



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

PHIL BRYANT
State Auditor

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Director, Financial and Compliance Audit Division

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MADISON COUNTY, MISSISSIPPI

**Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2002**

MADISON COUNTY

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MADISON COUNTY

FINANCIAL SECTION

MADISON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

August 29, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have audited the accompanying primary government financial statements of Madison County, Mississippi, as of and for the year ended September 30, 2002, as listed in the table of contents. These primary government financial statements are the responsibility of the county's management. Our responsibility is to express an opinion on these primary government financial statements based on our audit.

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

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units. In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the financial position of the primary government of Madison County, Mississippi, as of September 30, 2002, and the results of its operations and cash flows of its Proprietary Fund Type for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

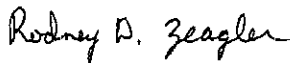
However, the primary government financial statements, because they do not include the financial data of component units of Madison County, Mississippi, do not purport to, and do not present fairly the financial position of Madison County, Mississippi, as of September 30, 2002, and the results of its operations and cash flows of its Proprietary Fund Type 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 a report dated August 29, 2003, on our consideration of Madison County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the primary government financial statements of Madison County, Mississippi, taken as a whole. 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 primary government financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is also presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the primary government financial statements taken as a whole.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division

MADISON COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

MADISON COUNTY
 Combined Balance Sheet - All Fund Types and Account Groups
 September 30, 2002

Exhibit A

	Governmental Fund Types				Fiduciary Fund Type			Account Groups			Totals	
	General	Special Revenue	Debt Service	Capital Projects	Internal Service	Agency	General Fixed Assets	General Long-term Debt	Memorandum Only Primary Government			
ASSETS												
Cash (Note 3)	\$ 5,667,961	1,820,646	76,422		105,701	186,425					7,857,155	
Restricted investments with escrow agent (Note 4)		11,591,150									11,591,150	
Cash with fiscal agent		305,568									305,568	
Other receivables	6,586										6,586	
Intergovernmental receivables	634,475										634,475	
Interfund receivables (Note 5)	186,833										186,833	
Advances to other funds (Note 5)	32,774	209,733	53,774		459,168	12,616					922,124	
Special assessments receivable - deferred											32,774	
Loans receivable (Note 6)	5,000,841		3,170,000								8,170,841	
Lease payments receivable (Note 10)		5,628,751									5,628,751	
Fixed assets (Note 7)											38,163,091	
Amount available in debt service funds								130,196			130,196	
Amount to be provided for retirement of special assessment debt											3,170,000	
Amount to be provided for retirement of general long-term debt											3,170,000	
Total Assets	\$ 11,529,470	19,555,848	3,300,196	0	564,869	199,041	38,163,091	76,239,293	72,939,097	149,551,808		

LIABILITIES AND FUND EQUITY

Liabilities:											
Claims payable	\$ 827,256	611,239		533,359							1,971,854
Amounts held in custody for others						166,111					166,111
Intergovernmental payables	1,000,333					32,930					1,033,263
Interfund payables (Note 5)	623,897	227,394		70,833							922,124
Advances from other funds (Note 5)		32,774									32,774
Deferred revenue - lease principal payments (Note 10)		4,065,968									4,065,968
Deferred revenue - lease interest payments (Note 10)		1,562,783									1,562,783
Deferred revenue - federal		5,260									5,260
Deferred revenue - special assessments											3,170,000
Compensated absences liability (Note 11)			3,170,000								469,301
Claims and judgments liability (Note 9)					564,869						564,869

MADISON COUNTY
 Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
 All Governmental Fund Types
 For the Year Ended September 30, 2002

Exhibit B

	Governmental				Totals
	Fund Types				Memorandum Only Primary Government
	General	Special Revenue	Debt Service	Capital Projects	
Revenues					
Property taxes	\$ 9,349,723	6,002,846	2,440,817		17,793,386
Licenses, commissions and other revenue	1,595,674	973,089	259		2,569,022
Fines and forfeitures	468,214				468,214
Intergovernmental revenues	1,417,268	4,037,418	528,794		5,983,480
Charges for services	999,878	854,377			1,854,255
Use of money and property	310,496	1,446,747	23,196		1,780,439
Miscellaneous revenues	678,568	213,996	35,136		927,700
Special assessments			392,217		392,217
Total Revenues	<u>14,819,821</u>	<u>13,528,473</u>	<u>3,420,419</u>	<u>0</u>	<u>31,768,713</u>
Expenditures					
Current:					
General government	6,784,614	1,361,601			8,146,215
Public safety	5,226,275	754,886		65,569	6,046,730
Public works		17,233,062			17,233,062
Health & welfare	1,007,006			60,210	1,067,216
Culture & recreation	22,985	880,222			903,207
Conservation of natural resources	264,076				264,076
Economic development & assistance	302,379	4,062,593			4,364,972
Capital projects				5,299,190	5,299,190
Debt service:					
Principal retirement	4,079,635	5,133,665	2,488,705		11,702,005
Interest and fiscal charges	173,307	303,232	3,057,853		3,534,392
Total Expenditures	<u>17,860,277</u>	<u>29,729,261</u>	<u>5,546,558</u>	<u>5,424,969</u>	<u>58,561,065</u>
Excess of Revenues over (under) Expenditures	<u>(3,040,456)</u>	<u>(16,200,788)</u>	<u>(2,126,139)</u>	<u>(5,424,969)</u>	<u>(26,792,352)</u>
Other Financing Sources (Uses)					
Proceeds of other debt	5,500,000	18,119,806		4,847,551	28,467,357
Proceeds from sale of assets	127,970	127,790			255,760
Insurance recoveries	189,734	122,322			312,056
Operating transfers in	1,407,150	189,000	2,076,913		3,673,063
Operating transfers out	(1,573,150)	(2,099,913)			(3,673,063)
Lease principal payments		259,907			259,907
Payments to escrow agent		(11,852,003)			(11,852,003)
Total Other Financing Sources (Uses)	<u>5,651,704</u>	<u>4,866,909</u>	<u>2,076,913</u>	<u>4,847,551</u>	<u>17,443,077</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>2,611,248</u>	<u>(11,333,879)</u>	<u>(49,226)</u>	<u>(577,418)</u>	<u>(9,349,275)</u>
Fund Balances					
Beginning of year	<u>6,466,736</u>	<u>24,384,309</u>	<u>179,422</u>	<u>(26,774)</u>	<u>31,003,693</u>
End of year	\$ <u>9,077,984</u>	<u>13,050,430</u>	<u>130,196</u>	<u>(604,192)</u>	<u>21,654,418</u>

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

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MADISON COUNTY

Combined Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget (Non-GAAP Budgetary Basis) and Actual - All Governmental Fund Types
For the Year Ended September 30, 2002

