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CHOCTAW COUNTY, MISSISSIPPI
AUDITED PRIMARY GOVERNMENT FINANCIAL STATEMENTS
AND SPECIAL REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CHOCTAW COUNTY
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CHOCTAW COUNTY

FINANCIAL SECTION



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

Members of the Board of Supervisors
Choctaw County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Choctaw County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of Choctaw County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the county's legal entity. The financial statements do not include financial data for the county's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the county's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Choctaw County, Mississippi, as of September 30, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information for the primary government of Choctaw County, Mississippi, as of September 30, 2006, and the respective changes in the financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2007, on our consideration of Choctaw County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered to be considered in assessing the results of our audit.

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

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
August 14, 2007

Watkins, Ward and Stafford, PLLC

CHOCTAW COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

Choctaw County
Statement of Net Assets
September 30, 2006

Exhibit 1

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 2,769,161
Accrued interest receivable	6,813
Property tax receivable	1,420,610
Accounts receivable (net of allowance for uncollectibles of \$212,546)	28,320
Fines receivable (net of allowance for uncollectibles of \$293,403)	101,522
Loans receivable	258,442
Intergovernmental receivables	154,469
Other receivables	8,771
Capital assets:	
Land and construction in progress	632,808
Other capital assets, net	28,498,708
Total Assets	<u>33,879,624</u>
LIABILITIES	
Claims payable	755,195
Intergovernmental payables	59,691
Deferred revenue	1,420,610
Unearned revenue	18,572
Other payables	21,903
Long-term liabilities	
Due within one year:	
Capital debt	279,010
Non-capital debt	41,780
Due in more than one year:	
Capital debt	520,746
Non-capital debt	216,661
Total Liabilities	<u>3,334,168</u>
NET ASSETS	
Invested in capital assets, net of related debt	28,331,760
Restricted:	
Expendable:	
General government	294,038
Public safety	163,093
Public works	495,557
Health and welfare	69,151
Economic development	2,570
Capital projects	(1,398)
Unrestricted	1,190,685
Total Net Assets	<u>\$ 30,545,456</u>

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

Choctaw County
Statement of Activities
For the Year Ended September 30, 2006

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 1,764,303	119,610	84,186		(1,560,507)
Public safety	990,873	209,915	618,403	20,530	(142,025)
Public works	1,830,128	397,654	291,196	338,502	(802,776)
Health and welfare	110,212		165,859		55,647
Culture and recreation	53,958				(53,958)
Conservation of natural resources	202,093				(202,093)
Economic development and assistance	269,535				(269,535)
Interest on long-term debt	45,347				(45,347)
Total Governmental Activities	\$ 5,266,449	727,179	1,159,644	359,032	(3,020,594)

General revenues:	
Property taxes	\$ 1,868,551
Road & bridge privilege taxes	106,059
Grants and contributions not restricted to specific programs	249,219
In lieu tax - Tractebel and Reliant	1,502,043
Unrestricted interest income	109,105
Miscellaneous	152,962
Total General Revenues	3,987,939
Changes in Net Assets	967,345
Net Assets - Beginning	29,467,128
Prior period adjustment	110,983
Net Assets - Beginning, as restated	29,578,111
Net Assets - Ending	\$ 30,545,456

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

Choctaw County
 Balance Sheet - Governmental Funds
 September 30, 2006

Exhibit 3

	Major Funds		Total Governmental Funds
	General Fund	Other Governmental Funds	
ASSETS			
Cash	\$ 1,783,323	985,838	2,769,161
Accrued interest receivable	4,398	2,415	6,813
Property tax receivable	721,088	699,522	1,420,610
Accounts receivable (net of allowance for uncollectibles of \$212,546)		28,320	28,320
Fines receivable (net of allowance for uncollectibles of \$293,403)	101,522		101,522
Loans receivable	258,442		258,442
Intergovernmental receivables	77,261	77,208	154,469
Other receivables	143	8,267	8,410
Due from other funds		19,917	19,917
Advances to other funds	361		361
Total Assets	\$ 2,946,538	1,821,487	4,768,025
LIABILITIES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ 444,329	310,866	755,195
Intergovernmental payables	59,691		59,691
Due to other funds	19,917		19,917
Deferred revenue	822,610	727,842	1,550,452
Unearned revenue		18,572	18,572
Other payables	21,903		21,903
Total Liabilities	1,368,450	1,057,280	2,425,730
Fund balances:			
Reserved for:			
Loans receivable	258,442		258,442
Advances	361		361
Unreserved - undesignated, reported in:			
General Fund	1,319,285		1,319,285
Special Revenue Funds		765,605	765,605
Capital Project Funds		(1,398)	(1,398)
Total Fund Balances	1,578,088	764,207	2,342,295
Total Liabilities and Fund Balances	\$ 2,946,538	1,821,487	4,768,025

