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

FINANCIAL STATEMENTS OF FUNDS SELECTED FOR AUDIT

Year Ended June 30, 2016



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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*



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INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS OF SELECTED FUNDS

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Major General Janson D. Boyles The Adjutant General of Mississippi Mississippi Military Department Jackson, Mississippi

Report on the Financial Statements

We have audited the accompanying financial statements of General Funds 3370100000, 3370500000 and 5370900000 of the Mississippi Military Department ("the Department"), as of and for the year ended June 30, 2016, and the related notes to the financial statements. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements of General Funds 3370100000, 3370500000 and 5370900000 referred to above present fairly, in all material respects, the financial position of General Funds 3370100000, 3370500000 and 5370900000 as of June 30, 2016, and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of General Funds 337100000, 3370500000 and 5370900000 of the Department present only the financial position and changes in financial position of that portion of the governmental activities of the Department and of the State of Mississippi that is attributable to the transactions of General Funds 3370100000, 3370500000 and 5370900000. They do not purport to, and do not, present fairly the financial position of the Department or the State of Mississippi as of June 30, 2016, or 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. Our opinions are not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2017, on our consideration of the Department'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Department's internal control over financial reporting and compliance.

Management has omitted the Management Discussion and Analysis and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

CARR, RIGGS & INGRAM, LLC

Caux Rigge & Ingram, L.L.C.

Ridgeland, Mississippi January 20, 2017

1,629,883

1,163,019

	Fund 3370100000		Fund 3370500000		Fund 5370900000		
Assets	-						
Equity in state treasury funds	\$	1,982,675	\$	4,318,091	\$	(6,129,041	
Due from federal government		-		(()		12,069,432	
Due from other funds		440,192		1,467		69,700	
Inventory				(1,629,883	
Total assets	\$	2,422,867	\$	4,319,558	\$	7,639,974	
Liabilities and Fund Balance							
Liabilities:	\$	72.211	Ś	19.171	Ś	5.898.859	
Liabilities: Accounts payable	\$	72,211 12,101	\$	19,171 4,585	\$	5,898,859 20,287	
Liabilities:	\$	72,211 12,101 7,098	\$	19,171 4,585 64,755	\$	5,898,859 20,287 557,809	
Liabilities: Accounts payable Due to other governments	\$	12,101	\$	4,585	\$	20,287	
Liabilities: Accounts payable Due to other governments Due to other funds Total liabilities	\$	12,101 7,098	\$	4,585 64,755	\$	20,287 557,809	
Liabilities: Accounts payable Due to other governments Due to other funds	\$	12,101 7,098	\$	4,585 64,755	\$	20,287 557,809	

lune 30 2016

Restricted for:

Total net assets

Nonspendable inventory

Law justice public safety

Total liabilities and fund balance

2,331,457

2,331,457

4,231,047

4,231,047

2,422,867 \$ 4,319,558 \$ 7,639,974

Mississippi Military Department (A Department of the State of Mississippi) Statements of Revenues, Expenditures and Changes in Fund Balances of General Funds Selected for Audit

Year Ended June 30, 2016				
	Fund 3370100000	Fund 3370500000	Fund 5370900000	
-	337010000	337030000	337030000	
Revenues:				
Federal government	\$ -	\$ -	\$ 78,584,496	
Other income	38,345	1,474,026	314,345	
Total revenues	38,345	1,474,026	78,898,841	
Expenditures:				
Salaries	503,515	1,526,404	36,551,438	
Travel	1,963	433	254,429	
Contractuals	1,380,520	512,661	39,791,293	
Commodities	108,563	383,763	3,258,745	
Capital outlay	29,921	28,619	1,265,854	
Subsidies		48	161	
Total expenditures	2,024,482	2,451,928	81,121,920	
Excess of expenditures over revenues	(1,986,137)	(977,902)	(2,223,079)	
Other financing sources (uses):				
Transfers in	2,100,381	1,400,000	=	
Transfers out		(169)	(276,967)	
Net other financing sources	2,100,381	1,399,831	(276,967)	
Excess (deficit) of revenues and other financing sou	rces			
over expenditures	114,244	421,929	(2,500,046)	
Fund balance, beginning of year	2,217,213	3,809,118	3,663,065	
Fund balance, end of year	\$ 2,331,457	\$ 4,231,047	\$ 1,163,019	

NOTE 1: SIGNIFCANT 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 General Funds 3370100000, 3370500000 and 5370900000

Fund 3370500000 is related to the National Guard Youth Program. Funds 3370100000 and 5370900000 are 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 and Air National Guard Facility Operations & Maintenance Activities 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"). General fund types are used for General Funds 3370100000, 3370500000 and 5370900000. These fund types are accounted for on a flow of current financial resources measurement focus. This 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 January 20, 2017, 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.