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues						
Property taxes	\$ 9,325,076	9,325,076		5,996,964	5,996,964	
Licenses, commissions and other revenue	1,604,932	1,604,932		968,432	968,549	117
Fines and forfeitures	457,474	457,474				
Intergovernmental revenues	2,062,714	2,115,554	52,840	1,106,332	1,694,167	587,835
Charges for services	989,828	999,878	10,050	854,377	854,377	
Use of money and property	300,905	311,097	10,192	1,174,972	1,205,468	30,496
Miscellaneous revenues	1,263,014	1,362,763	99,749	213,996	213,996	
Total Revenues	<u>16,003,943</u>	<u>16,176,774</u>	<u>172,831</u>	<u>10,315,073</u>	<u>10,933,521</u>	<u>618,448</u>
Expenditures						
General government	6,723,903	6,723,903		653,782	653,782	
Public safety	5,283,551	5,301,797	(18,246)	1,093,986	1,093,986	
Public works				18,884,619	17,686,077	1,198,542
Health and welfare	3,429,693	3,429,693				
Culture and recreation	22,985	22,985		877,646	877,646	
Education	506,783	506,783				
Conservation of natural resources	257,038	257,038				
Economic development and assistance	312,589	312,589		545,280	545,280	
Capital projects						
Debt service	3,714,793	3,714,793				
Other costs	167,711	167,711				
Total Expenditures	<u>20,419,046</u>	<u>20,437,292</u>	<u>(18,246)</u>	<u>22,055,313</u>	<u>20,856,771</u>	<u>1,198,542</u>
Excess of Revenues over (under) Expenditures	(4,415,103)	(4,260,518)	154,585	(11,740,240)	(9,923,250)	1,816,990
Other Financing Sources (Uses)	<u>5,690,804</u>	<u>5,690,704</u>	<u>(100)</u>	<u>548,112</u>	<u>(1,201,801)</u>	<u>(1,749,913)</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	1,275,701	1,430,186	<u>154,485</u>	(11,192,128)	(11,125,051)	<u>67,077</u>
Fund Balances						
Beginning of year	<u>4,665,314</u>	<u>6,466,736</u>		<u>13,343,086</u>	<u>24,384,309</u>	
End of year	<u>\$ 5,941,015</u>	<u>7,896,922</u>		<u>2,150,958</u>	<u>13,259,258</u>	

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

Debt Service Funds			Capital Projects Funds		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
2,439,338	2,439,338				
242	242				
374,069	374,069				
471,542	471,542				
427,342	427,342				
<u>3,712,533</u>	<u>3,712,533</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
5,840,179	5,840,179		4,934,990	4,934,990	
<u>5,840,179</u>	<u>5,840,179</u>	<u>0</u>	<u>4,934,990</u>	<u>4,934,990</u>	<u>0</u>
(2,127,646)	(2,127,646)	0	(4,934,990)	(4,934,990)	0
<u>2,076,913</u>	<u>2,076,913</u>	<u>0</u>	<u>4,864,157</u>	<u>4,864,157</u>	<u>0</u>
(50,733)	(50,733)	<u>0</u>	(70,833)	(70,833)	<u>0</u>
<u>76,423</u>	<u>179,422</u>		<u>(70,833)</u>	<u>(26,774)</u>	
<u>25,690</u>	<u>128,689</u>		<u>(141,666)</u>	<u>(97,607)</u>	

MADISON COUNTY

Exhibit D

Statement of Revenues, Expenses and Changes in Retained Earnings -
Proprietary Fund Type - Self-funded Insurance Internal Service Fund
For the Year Ended September 30, 2002

Operating Revenues	
Premiums	\$ 2,557,458
Refunds	<u>12,536</u>
Total Operating Revenues	<u>2,569,994</u>
Operating Expenses	
Claims payment	2,081,061
Administrative	76,993
Insurance premiums	<u>325,481</u>
Total Operating Expenses	<u>2,483,535</u>
Operating Income (Loss)	<u>86,459</u>
Net Income (Loss) for the Year	<u>86,459</u>
Retained Earnings	
Beginning of Year	<u>(86,459)</u>
End of Year	<u>\$ 0</u>

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

MADISON COUNTY
Statement of Cash Flows -
Proprietary Fund Type - Self-funded Insurance Internal Service Fund
For the Year Ended September 30, 2002

Exhibit E

Cash Flows From Operating Activities	
Cash received as premiums	\$ 2,201,410
Cash received as refunds	12,536
Cash payments for claims	(1,607,808)
Cash payments to administrator for services	(76,993)
Cash payments for insurance premiums	<u>(325,481)</u>
Net Cash Provided (Used) by Operating Activities	<u>203,664</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>203,664</u>
Cash and Cash Equivalents at Beginning of Year	<u>(97,963)</u>
Cash and Cash Equivalents at End of Year	\$ <u><u>105,701</u></u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ <u>86,459</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Change in assets and liabilities:	
(Increase) decrease in interfund receivables	(356,048)
Increase (decrease) in claims and judgments liability	<u>473,253</u>
Total adjustments	<u>117,205</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>203,664</u></u>

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

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2002

(1) Significant Accounting Policies.

A. Financial Reporting Entity.

Madison 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 Madison 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.

- Lake Lorman Utility District
- West Madison Utility District
- Madison County Library System
- Farmhaven Fire District
- South Madison Fire District
- Madison County Medical Center
- Madison County Nursing Home

Madison County has executed a trust agreement and other legal documents with Madison County Public Improvement Corporation, a component unit of the county. The trust accounts created by the agreement constitute an inseparable part of the county. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by the agreements are included as part of the county's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes (See Note 13).

Madison County has also entered into various transactions with Madison County Economic Development Authority (MCEDA), a component unit of the county. The county has issued limited obligation industrial development bonds, the proceeds of which were used by MCEDA to construct various buildings and improvements. These projects were simultaneously acquired by various enterprises by executing lease purchase agreements with MCEDA. The lease payments are made by the lessees directly to the county and are approximately equal to the amounts required to pay the annual principal and interest due on the related limited obligation bonds.

Madison County has issued general obligation bonds and incurred other indebtedness to acquire various industrial parks and other real estate which are owned by MCEDA. The authority is required by statute to remit to the county 90% of any sales of land acquired using the proceeds of this indebtedness until such indebtedness has been repaid.

The county also provided funding of approximately \$432,675 in the current fiscal year for MCEDA's operations through levying of property taxes and from other sources.

The assets, liabilities, equity, revenues, expenditures and other financing sources/uses related to these transactions are included as part of the county's financial statements because they constitute an inseparable part of the county.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

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
- Tax Collector
- Sheriff

B. Basis of Presentation.

The accompanying financial statements of the primary government have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. However, the primary government financial statements, because they do not include the financial data of the county's component units, do not present fairly, in all material respects, the financial position and results of operations and cash flows of its Proprietary Fund Type for the entire reporting entity.

