>\$ 1,170,586</u>

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 577,258	35,442
2007	249,678	22,925
2008	390,219	12,657
2009	<u>200,596</u>	<u>3,700</u>
Total	<u>\$ 1,417,751</u>	<u>74,724</u>

LINCOLN COUNTY

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

(10) Long-term Debt.

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
A. General Obligation Bonds:			
Jail bond	\$ 2,480,000	5.10/6.50%	05/18
Public improvement bond	475,000	4.90/5.10%	11/10
Industrial taxable bond	<u>1,675,000</u>	5.50/6.25%	06/25
Total General Obligation Bonds	<u>\$ 4,630,000</u>		
B. Capital Leases:			
2002 Ford F150 pickup truck	\$ 2,625	3.99%	02/06
Scanning & imaging system	13,859	6.50%	03/06
IBM computer	180,317	3.23%	04/09
John Deere front end loader	82,999	2.99%	05/09
Caterpillar motor grader	155,595	2.99%	06/09
John Deere 410G backhoe	29,477	3.26%	08/07
Case 580L backhoe	10,304	3.59%	08/06
1999 John Deere backhoe loader	6,493	5.29%	07/06
Asphalt spray patching machine	54,114	3.21%	06/07
Case motor grader	130,461	3.15%	03/08
Case motor grader	130,461	3.15%	03/08
New Holland tractor, tiger boom mower, tiger side rotary mower	63,636	3.29%	05/09
Caterpillar motor grader	97,324	3.12%	02/06
Caterpillar motor grader	97,324	3.12%	02/06
Caterpillar motor grader	97,324	3.12%	02/26
2006 International truck	49,800	3.49%	08/09
Massey Ferguson tractor & mower	37,379	2.98%	12/08
Massey Ferguson tractor & side mower	37,578	3.23%	03/09
Holland tractor, tiger boom mower & side mower	59,746	3.23%	03/09
Massey Ferguson tractor, John Deere tractor & boom mower	80,935	3.23%	03/09
Total Capital Leases	<u>\$ 1,417,751</u>		
C. Other Loans:			
Speculative Building CAP loan	\$ 79,045	4.00%	06/17
Industrial Park Road CAP loan	<u>275,080</u>	4.00%	05/11
Total Other Loans	<u>\$ 354,125</u>		

LINCOLN COUNTY

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

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

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 255,000	256,844
2007	270,000	241,491
2008	280,000	225,741
2009	300,000	210,109
2010	310,000	194,309
2011 - 2015	1,435,000	740,305
2016 - 2020	1,165,000	348,190
2021 - 2025	615,000	118,240
Total	<u>\$ 4,630,000</u>	<u>2,335,229</u>

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 35,628	13,484
2007	35,507	12,094
2008	36,954	10,647
2009	38,459	9,141
2010	37,062	7,579
2011 - 2015	127,225	22,016
2016 - 2020	43,290	1,381
Total	<u>\$ 354,125</u>	<u>76,342</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2005, the amount of outstanding debt was equal to 1.8% of the latest property assessments.

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

	<u>Balance</u>				<u>Balance</u>	<u>Amount due</u>
	<u>Oct. 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments *</u>	<u>Sept. 30, 2005</u>	<u>within one</u>
						<u>year</u>
Compensated absences	\$ 82,292	19,551			101,843	
Claims and judgments	149,431			(149,431)	0	
General obligation bonds	3,155,000	1,675,000	200,000		4,630,000	255,000
Capital leases	514,457	846,138	256,863	314,019	1,417,751	577,258
Other loans	714,961		46,817	(314,019)	354,125	35,628
Total	<u>\$ 4,616,141</u>	<u>2,540,689</u>	<u>503,680</u>	<u>(149,431)</u>	<u>6,503,719</u>	<u>867,886</u>

LINCOLN COUNTY

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

- * Adjustments are to reclassify claims and judgments from long-term debt to a short-term liability and to reclassify other loans refinanced to capital leases.

(11) Deficit Fund Balances of Individual Funds.

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

<u>Fund</u>	<u>Deficit Amount</u>
Litter and Solid Waste Fund	\$ 1,599
Homeland Security Fund	17,654
Emergency 911 Fund	29,568

The fund balance deficits were the result of adjustments for the accrual of claims payable at year end.

(12) Contingencies.

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

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

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the King's Daughters Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2005, is \$7,900,000.