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

Choctaw County
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2006

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 2,342,295
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$56,946,258.	29,131,516
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	129,842
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(1,058,197)
Total Net Assets - Governmental Activities	<u>\$ 30,545,456</u>

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

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2006

	<u>Major Funds</u>	Other	Total
	General	Governmental	Governmental
	Fund	Funds	Funds
REVENUES			
Property taxes	\$ 995,775	872,776	1,868,551
Road and bridge privilege taxes		106,059	106,059
Licenses, commissions and other revenue	60,625	2,544	63,169
Fines and forfeitures	69,755	5,222	74,977
Special assessments	1,502,043		1,502,043
Intergovernmental revenues	458,534	1,309,361	1,767,895
Charges for services	118,253	474,777	593,030
Interest income	77,312	31,794	109,106
Miscellaneous revenues	106,104	46,858	152,962
Total Revenues	<u>3,388,401</u>	<u>2,849,391</u>	<u>6,237,792</u>
EXPENDITURES			
Current:			
General government	1,852,165		1,852,165
Public safety	723,833	102,264	826,097
Public works	1,618	2,131,660	2,133,278
Health and welfare	78,873	270,558	349,431
Culture and recreation	52,673		52,673
Conservation of natural resources	42,448	159,645	202,093
Economic development and assistance	217,725	51,810	269,535
Debt service:			
Principal	95,579	233,904	329,483
Interest	20,790	24,557	45,347
Total Expenditures	<u>3,085,704</u>	<u>2,974,398</u>	<u>6,060,102</u>
Excess of Revenues over (under) Expenditures	<u>302,697</u>	<u>(125,007)</u>	<u>177,690</u>
OTHER FINANCING SOURCES (USES)			
Insurance loss recoveries	21,302	32,499	53,801
Proceeds from sale of capital assets	2,632	23,000	25,632
Total Other Financing Sources and Uses	<u>23,934</u>	<u>55,499</u>	<u>79,433</u>
Net Changes in Fund Balances	<u>326,631</u>	<u>(69,508)</u>	<u>257,123</u>
Fund Balances - Beginning	<u>1,251,457</u>	<u>833,715</u>	<u>2,085,172</u>
Fund Balances - Ending	<u>\$ 1,578,088</u>	<u>764,207</u>	<u>2,342,295</u>

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

Choctaw County
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2006

Exhibit 4-1

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 257,123
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$ 1,037,862 exceeded depreciation of \$ 650,424 in the current period.	387,438
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$22,932 and the proceeds from the sale of \$ 25,632 in the current period.	(2,700)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(6,200)
Solid waste revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	2,201
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$329,483 exceeded debt proceeds of \$0.	329,483
Change in Net Assets of Governmental Activities	\$ <u><u>967,345</u></u>

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

Choctaw County
Statement of Fiduciary Assets and Liabilities
September 30, 2006

Exhibit 5

		Agency Funds
ASSETS		
Cash	\$	12,810
Total Assets	\$	<u>12,810</u>
LIABILITIES		
Other liabilities	\$	815
Intergovernmental payables		11,634
Advances from other funds		361
Total Liabilities	\$	<u>12,810</u>

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

CHOCTAW COUNTY

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

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity.