C. 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 1994 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 1993 by the Office of the State Auditor.

D. Fund Accounting.

The financial activities of the county 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. An account group is a financial reporting device designated to provide accountability for certain assets and liabilities that are not recorded in funds because they do not directly affect net expendable available financial resources. The following fund categories, which are further subdivided into separate "fund types", are utilized by the county:

GOVERNMENTAL FUND TYPES

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

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.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2002

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

ACCOUNT GROUPS - The General Fixed Assets Account Group is used to account for general fixed assets. The General Long-term Debt Account Group is used to account for general long-term debt and certain other liabilities that are not specific liabilities of Proprietary Funds

E Basis of Accounting/Measurement Focus.

Governmental Fund Types and Agency Funds - All Governmental Funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used by all Governmental Fund Types and Agency Funds. Under this method, revenues are recognized in the accounting period in which they become both available and measurable to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current year or soon enough after year end to liquidate liabilities existing at the end of the year. Expenditures are recognized in the accounting period in which the fund liability is incurred. Modifications to the accrual basis of accounting include:

- Licenses, fees, fines and forfeits and other miscellaneous revenues are recognized when received since they normally are only measurable at that time.
- Property taxes are recognized as revenue when received because the remaining delinquent property taxes not collected before the close of the fiscal year are considered immaterial. See Note 1K for further explanation.
- Principal and interest on general long-term debt are recognized when due.
- Obligations for accumulated unpaid employee benefits are recognized when paid.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

Proprietary Fund Type - All Proprietary Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accrual basis of accounting is utilized. Under this method, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

F. Cash 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.

G. Receivables.

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

H. Interfund Receivables/Payables.

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 "interfund receivables/payables." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources.

I. Fixed Assets.

Fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in Governmental Funds, and the related assets are reported in the General Fixed Assets Account Group. All purchased fixed assets are stated at cost where historical records are available and at an estimated historical cost where no historical records exist. The extent to which fixed assets costs have been estimated and the methods of estimation are not readily available. Donated fixed assets are recorded at their fair 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 general fixed assets. Public domain (infrastructure) fixed assets consisting of certain improvements other than buildings, such as roads, bridges, sidewalks, drainage systems, lighting systems and similar assets that are immovable and of value only to the county, are not capitalized. Depreciation is not provided on general fixed assets.

J. Fund Equity

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.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2002

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.

Special assessment property tax is levied only on property owners benefitted by the construction of the "South Madison County Parkway" project as authorized by Senate Bill 3036, Laws of 1989 (Chapter 817 Local and Private Bills of 1989). Special assessment taxes become a lien on property in the same manner as real property taxes. Property owners may pay special assessments in full at the beginning of the fiscal year or make periodic payments throughout the year.

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 when received. Real property taxes are recognized as revenue when received because most delinquent real property taxes are collected by selling real property for taxes, together with all fees, penalties and damages accruing until date of sale, before the close of the fiscal year. The remaining amount of real property not sold for taxes at the tax sale is considered immaterial; therefore, no end of year delinquent taxes receivable is recorded. The amount of delinquent personal property taxes unpaid at year end is also considered immaterial. 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 in Governmental Funds to the extent that they are to be paid with current assets and the remainder of the liability to be reported in the General Long-term Debt Account Group, representing the county's commitment to fund such costs from future operations. Due to immateriality, the current portion of the liability was not estimated and reported in the Governmental Funds. Therefore, the county's full liability in the amount of \$469,301 for accumulated unpaid personal leave up to a maximum of 30 days per employee and compensatory time up to a maximum of 60 days for Sheriff's department employees and 30 days for road department employees is reported in the General Long-term Debt Account Group of the accompanying combined balance sheet.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

N. Total Column on Primary Government Financial Statements.

The total column on the primary government financial statements is captioned "Memorandum Only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

(2) Stewardship, Compliance and Accountability.

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, the Tax Assessor and the Tax 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. Budget/GAAP Reconciliation.

The following schedule reconciles the amounts on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Budgetary Basis) and Actual to the amounts on the Combined Statement of Revenues, Expenditures and Changes in Fund Balances:

Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Budget (Cash Basis)	\$ 1,430,186	(11,125,051)	(50,733)	(70,833)
Increase (Decrease)				
Net adjustment for revenue accruals	(1,247,953)	8,081,414	(292,114)	(16,606)
Net adjustment for expenditure accruals	<u>2,429,015</u>	<u>(8,290,242)</u>	<u>293,621</u>	<u>(489,979)</u>
GAAP Basis	<u>\$ 2,611,248</u>	<u>(11,333,879)</u>	<u>(49,226)</u>	<u>(577,418)</u>

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

C. 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, 2002:

<u>Fund</u>	<u>Excess</u>
General Fund	\$ 18,246
Special Revenue Fund:	
CDBG - Nissan suppliers	558,746

D. Individual Fund Deficits

The following funds had deficit fund balances at September 30, 2002:

<u>Fund</u>	<u>Deficit Amount</u>
Special Revenue Funds:	
Adolescent offender program	\$ 4,105
Mapping and reappraisal	12,705
Solid waste	289,463
South Madison fire district	1,632
State aid road	84,164
CDBG - Tin Top	7,000
Debt Service Funds:	
Special assessment parkway I & S	67,111
General I & S	82,680
\$13M development bank I & S	98,883
Capital Projects Fund:	
Building project fund	604,192

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2002, was \$7,857,155, and the bank balance was \$11,306,479. The collateral for public entities' deposits in financial institutions is now 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, collateralization of the entity's funds is monitored 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.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

(4) Restricted Investments

The county's investments at year end are shown below. All of the county's investments are uninsured and unregistered and are held by the counterparty's trust department or by its agent in the counterparty's name as escrow agent for the county. These investments are held in the Madison County, Mississippi, general obligation bonds 2001 construction fund escrow to pay the costs of the project related to this bond issue.

	Fair Value/ Carrying Amount	Cost
U.S. government securities (AIM Treasury Portfolio)	\$ 11,591,150	11,591,150
Total	<u>\$ 11,591,150</u>	<u>11,591,150</u>

(5) Interfund Receivables and Payables.