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

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

LINCOLN COUNTY

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

<u>Description</u>	<u>Balance at Sept. 30, 2005</u>
New Sight Volunteer Fire Department truck loan	\$ 113,061
Bogue Chitto Volunteer Fire Department truck loan	41,501
Heucks Retreat Volunteer Fire Department truck loan	144,430
Hog Chain Volunteer Fire Department truck loan	<u>106,840</u>
Total	<u>\$ 405,832</u>

(14) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Copiah-Lincoln Community College operates in a district composed of the Counties of Adams, Copiah, Franklin, Jefferson, Lawrence, Lincoln and Simpson. The Lincoln County Board of Supervisors appoints six of the 27 members of the college board of trustees. The county appropriated \$990,464 for maintenance and support of the college in fiscal year 2005.

Southwest Mississippi Planning and Development District operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The Lincoln County Board of Supervisors appoints four of the 40 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$59,526 for support of the district in fiscal year 2005.

Southwest Mississippi Mental Health Complex operates in a district composed of the Counties of Adams, Amite, Claiborne, Franklin, Jefferson, Lawrence, Lincoln, Pike, Walthall and Wilkinson. The Lincoln County Board of Supervisors appoints one of the ten members of the board of commissioners. The county contributes a small part of the entity's total revenues. The county appropriated \$32,775 for support of the district in fiscal year 2005.

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

(15) Defined Benefit Pension Plan.

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

LINCOLN COUNTY

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2005 was 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2005, 2004 and 2003 were \$343,575, \$296,618 and \$282,376, respectively, equal to the required contributions for each year.

(16) Subsequent Events.

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

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
10/25/05	3.90%	\$ 71,898	Lease purchase	District 2 Road Fund revenue
11/21/05	3.99%	64,970	Lease purchase	District 1 Road Fund revenue
12/05/05	3.77%	628,337	Lease purchase	Districts 4 & 5 Road Fund revenue
03/17/06	3.77%	49,855	Lease purchase	Districts 3, 4 & 5 Road Fund revenue

Subsequent to the audit report date of March 20, 2006, Lincoln County issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
12/01/06	3.75/4.50%	\$ 2,200,000	General Obligation Public Improvement Bonds	Industrial Park - Series 2006 Fund

LINCOLN COUNTY

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LINCOLN COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,678,586	3,674,865	3,674,865	
Licenses, commissions and other revenue	403,000	585,647	585,647	
Fines and forfeitures	774,673	649,584	648,670	(914)
Intergovernmental revenues	683,300	803,000	803,914	914
Charges for services	200,000	169,889	169,889	
Interest income	68,000	77,777	53,655	(24,122)
Miscellaneous revenues	18,150	57,979	82,101	24,122
Total Revenues	<u>5,825,709</u>	<u>6,018,741</u>	<u>6,018,741</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	2,788,355	3,632,011	3,531,293	100,718
Public safety	1,904,210	2,446,795	2,447,576	(781)
Health and welfare	240,313	251,223	251,223	
Conservation of natural resources	86,583	102,386	102,386	
Economic development and assistance	124,754	90,295	90,295	
Debt service:				
Principal		52,912	82,419	(29,507)
Interest			20,970	(20,970)
Total Expenditures	<u>5,144,215</u>	<u>6,575,622</u>	<u>6,526,162</u>	<u>49,460</u>
Excess of Revenues over (under) Expenditures	<u>681,494</u>	<u>(556,881)</u>	<u>(507,421)</u>	<u>49,460</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets			49,143	49,143
Transfers in			111	111
Transfers out			(55,421)	(55,421)
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>(6,167)</u>	<u>(6,167)</u>
Net Change in Fund Balance	681,494	(556,881)	(513,588)	43,293
Fund Balances - Beginning	<u>1,142,516</u>	<u>891,175</u>	<u>891,175</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,824,010</u>	<u>334,294</u>	<u>377,587</u>	<u>43,293</u>

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

LINCOLN COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Industrial Park II Fund
 For the Year Ended September 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
EXPENDITURES				
Current:				
Economic development and assistance	\$	1,632,136	1,632,136	
Total Expenditures	<u>0</u>	<u>1,632,136</u>	<u>1,632,136</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(1,632,136)</u>	<u>(1,632,136)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		1,645,058	1,645,058	
Total Other Financing Sources and Uses	<u>0</u>	<u>1,645,058</u>	<u>1,645,058</u>	<u>0</u>
Net Change in Fund Balance	0	12,922	12,922	0
Fund Balances - Beginning	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>12,922</u>	<u>12,922</u>	<u>0</u>

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

LINCOLN COUNTY

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

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Industrial Park II Fund</u>
Budget (Cash Basis)	\$ (513,588)	12,922
Increase (Decrease)		
Net adjustments for revenue accruals	(64,866)	
Net adjustments for expenditure accruals	<u>110,665</u>	<u> </u>
GAAP Basis	\$ <u><u>(467,789)</u></u>	<u><u>12,922</u></u>

LINCOLN COUNTY

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

D. Excess of Actual Expenditures Over Budget in Individual Funds.

The following funds had an excess of actual expenditures over budget for the year ended September 30, 2005:

<u>Fund</u>	<u>Excess</u>
Special Revenue Funds:	
Livestock Complex	\$ 500
Garbage and Solid Waste	4,345

All the funds listed above are in violation of Section 9-11-17, Miss. Code Ann. (1972). However, the county has no liability associated with these violations.