NOTE 1: SIGNIFCANT ACCOUNTING POLICIES (Continued)

Fund Accounting

The financial activities of the Army National Guard and Air National Guard funds are 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 governmental fund category, which is further divided into separate "fund types". General funds are used to account for the proceeds of revenue sources that are not legally restricted to expenditures for specified purposes.

Receivables

Receivables are reported net of allowances for uncollectible accounts, where applicable. At June 30, 2016, there were no allowances deemed necessary for Funds 3370100000, 3370500000 or 5370900000. At June 30, 2016 receivables for Fund 3370100000 consisted of \$440,192 due from other funds. Receivables for Fund 3370500000 consisted of \$1,467 due from other funds. Receivables for Fund 5370900000 consisted of \$12,069,432 due from the federal government and \$69,700 due from other funds.

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.

Deferred Inflows of Resources

In addition to liabilities, the governmental funds' balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents items that are deferred revenues that will not be recognized as an inflow of resources until future period(s) when they become available. Deferred inflows of resources consist of cumulative receipts of federal funding in excess of cumulative expenditures on specific grant awards that will not be recognized as an inflow of resources until future periods when they become available.

NOTE 1: SIGNIFCANT ACCOUNTING POLICIES (Continued)

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.

NOTE 2: EQUITY IN STATE TREASURY FUNDS

Equity in State Treasury funds 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 to and from other Department funds and other state agencies to General Funds 3370100000, 3370500000 and 5370900000 are detailed in the chart below.

Due from other funds and other State agencies consisted of the following:

June 30, 2016		Fund 3370100000		Fund 3370500000		Fund 70900000
Office of the Attorney General	\$	(#C)	\$	1,467	\$	×
3370100000 - Army and Air Special Fund		52		ŝ		4,945
3370500000 - Youth Challenge Program		(€)		*		64,755
5370900000 - Army and Air Federal Fund		440,192				
	\$	440,192	\$	1,467	\$	69,700

NOTE 3: TRANSFERS BETWEEN FUNDS AND FROM OTHER STATE AGENCIES (Continued)

Due to other funds and other State agencies consisted of the following:

June 30, 2016	337	Fund 3370500000		Fund 5370900000		
3370100000 - Army and Air Special Fund	\$	·(=)	\$		\$	440,192
5370900000 - Army and Air Federal Fund		4,946		64,755		
Office of State Auditor		227		3		ē
Information Technology Services		1,475		9		106,256
Department of Health		450		2		2,270
Department of Insurance		24		重		240
Department of Public Safety		24		#		3,600
Department of Finance and Administration		300		¥		5,251
	\$	7,098	\$	64,755	\$	557,809

Transfers between other funds and other State agency funds are as follows:

	Fund			Fund		Fund	
Year ended June 30, 2016	3370100000		3370500000		53	70900000	
Transfers in							
2270100000 - National Guard Support Fund	\$2,068,381		\$ =		\$	#	
2270600000 - Youth Challenge Program	32,000		1,400,000			#:	
Total transfers in	\$2,100,381		\$ 1,400,000		\$	=	
Transfers out							
3370000000 - Timber Fund - Shelby	\$	-	\$	75	\$	252,000	
Department of Health				5		1,881	
Department of Environmental Quality		13		-		1,045	
Department of Education		151				506	
Department of Insurance	252			169		21,535	
Total transfers out	\$	-	\$	169	\$	276,967	

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 Janson D. Boyles The Adjutant General of Mississippi Mississippi Military Department Jackson, Mississippi Carr, Riggs & Ingram, LLC 282 Commerce Park Drive Ridgeland, Mississippi 39157

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We have audited, in accordance with the 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, the financial statements of General Funds 3370100000, 33370500000 and 5370900000 of the Mississippi Military Department (the "Department"), which comprise the balance sheets as of June 30, 2016, and the related statements of revenues, expenditures and changes in fund balances as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated January 20, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements of General Funds 3370100000, 3370500000 and 5370900000 are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

CARR, RIGGS & INGRAM, LLC

Carr, Rigge & Ingram, L.L.C.

Ridgeland, Mississippi January 20, 2017