The composition of interfund balances at September 30, 2002, consists of the following:

Interfund Receivables/Payables:

Receivable Fund	Payable Fund	Amount
General Fund	Building project	\$ 70,833
General Fund	CDBG - Tin Top	7,000
General Fund	Solid waste	109,000
Economic development authority	General Fund	9,580
Library	General Fund	16,126
Mapping and reappraisal	General Fund	12,979
Solid waste	General Fund	13,436
Fire protection	General Fund	1,171
Countywide road maintenance	General Fund	123,710
Bridge and culvert	General Fund	32,731
Parkway interest and sinking	General Fund	9,823
District 3 road I & S	General Fund	1,013
General county I & S	General Fund	39,155
District 1 road I & S	General Fund	158
District 2 road I & S	General Fund	409
District 5 road I & S	General Fund	59
Hospital interest and sinking	General Fund	3,157
HCC maintenance	General Fund	6,914
HCC building	General Fund	5,702
Self-funded insurance	General Fund	347,774
Self-funded insurance	Enhanced 911	5,322
Self-funded insurance	Solid waste	25,703

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Self-funded insurance	Countywide road maintenance	57,937
Self-funded insurance	Bridge and culvert	16,731
Self-funded insurance	Economic development authority	<u>5,701</u>
Total		\$ <u><u>922,124</u></u>

Advances to/from Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Countywide road maintenance	\$ <u>32,774</u>
Total		\$ <u><u>32,774</u></u>

(6) Loans Receivable

Loans receivable at September 30, 2002, consists of the following:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Madison County Medical Center	Oct 2001/ Sept. 2002	N/A	N/A	\$ <u>5,000,841</u>
Total				\$ <u><u>5,000,841</u></u>

(7) Fixed Assets

Changes in the General Fixed Assets Account Group at September 30, 2002, are as follows:

	<u>Balance Oct. 1, 2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance Sept. 30, 2002</u>
Land	\$ 1,693,670		184,003	(63,178) *	1,446,489
Buildings	17,545,316	6,613,825	310,516		23,848,625
Construction in progress	3,062,199	5,299,190	6,613,825		1,747,564
Mobile equipment	3,065,852	765,266		38,016 **	3,869,134
Other furniture and equipment	1,682,261	538,156	14,001	262 **	2,206,678
Leased property under capital leases	<u>5,056,837</u>	<u>257,543</u>	<u>652,776</u>	<u>382,997 **</u>	<u>5,044,601</u>
Total	\$ <u><u>32,106,135</u></u>	<u><u>13,473,980</u></u>	<u><u>7,775,121</u></u>	<u><u>358,097</u></u>	<u><u>38,163,091</u></u>

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

* As discussed in Note (1)A, Madison County has issued general obligation bonds and incurred other indebtedness to acquire various industrial parks and other real estate which is owned by the Madison County Economic Development Authority (MCEDA). The authority is required by statute to remit to the county 90% of any sales of land acquired using the proceeds of this indebtedness until such indebtedness has been repaid. The county's investment in industrial parks and other real estate owned by MCEDA has previously been recorded at historical cost. During 2002, an adjustment of \$63,178 was made to land to reduce the fixed asset owned by MCEDA to the lesser amount of debt outstanding.

** These adjustments are to correct prior year errors.

(8) Commitments.

As of September 30, 2002, the county had the following commitments with respect to unfinished capital projects:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
New jail - Phase II	\$ 2,363,765	01/2004
Flora Library	197,530	01/2003
Camden Library	564,000	12/2003

(9) 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 \$350,000 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, 2002, to January 1, 2003. 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 and accident coverage. Beginning in 1997 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. The Madison County Board of Supervisors has extended coverage to the employees of the Madison County Human Resource Agency and the Madison County Medical Center.

Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Each participating public entity, including Madison 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 for all participating entities, including Madison County, to the extent that actual claims submitted exceed the predetermined premium. The county has implemented the following plan to minimize this potential loss:

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

The county has purchased coinsurance which functions on specific loss coverage. This coverage is purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$50,000

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, 2002, the amount of these liabilities was \$564,869. An analysis of claims activities is presented below:

	Beginning of Fiscal Year <u>Liability</u>	Current Year Claims and Changes in <u>Estimates</u>	Claim <u>Payments</u>	Balance at Fiscal Year End
2000-2001	\$ 84,638	1,345,485	1,338,507	91,616
2001-2002	\$ 91,616	2,081,061	1,607,808	564,869

(10) Capital Leases.

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2002:

<u>Classes of Property</u>	<u>Amount</u>
Land and buildings	\$ <u>9,410,293</u>

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2002, are as follows:

<u>Year Ended September 30</u>	<u>Amount</u>
2003	\$ 757,838
2004	651,421
2005	644,232
2006	631,647
2007	1,242,568
Later years	<u>1,701,045</u>
Total Minimum Lease Receivables	5,628,751
Less: Amount representing interest	<u>1,562,783</u>
Present Value of Net Minimum Lease Receivables	\$ <u>4,065,968</u>

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

As Lessee:

The county is obligated for the following assets acquired through capital leases as of September 30, 2002:

<u>Classes of Property</u>	<u>General Fixed Assets Group</u>
Mobile equipment	\$ 4,309,877
Other furniture and equipment	<u>734,724</u>
Leased Property Under Capital Leases	<u>\$ 5,044,601</u>

The future minimum lease payments together with the present value of the net minimum lease payables as of September 30, 2002, are as follows:

<u>Year Ending September 30</u>	<u>General Long-term Debt Group</u>
2003	\$ 1,201,928
2004	353,640
2005	133,686
2006	63,784
2007	<u>52,033</u>
Total Minimum Lease Payments	1,805,071
Less: Amount representing interest	<u>150,493</u>
Present Value of Net Minimum Lease Payments	<u>\$ 1,654,578</u>

(11) Long-term Debt.

Debt outstanding as of September 30, 2002, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
General Long-term Debt Account Group:			
A. General Obligation Bonds:			
District 3	\$ 25,000	7.6	09-2003
District 1	30,000	7.4 to 7.5	04-2004
District 5	20,000	7.4 to 7.5	04-2004
Parkway and refunding, Series 1989	220,000	6.8	06-2003
G.O. refunding bonds, Series 1993A	1,520,000	4.55 to 4.75	06-2005
G.O. refunding bonds, Series 1993B	5,715,000	4.7 to 6.4	06-2014
G.O. refunding bonds (courthouse), Series 1998	5,490,000	4.4 to 5.5	06-2014