LINCOLN COUNTY

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LINCOLN COUNTY

SUPPLEMENTAL INFORMATION

LINCOLN COUNTY

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

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
MAJOR FEDERAL AWARDS			
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	1604-DR-MS	\$ <u>374,278</u>
Total Expenditures of Major Federal Awards			<u>374,278</u>
OTHER FEDERAL AWARDS			
U.S. Department of Justice Bulletproof vest partnership program	16.607	N/A	<u>821</u>
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	N/A	<u>75,958</u>
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Homeland Security Cluster State domestic preparedness equipment support program	97.004	N/A	<u>73,214</u>
Total Expenditures of Other Federal Awards			<u>149,993</u>
Total Expenditures of Federal Awards			\$ <u><u>524,271</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

LINCOLN COUNTY

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LINCOLN COUNTY

SPECIAL REPORTS

LINCOLN COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Lincoln County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lincoln County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated March 20, 2006. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. Our report includes a qualified opinion on the governmental activities and the General Fund because the county did not provide adequate records documenting the fines receivable and the related allowance for uncollectible amounts of the Circuit Court. Except for the limitations related to the opinion qualification, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lincoln County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lincoln County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-1, 05-2, 05-3, 05-4, 05-5 and 05-6.

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, of the reportable conditions described above, we consider item 05-3 to be a material weakness.

Compliance


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

However, we noted certain instances of noncompliance which we have reported to the management of Lincoln County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated March 20, 2006, included within this document.

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



PHIL BRYANT
State Auditor



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

March 20, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Lincoln County, Mississippi

Compliance

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

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

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

Internal Control Over Compliance

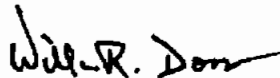
The management of Lincoln County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lincoln County, Mississippi's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

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

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



PHIL BRYANT
State Auditor



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

March 20, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Lincoln County, Mississippi

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

The Board of Supervisors of Lincoln County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Lincoln County, Mississippi, has established centralized purchasing for all funds of the county, and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

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

Inventory Control Clerk.

Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. The beginning amounts for capital assets and related accumulated depreciation did not agree to the prior year ending balances. The changes in capital assets and related accumulated depreciation prior year ending balances were not documented. The beginning balances reflected the changes during the year instead of recording and documenting an adjustment for each change. As a result, large adjustments were necessary to balance to the county's records. Extra time was needed to reconcile the fixed asset listing to the county records. Certain assets were not marked with an inventory control number. Certain assets were not marked with the county name. Failure to properly identify assets could result in loss or misappropriation of public assets.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to ensure that changes to capital assets and accumulated depreciation are properly recorded and supported by documentation and all assets are marked with an inventory control number and the county's name.

Inventory Control Clerk's Response

I will make every effort possible to properly record and balance fixed assets year end balance with beginning year balances and to have all assets properly marked.

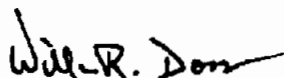
In our opinion, except for the noncompliance referred to in the preceding paragraph, Lincoln County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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

This report is intended for use in evaluating the central purchasing system and inventory control system of Lincoln County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT
State Auditor



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

March 20, 2006

LINCOLN COUNTY

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2005

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

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

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
02/22/05	Air conditioner repair	\$ 22,370	Metro-Bal	To repair heating unit.
08/03/05	Bridge replaced	30,000	S & S Dragline	Bridge repairs.
09/01/05	Diesel	7,621	Brookhaven Equipment	Diesel shortage after Hurricane Katrina.
09/07/05	I.D. maker	4,279	I.D. Info	Identify workers during Hurricane Katrina.

LINCOLN COUNTY

Schedule 3

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

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

LINCOLN COUNTY

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LINCOLN COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

LINCOLN COUNTY

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LINCOLN COUNTY

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

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 |
| | Industrial Park II Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness identified? | Yes |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| 3. | Noncompliance material to the primary government financial statements? | No |

Federal Awards:

- | | | |
|-----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weakness identified? | No |
| | b. Reportable condition identified that is not considered to be a material weakness? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit finding reported as required by Section ___.510(a) of Circular A-133? | No |
| 7. | Federal program identified as a major program: | |
| | Disaster grants - public assistance, CFDA # 97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ___.315(b) of OMB Circular A-133? | No |

LINCOLN COUNTY

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

Section 2: Financial Statement Findings

County Administrator.