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
G O refunding bonds (detention center), Series 1998	1,210,000	6 2 to 6 7	10-2005
G O road and bridge bonds (Nissan)	<u>23,500,000</u>	5 to 5 75	06-2026
Total General Obligation Bonds	<u>\$ 37,730,000</u>		
B. Limited Obligation Bonds:			
Industrial development, Series 1991	\$ 1,365,000	8 8 to 9 5	03-2016
Industrial development, Series 1992	265,000	5 8 to 6 3	05-2007
Certificates of participation, 1991 issue	<u>315,000</u>	6 6 to 6 75	10-2006
Total Limited Obligation Bonds	<u>\$ 1,945,000</u>		
C Special Assessment Bonds:			
Parkway special assessment refunding bonds, Series 1998	<u>\$ 3,170,000</u>	* 4 35 to 5	04-2012
D Capital Leases:			
1999 fire truck	\$ 56,947	4 34	05-2004
14 pieces of road equipment	34,936	5 19	02-2003
19 pieces of road equipment	216,118	5 19	04-2003
11 pieces of road equipment	135,346	5 17	04-2003
6 pieces of road equipment	99,282	5 29	05-2003
2 2001 freightliners	15,365	5 17	05-2003
9 pieces of road equipment	57,431	5 19	05-2003
2000 PF161 Blaw Knox paver w/truck hitch	49,080	5 54	07-2003
2000 Ford Crown Victoria	7,956	5 39	08-2003
3 2000 Chevrolet 4-door Impalas	19,413	6 09	08-2003
3 2001 Ford Crown Victorias	27,191	5 89	01-2004
3 2001 Chevrolet Camaros	31,707	4 86	04-2004
5 2001 Chevrolet Impalas	51,570	4 86	05-2004
2 Chevrolet Impalas	20,811	4 86	05-2004
22 Ford Crown Victorias	240,749	4 86	05-2004
2 Chevrolet Impalas	22,597	4 86	07-2004
Road reclamation machine	253,648	3 89	08-2007
IBM computer upgrade	53,541	6 06	06-2003
IBM computer upgrade	48,550	7 74	12-2004
IBM computer upgrade	93,109	9 38	06-2005
IBM computer upgrade	<u>119,231</u>	7 05	11-2005
Total Capital Leases	<u>\$ 1,654,578</u>		
E. Other Loans:			
Ray Thompson building	\$ 9,434	7	12-2002
Industrial development	416,970	5 07	06-2005
Capital improvement loan	112,363	4	09-2013

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Industrial development	439,257	0	09-2007
Capital improvement loan	340,157	4.86	12-2019
Industrial development	795,275	7.65	12-2018
Flora Industrial Park	128,825	6.50	05-2005
Medical Center loan	2,000,000	7.75	02-2003
New jail promissory note	7,582,940	Variable	01-2031
Working capital loan	5,500,000	Variable	09-2003
Nissan training facility	<u>1,945,193</u>	4.97	12-2006
Total Other Loans	<u>\$ 19,270,414</u>		

F. Limited Obligation Note:

Medical Center loan	<u>\$ 12,000,000</u>	Variable	06-2032
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* Special assessment debt of \$4,680,000 was issued on April 1, 1992, to construct a boulevard under the provisions of Senate Bill 3036, Laws of 1989. Refunding bonds of \$4,030,000 were issued on March 1, 1998, to pay off the original issue early. The bonds are secured by the full faith and credit of Madison County. A "Special Assessment Tax" was levied against all of the benefitted property owners. The county will levy annually this special assessment tax upon all taxable property in the benefitted area of the south Madison County Parkway adequate and sufficient to provide for the payment of the principal and interest on the bonds as the same fall due over a period of 14 years. The original bonds are considered defeased at September 30, 2002. The principal balance outstanding on the refunding issue at September 30, 2002 is \$3,170,000.

Annual debt service requirements to maturity for the following debt reported in the General Long-term Debt Account Group are as follows:

Year Ending September 30	General Obligation Bonds	Limited Obligation Bonds	Special Assessment	Other Loans	Total
2003	\$ 3,259,320	362,534	397,186	2,660,338	6,679,378
2004	2,893,773	357,734	395,366	630,172	4,277,045
2005	2,939,857	352,165	398,443	701,380	4,391,845
2006	1,965,923	345,845	400,645	454,844	3,167,257
2007	1,741,167	258,795	397,069	1,054,152	3,451,183
Later years	<u>35,582,335</u>	<u>1,366,545</u>	<u>1,994,515</u>	<u>479,629</u>	<u>39,423,024</u>
Total	48,382,375	3,043,618	3,983,224	5,980,515	61,389,732
Less: Amount representing interest	<u>10,652,375</u>	<u>1,098,618</u>	<u>813,224</u>	<u>588,316</u>	<u>13,152,533</u>
Total at Present Value	<u>\$ 37,730,000</u>	<u>1,945,000</u>	<u>3,170,000</u>	<u>5,392,199</u>	<u>48,237,199</u>

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

The annual debt service requirements for the \$795,275 industrial development loan can not be determined because the allocation of principal and interest is based on the date the payment is received and a correct amortization could not be obtained. Also, the annual debt service requirements for the \$7,582,940 new jail promissory note, the \$5,500,000 working capital loan and the \$12,000,000 Medical Center limited obligation note can not be determined because these loans have variable rates of interest.

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, 2002, the amount of outstanding debt was equal to 9.7% of the latest property assessments.

Advance Refunding - On June 1, 2002, the county issued \$12,000,000 in limited obligation notes with a variable rate of interest to advance refund \$10,450,000 of the following outstanding bond issues:

Issue	Average Interest Rate	Outstanding Amount Refunded
Madison County Hospital G.O. bonds	6.29	\$ 550,000
Madison County Hospital revenue bonds (This debt has been previously reported as a liability of the hospital. The county is only contingently liable)		9,900,000

The Madison County Hospital G.O. bonds had an outstanding balance of \$660,000 at the time of refunding, but only \$550,000 of the bond was refunded, leaving a remaining principal balance of \$110,000, which was redeemed during fiscal 2002.

The net proceeds of \$11,852,003 (after payment of \$677,712 in underwriting fees and other issuance costs, \$363,536 of capitalized interest and a contribution by the Madison County Nursing Home of \$893,251) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the General Long-term Debt Account Group and contingencies.

The county advance refunded the above bonds to restructure debt in order to lease the Madison County Medical Center. Economic gain (difference between the present values of the debt service payments on the old and new debt) was not considered in the issuance of the refunding bonds.

Prior Year Defeasance of Debt - In prior years, the county defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the county's financial statements. On September 30, 2002, \$9,785,000 of bonds outstanding were considered defeased.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

The following changes occurred in liabilities reported at year end:

	Balance <u>Oct. 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	Balance <u>Sept. 30, 2002</u>
General Long-term Debt					
Account Group:					
Compensated absences	\$ 577,055		107,754		469,301
General obligation bonds	40,035,000		1,755,000	(550,000) *	37,730,000
Limited obligation bonds	2,140,000		195,000		1,945,000
Special assessment bonds	3,405,000		235,000		3,170,000
Capital leases	2,665,492	257,543	1,557,807	289,350 **	1,654,578
Other loans	11,019,798	16,209,814	7,959,198		19,270,414
Limited obligation notes		<u>12,000,000</u>			<u>12,000,000</u>
Total	<u>\$ 59,842,345</u>	<u>28,467,357</u>	<u>11,809,759</u>	<u>(260,650)</u>	<u>76,239,293</u>

* This adjustment is to show principal payment to escrow agent to refund bonds.

** This adjustment is to add lease obligations incurred in prior years, but not previously reported.

(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.