Reportable Condition

05-1. Finding

A critical aspect of effective financial management is the maintenance of accurate and timely accounting records. A receipt should be promptly issued for revenue received and the receipt should be recorded in the county's records. Receipts were not posted on a timely basis to the county's records. Some county funds experienced a negative cash balance for most of the year, which is a violation of Section 19-13-43, Miss. Code Ann. (1972). Without accurate and timely accounting records the Board of Supervisors is unable to demonstrate proper accountability over public funds and financial decisions may be made using unreliable or inaccurate information.

Recommendation

The County Administrator should ensure financial decisions are made based on timely information. The County Administrator should promptly record receipt of county funds and should monitor the cash balance in all funds.

County Administrator's Response

I will make every effort to correct this finding.

Reportable Condition

05-2. Finding

For effective internal control over cash, the receipt of revenue should be recorded in the county's records and deposited on a timely basis. A receipt from the Chancery Clerk for reimbursement for his employee payroll was recorded on September 30, 2005, for \$80,829. The receipt was listed as an outstanding deposit on the county's bank reconciliation for September, October and November 2005. The deposit cleared the bank on December 30, 2005.

Recommendation

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

County Administrator's Response

I will make every effort possible to see that receipts are posted timely.

LINCOLN COUNTY

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

Circuit Clerk.

Reportable Condition - Material Weakness

05-3. Finding

An effective system of internal control over the accounting for the fines receivable should include adequate subsidiary records documenting the fine receivable and related allowance for uncollectibles amount. The Circuit Clerk did not provide a fines receivable listing and related allowance for uncollectibles amount during the audit. Numerous requests were made for the documents during the audit. After the completion of fieldwork, the Circuit Clerk provided an aging schedule and a list of fines considered uncollectible. The subsidiary records to support the amounts were not provided to the auditor.

The fines receivable and related allowance for uncollectibles amount was recorded in the financial statements; however, we were unable to audit these amounts. Therefore, the Independent Auditor's Report is qualified for 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 and related allowance for uncollectibles amount reported in the Governmental Activities and in the General Fund.

Recommendation

The Circuit Clerk should prepare and maintain the necessary records to document the fines receivable and related allowance for uncollectibles amount. The fines receivable and related allowance for uncollectibles amount along with the subsidiary records should be available for audit.

Circuit Clerk's Response

I admit. I will comply.

Reportable Condition

05-4. Finding

An effective accounting system for the activity of the civil and criminal court records involves the maintenance of accurate accounting records. These records include receipts, cash journals, bond records, fines receivable records, daily deposit slips and bank statements.

At the time of the audit, the Circuit Clerk provided September 30 bank statements and a cash distribution form. The Circuit Clerk did not provide the accounting records, even after repeated requests from the auditors.

As of September 30, 2005, the Circuit Clerk had a balance of \$9,197 in the Circuit Court Civil bank account and \$148,380 in the Circuit Court Criminal bank account. The amounts were recorded in the county's financial statements. Since the records were not provided to audit these accounts, we were not able to audit the Circuit Court cash and the related revenues and liabilities. Failure to implement proper controls over the collection and remittance of cash could result in the loss of public funds.

LINCOLN COUNTY

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

Recommendation

The Circuit Clerk should prepare and maintain the necessary records to document the transactions of the civil and criminal courts. These records should be available for audit. These records should include receipts for collections, cash journals documenting receipts and disbursements, bond records, fines receivable records, deposit slips and bank statements.

Circuit Clerk's Response

I admit. I will comply

Tax Assessor-Collector.

Reportable Condition

05.5. Finding

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

Recommendation

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

Tax Assessor-Collector's Response

We will continue to maintain a cash journal and reconcile bank statements with outstanding checks listings with audit department recommendation. We will correct the way we are currently doing this procedure.

Inventory Control Clerk.

Reportable Condition

05-6. Finding

An effective system of internal control over the inventory system includes maintenance of accurate records. The beginning amounts for capital assets and related accumulated depreciation did not agree to the prior year ending balances. The changes to the capital assets and related accumulated depreciation prior year ending balances were not documented. The beginning balances reflected the changes during the year instead of recording and documenting an adjustment for each change. As a result, large adjustments were necessary to balance to the county's records. Extra time was needed to reconcile the fixed asset listing to the county records. Failure to properly account for capital assets could result in the loss or misappropriation of public assets.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to ensure that changes to capital assets and accumulated depreciation are properly recorded and supported by documentation.

LINCOLN COUNTY

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

Inventory Control Clerk's Response

I will make every effort possible to properly record and balance fixed assets year end balance with beginning year balances and to have all assets properly marked.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.