(13) Trust Agreement Related to Lease of Property from Madison County Public Improvement Corporation

Madison County executed trust agreements and other legal documents by and between the county, Madison County Public Improvement Corporation (the Corporation) and financial institutions (the Trustees).

The trust agreements authorized the corporation to issue certificates of participation (a form of debt financing classified as limited obligation bonds) to be used to provide financing for the construction of various public facilities which are being leased to the county. The leases represent capital leases under which ownership of the projects will transfer to the county upon complete retirement of the certificates of participation. The county is obligated to make lease payments to the trustees in an amount equal to the debt service requirements for the certificates of participation. The amount of debt outstanding at September 30, 2002, was \$315,000 (See Note 11). The lease rental payments by the county will be used by the trustees to pay the principal and interest payments due on the certificates of participation.

MADISON COUNTY

Notes to Financial Statements For the Year Ended September 30, 2002

In connection with the 1994 project, the county acquired certain property which has been subleased to the City of Madison (the City). Under the terms of the agreement, the City is required to make lease payments to the county for 20 years. The lease payments have been calculated to amortize the \$600,000 purchase price over 20 years at an average annual interest rate of 5.84%. The City has a right to purchase the leased property upon the expiration of the lease term, or upon such earlier date as may be agreed upon, at a price not to exceed the unpaid principal balance at that time. The amount due at September 30, 2002, was \$450,000. This amount has been recorded as lease payments receivable and a corresponding amount is shown as deferred revenue-leasing transactions at September 30, 2002.

The trust accounts created by these agreements constitute an inseparable part of the county. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by these trust agreements are included as part of the county's financial statements, thereby eliminating the effects of the lease agreements for financial reporting purposes.

(14) Jointly Governed Organizations

The county participates in the following jointly governed organizations:

Holmes Community College operates in a district composed of the Counties of Attala, Carroll, Choctaw, Grenada, Holmes, Madison, Montgomery, Webster and Yazoo. The Madison County Board of Supervisors appoints two of the 22 members of the college board of trustees. The county appropriated \$587,407 for maintenance and support of the college in fiscal year 2002.

Region 8 Mental Health - Mental Retardation Commission operates in a district composed of the Counties of Copiah, Madison, Rankin and Simpson. The Madison County Board of Supervisors appoints one of the four members of the board of commissioners. The county appropriated \$109,800 for maintenance and support of the center in fiscal year 2002.

Central Mississippi Planning and Development District operates in a district composed of the Counties of Copiah, Hinds, Madison, Rankin, Simpson, Warren and Yazoo. The Madison County Board of Supervisors appoints three of the 33 members of the board of directors. The county appropriated \$8,896 for maintenance and support of the district in fiscal year 2002.

The Madison County Human Resource Agency was organized under Section 17-15-1, Miss. Code Ann. (1972), to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by law. The Madison County Board of Supervisors appoints three of the 15 board members. The county appropriated \$262,000 for maintenance and support of the agency in fiscal year 2002.

The Madison County Wastewater Authority was organized under House Bill Number 1640 Local and Private Laws of the State of Mississippi, 2001, for the acquisition, construction and operation of user-funded wastewater systems, in order to prevent and control the pollution of the waters in the county. The Madison County Board of Supervisors appoints one of the nine members of the board of directors. The county made no appropriation to the Authority in fiscal year 2002.

(15) Defined Benefit Pension Plan

Plan Description. Madison 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.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

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 current rate is 9.75% 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, 2002, 2001 and 2000 were \$721,717, \$696,344 and \$629,006, respectively, equal to the required contributions for each year.

(16) Other Information

As a result of revenue shortfalls, the State Tax Commission had to withhold 9.8% of the March 2002 homestead exemption reimbursement from local governments. The amount withheld from Madison County during the 2001-2002 fiscal year was \$66,538.

(17) Subsequent Events

Subsequent to September 30, 2002, Madison 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>
05-16-03	3.91 to 7.65	\$ 337,000	Lease purchase	Tax levy
05-23-03	3.06	301,160	Lease purchase	Tax levy
06-13-03	3.11	74,280	Lease purchase	Tax levy
08-5-03	3.69	525,005	Lease purchase	Tax levy
10-1-02 to 08-29-03	Variable	2,815,689	Limited obligation notes	Available revenue

On March 21, 2003, Madison County entered into an agreement with Nissan North America, Inc., whereby Nissan agreed to make annual payments to the county in lieu of all ad valorem taxes levied by the city and the county on behalf of the school district and the county in an amount equal to one-third (1/3) of the annual ad valorem tax levy for the motor vehicle manufacturing facility, including ad valorem taxes for school district purposes. The amounts paid under this agreement shall be apportioned between the county and the school district in the respective amounts which shall be equal to each entity's pro rata share based upon the proportion that the millage imposed for that entity bears to the total millage imposed for all county and school district purposes. The millage used for apportionment under this subsection shall be the millage in effect for the immediately preceding ad valorem tax levies. In order to assist the county with servicing certain scheduled bonded indebtedness, Nissan has agreed to make early remittance of a portion of the first payment due. The balance of the first payment shall remain due and payable on the normal payment due date. It is the county's intent to use these payments to help service the debt on the \$23,500,000 general obligation bonds.

Subsequent to September 30, 2002, the Madison County Medical Center continued to experience financial difficulties. As a result of these financial difficulties, Madison County loaned the Madison County Medical Center an additional \$236,593. The Madison County Medical Center was leased on January 1, 2003, to Madison HMA, Inc., for a forty year term. The lease agreement specifies that the county will receive \$9,000,000 as prepaid rent for the leased assets for the entire lease term and as payment in full for the purchased assets. The county will assume responsibility for the payment of any accrued interest payable, any debt, capitalized leases, Medicare or Medicaid settlements arising out of costs reports related to periods prior to the date of the lease, any liabilities or obligations existing or subsequently arising under any employee benefit plans, except as set forth on the closing balance sheet and included as current liabilities. In December 2002, the county received \$8,356,646 from Madison HMA. This amount consisted of the prepaid rent for the entire lease term net of amounts due to HMA. A portion of this amount was used to repay the loan receivable of \$5,000,841 reported on the balance sheet at September 30, 2002. In addition, \$2,000,000 of the funds received were used to retire the Medical Center loan which matured in February 2003.

MADISON COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2002

On March 28, 2003, Madison County entered into an agreement to loan IMS Autrans, LLC, \$630,000 from a Community Development Block Grant received from the Mississippi Development Authority for 60 months with an annual interest rate of 2%. The county is required to remit all payments received from IMS Autrans, LLC, to the Mississippi Development Authority.

In September 2003, the county retired the \$5,500,000 working capital loan from current available funds.

As a result of an investigation by the Investigative Division of the Office of the State Auditor into certain financial activities of the county, \$397,254.90 was collected from the bonding company of the former Chancery Clerk. This money was remitted to the county by the Office of the State Auditor in January 2003.

In June 1999, the Governmental Accounting Standards Board (GASB) approved Statement Number 34, titled *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain significant changes will be required upon implementation of this statement. The county will implement the new reporting model as required by Statement 34 for the fiscal year beginning October 1, 2002.

MADISON COUNTY

SUPPLEMENTAL INFORMATION

MADISON COUNTY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2002

Schedule 1

<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 Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program	14 228	1118-01-045-ED-01	\$ 650,560
Community development block grants/state's program	14 228	1113-96-045-ED-01	13,500
Total Expenditures of Major Federal Awards			<u>664,060</u>
OTHER FEDERAL AWARDS			
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20 205	N/A	<u>16,610</u>
U.S. Department of Health and Human Services/ Passed-through the Mississippi Department of Human Services Temporary assistance for needy families	93 558	641WL11	<u>144,834</u>
Total Expenditures of Other Federal Awards			<u>161,444</u>
Total Expenditures of Federal Awards			<u>\$ 825,504</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.

MADISON COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2002

Schedule 2

Operating Expenditures, Cash Basis:

Salaries	\$	431,044
Expendable Commodities:		
Gasoline and petroleum products		32,804
Repair parts		3,136
Tires		463
Clothing		3,189
Maintenance		29,340
Insurance on equipment		5,541
Landfill charges		271,674
Consultant fees		<u>4,000</u>
Solid Waste Cash Basis Operating Expenditures		781,191
Full Cost Expenses:		
Indirect administrative costs		9,525
Other accrued expenses		<u>81,541</u>
Solid Waste Full Cost Operating Expenses	\$	<u><u>872,257</u></u>

MADISON COUNTY

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MADISON COUNTY

SPECIAL REPORTS

MADISON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

August 29, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have audited the primary government financial statements of Madison County, Mississippi, as of and for the year ended September 30, 2002, and have issued our report thereon dated August 29, 2003. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Madison County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Madison County, Mississippi, in the Independent Auditor's Report on Compliance with State Laws and Regulations dated August 29, 2003, included within this document.

Internal Control Over Financial Reporting

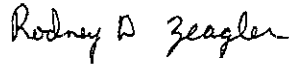
In planning and performing our audit, we considered Madison County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal 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 Madison County, Mississippi's ability to 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 02-01 through 02-06.

A material weakness is a 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 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 items 02-01 and 02-05 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.



PHIL BRYANT
State Auditor



RODNEY D. ZEAGLER, CPA
Director, Financial and Compliance Audit Division



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

August 29, 2003

Members of the Board of Supervisors
Madison County, Mississippi

Compliance

We have audited the compliance of Madison 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, 2002. Madison 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 Madison County, Mississippi's management. Our responsibility is to express an opinion on Madison 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 Madison 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 Madison County, Mississippi's compliance with those requirements.

In our opinion, Madison 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, 2002.

Internal Control Over Compliance

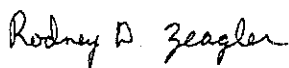
The management of Madison County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Madison County, Mississippi's 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 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 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.



PHIL BRYANT
State Auditor



RODNEY D ZEAGLER, CPA
Director, Financial and Compliance Audit Division



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))

August 29, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Madison County, Mississippi, as of and for the year ended September 30, 2002. 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 Madison 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 Madison 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.

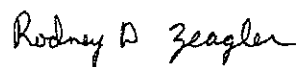
In our opinion, Madison County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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 Madison County, Mississippi, and is not intended to be and should not be relied upon for any other purpose.



PHIL BRYANT
State Auditor



RODNEY D ZEAGLER, CPA
Director, Financial and Compliance Audit Division

MADISON COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2002

Schedule 1

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

MADISON COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2002

Schedule 2

Our test results did not identify any emergency purchases

MADISON COUNTY
Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2002

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
03-15-02	Two cameras	\$ 5,000	International Police

MADISON COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

August 29, 2003

Members of the Board of Supervisors
Madison County, Mississippi

We have audited the primary government financial statements of Madison County, Mississippi, as of and for the year ended September 30, 2002, and have issued our report thereon dated August 29, 2003. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the procedures prescribed by the State Auditor, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion.

The results of our procedures and our audit of the primary government financial statements disclosed certain immaterial instances of noncompliance with state laws and regulations. Our findings and recommendations and your responses are disclosed below:

Board of Supervisors.

1. Finding

Section 27-39-317, Miss. Code Ann. (1972), requires the Board of Supervisors to levy the county ad valorem taxes for the fiscal year. This section also provides the manner in which taxes are to be levied. The board adopted tax levies with no statutory authority specified.

Recommendation

In making the levy of taxes, the Board of Supervisors shall specify, in its order, the purpose for each levy and statute authorizing the levy.

Board of Supervisors' Response

All adopted levies have statutory authority. The statute authorizing each levy will be specified in the future.

2. Finding

Section 19-11-17, Miss. Code Ann (1972), prohibits the incurring of expenditures in excess of the final budget as approved by the Board of Supervisors. Actual expenditures exceeded budgeted amounts in some of the funds

Recommendation

The Board of Supervisors should not make expenditures in excess of budgeted amounts

Board of Supervisors' Response

The board has never knowingly approved a claim for payment in excess of budgeted amounts. If any such instance occurred, it was an inadvertent oversight

3. Finding

During the fiscal year, the county transferred \$109,000 from the General Fund to the solid waste fund. There is no authority for the General Fund to supplement the solid waste fund

Recommendation

The county should repay \$109,000 from the solid waste fund to the General Fund.

Board of Supervisors' Response

This amount was repaid in 2003

4. Finding

Section 19-9-9, Miss. Code Ann. (1972), requires the Board of Supervisors to levy sufficient taxes to provide for the payment of bonded debt. The General I & S and special assessment parkway I & S funds sustained negative cash balances because the levies were not sufficient to pay the yearly bond principal and interest payments.

Recommendation

The Board of Supervisors should increase these levies to provide sufficient funds to pay yearly obligations.

Board of Supervisors' Response

Levies have been set which will provide sufficient funds to pay all debt obligations.

Chancery Clerk.

5. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires the Clerk of the Board of Supervisors to keep and preserve a complete and correct record of all board proceedings. Board minutes were stored loosely in a box and were not numbered. This increases the possibility that minutes could be lost or altered

Recommendation

The Chancery Clerk should ensure that board minutes are numbered and bound in order to adequately preserve a complete and correct record of all board proceedings.

Chancery Clerk's Response

I've been trying to correct filings of minutes since my term started November 21, 2001. Minutes had not been bound since April 2001. Audit advised us to not touch the Duncan minutes until the investigation was completed. Severe budget cuts and non-payment of statutory fees by the supervisors has delayed project completion.

6 Finding

Section 19-13-43, Miss. Code Ann (1972), requires funds to have cash available before checks are written. Checks were written on county funds which did not have sufficient cash balances

Recommendation

The Chancery Clerk should ensure that no checks are written on funds when cash is not available.

Chancery Clerk's Response

I confirm that budgets are amended before the claims are authorized to be paid. I have no authority over the employees who write and disperse the checks. They work for the supervisors, but they have been informed that it is essential to have funds in the accounts before dispersing

7 Finding

Section 9-1-43, Miss. Code Ann. (1972), limits the compensation of the Chancery Clerk's to \$83,160 after making deductions for employee salaries and related salary expenses and expenses allowed as deductions by Schedule C of the Internal Revenue Code. A business expense must be both ordinary and necessary to be deductible. Some expenses that were deducted against income cannot be construed as either ordinary or necessary. Also, one expense was not adequately documented.

Recommendation

The Chancery Clerk should ensure that any amounts deducted as expenses be allowable and that they are adequately documented.

Chancery Clerk's Response

Only one expense would not have been allowable under IRS guidelines and adequate documentation is available for all of the expenses. The one expense was made by the former chief deputy. The new chief is aware that no other expenses of this nature should be allowed

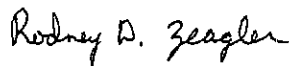
Auditor's Note

During our audit of expenses, we noted three items that would not have been allowable under IRS guidelines and one item that was not adequately documented

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



PHIL BRYANT
State Auditor



RODNEY D ZEAGLER, CPA
Director, Financial and Compliance Audit Division

MADISON COUNTY

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MADISON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MADISON COUNTY

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MADISON COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2002

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4.	Type of auditor's report issued on compliance for major federal program:	Unqualified
5	Internal control over major program:	
a.	Material weaknesses identified?	No
b	Reportable conditions identified that are not considered to be material weaknesses?	No
6	Any audit finding reported as required by Section ____510(a) of Circular A-133?	No
7.	Federal program identified as major program:	
a.	Community Development Block Grant/State's Program, CFDA #14.228	
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

MADISON COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2002

Section 2: Financial Statement Findings

Chancery Clerk.

02-01 Finding

During our audit, we noted the following weaknesses:

- a. Several transactions were not posted to the general ledger
- b. Disbursements were sometimes made from one bank account, but were actually posted to funds associated with another bank account.
- c. Bank accounts were not properly reconciled.
- d. As reported in the last two years' audit reports, there was a lack of oversight in regard to general journal entries. No documentation was maintained to support some general journal entries.

Recommendation

The Chancery Clerk should establish and maintain procedures to ensure:

- a. All transactions are posted to the general ledger.
- b. Disbursements are posted to the correct fund and paid from the corresponding bank account.
- c. All bank accounts are properly reconciled.
- d. Adequate supporting documentation of general journal entries is maintained.

Chancery Clerk's Response

The supervisors have made it very clear that the two board employees who perform these tasks are not to be supervised by me. With the budget cuts we've endured, the tasks cannot be brought into the clerk's office. Until adequate funding is available and the clerk can supervise, the supervisors shall be responsible for these findings.

02-02 Finding

During our audit, we noted the following weaknesses:

- a. Reconciliation of the Chancery Clerk's land redemption account was not performed on a monthly basis.
- b. Deposits to the Chancery Clerk's land redemption and fee accounts were not made in a timely manner.

Recommendation

The Chancery Clerk should ensure that receipts are deposited in the land redemption accounts in a timely manner and that accounts are reconciled monthly.

MADISON COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2002

Chancery Clerk's Response

Reconciliation is performed on the land redemption account on a monthly basis and deposits for all accounts are made daily unless an emergency occurs.

02-03. Finding

The Chancery Clerk did not maintain the fee journal as prescribed by the *Mississippi County Financial Accounting Manual*. Columns in the journal were not totaled and carried forward each month. Only the cash balance was carried forward monthly.

Recommendation

The Chancery Clerk should properly maintain a fee journal as prescribed.

Chancery Clerk's Response

My accounting deputy has now been educated on the procedures to use and the fee journal is being maintained as prescribed.

Circuit Clerk.

02-04. Finding

During our audit, we noted the following weaknesses:

- a. Cash journals were not properly reconciled to the criminal and civil bank accounts.
- b. Reconciliations of the criminal, civil and jury bank accounts were not performed on a monthly basis.

Recommendation

The Circuit Clerk should reconcile cash journal balances to the bank accounts as prescribed in the *Mississippi County Financial Accounting Manual*.

Circuit Clerk's Response

- a. I understand and will adjust the computer program to reconcile cash journals to bank statements.
- b. I understand and will comply

EDP Department.

02-05 Finding

During our review of the accounting software system at Madison County, we noted a lack of control over data. As reported in the prior year's audit report, users could edit payroll master file data, payroll history, 1099 file data, as well as W-2 file data. Users could edit or delete cash disbursements records in the claims system. Users could edit data in the purchase order system. The Control Objectives for Information and Related Technology (CobiT) guidelines, as well as industry best practices, require adequate control over the county's accounting system and data. Without these controls in place, data security could be compromised.

MADISON COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2002

Recommendation

We recommend that Madison County strengthen controls over the accounting system. There should be no option to edit or delete critical permanent records. Only selected supervisors staff should be able to edit critical data records. Security level and menu options should be assigned to ensure this.

EDP Department's Response

Delta Computers provides Madison County with accounting and appraisal software packages that are widely utilized across the state. Madison County is no different from any county currently using these packages. The fact the accounting and payroll staff have the same menu is an issue that Delta Computers will have to address, again not only in the county but in all that are currently using Delta's package. It is our understanding that the State Auditor's Office has previously made Delta Computers aware of these concerns, but has not required these changes and Delta will only make changes that are required by the State Audit Department. Madison County is currently utilizing the latest version of the Delta software.

02-06. Finding

As reported in the last two years' audit reports, Madison County does not have procedures in place to maintain a complete listing of all computer software installed on computers owned by Madison County; therefore, the county cannot verify software licenses. The Federal Copyright Infringement Law prohibits the installation and use of any copyrighted software without a license. Without a complete listing of all software on county-owned computers, the county cannot protect itself against possible copyright infringement charges.

Recommendation

We recommend that Madison County implement procedures to maintain a current listing of software installed on all computers. The Department of Data Processing management should periodically check the county-owned personal computers for unauthorized software. The county should maintain documentation of these test results for future audits. The county should implement bannering on all county-owned personal computers. The message should clearly address appropriate use policies and prohibit installation or use of illegal software.

EDP Department's Response

Madison County is implementing procedures to maintain a current listing of software installed on all personal computers. The list that is created will be checked by the Data Processing management for unauthorized software usage. The county will maintain this documentation for future audits. As the county personal computers are not a Novell type network, implementing a banner to provide informational messages on personal computers is not feasible.

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