Choctaw 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 Choctaw 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 unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Choctaw County Economic Development District

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

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

B. Basis of Presentation

The county's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are *generally financed through taxes, intergovernmental revenues and other nonexchange revenues.*

CHOCTAW COUNTY

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

CHOCTAW COUNTY

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

The county reports the following major Governmental Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

CHOCTAW COUNTY

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

G. Interfund Transactions and Balances.

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

H. Capital Assets.

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Choctaw County meets this criteria, but has elected to report major general infrastructure assets retroactively. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are reported in the government-wide financial statements. General infrastructure assets include roads and bridges and other infrastructure assets.

CHOCTAW COUNTY

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

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

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

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

I. Long-term Liabilities.

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

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

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

CHOCTAW COUNTY

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

Fund financial Statements:

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

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

K. Property Tax Revenues.

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

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

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

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 benefits; however, adequate records are not maintained for determining the amount of the liability. Therefore, no liability is recorded in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. We believe the effects of the unrecorded liability on the financial statements are immaterial.

CHOCTAW COUNTY

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

(2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 – Statement of Activities.

Explanation	Amount
To correct errors in capital assets, net	\$ 110,983

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$2,781,971 and the bank balance was \$2,794,079. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Other Governmental Funds	General	\$ 19,917

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

B. Advances from/to Other Funds:

Receivable Fund	Payable Fund	Amount
General	Agency Funds	\$ 361

The Agency Fund payable represents insurance premium refunds which were not repaid within one year.

CHOCTAW COUNTY

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

(5) Intergovernmental Receivables.

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

Description	Amount
Governmental Activities:	
Legislative tag credit	\$ 32,489
Sanitation settlement	29,833
State aid road reimbursement	29,832
State prisoner housing reimbursement	22,387
Forestry reserve	18,458
State motor vehicle taxes	13,834
State motor vehicle licenses	2,324
State domestic preparedness equipment support program	2,317
Timber severance	1,610
State harvest permits	855
State overweight fines	530
Total Governmental Activities	\$ 154,469

(6) Loans Receivable.

Loans receivable balances at September 30, 2006, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Balance Payable
The Taylor Group	12/19/1996	6.00%	11/2012	\$ 258,442

CHOCTAW COUNTY

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

(7) Capital Assets.

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

Governmental activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	* Balance Sept. 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 86,583				86,583
Construction in progress	-	546,225			546,225
Total non-depreciable capital assets	<u>86,583</u>	<u>546,225</u>			<u>632,808</u>
<u>Depreciable capital assets:</u>					
Infrastructure	76,464,560	158,527		258,214	76,881,301
Buildings	3,061,672				3,061,672
Improvements other than buildings	351,450	260,732			612,182
Mobile equipment	3,511,030	50,050	(27,000)	134,484	3,668,564
Furniture and equipment	115,589	22,328		(40,000)	97,917
Leased property under capital leases	1,238,916			(115,586)	1,123,330
Total depreciable capital assets	<u>84,743,217</u>	<u>491,637</u>	<u>(27,000)</u>	<u>237,112</u>	<u>85,444,966</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	52,188,333	124,722		9,038	52,322,093
Buildings	1,386,782	37,226			1,424,008
Improvements other than buildings	28,245	24,487			52,732
Mobile equipment	2,053,601	268,035	(24,300)	279,504	2,576,840
Furniture and equipment	64,813	17,015		(26,400)	55,428
Leased property under capital leases	472,231	178,939		(136,013)	515,157
Total accumulated depreciation	<u>56,194,005</u>	<u>650,424</u>	<u>(24,300)</u>	<u>126,129</u>	<u>56,946,258</u>
Total depreciable capital assets, net	<u>28,549,212</u>	<u>(158,787)</u>	<u>(2,700)</u>	<u>110,983</u>	<u>28,498,708</u>
Governmental activities capital assets, net	<u>\$ 28,635,795</u>	<u>387,438</u>	<u>(2,700)</u>	<u>110,983</u>	<u>29,131,516</u>

* Adjustments are to correct prior year errors and the effects of transferring lease purchase equipment paid off to mobile equipment.

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 28,892
Public safety	262,250
Public works	336,484
Health and welfare	21,513
Culture and recreation	<u>1,285</u>
Total governmental activities depreciation expense	<u>650,424</u>

CHOCTAW COUNTY

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

Commitments with respect to unfinished capital projects at September 30, 2006, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date Of Completion
Jail Annex Building	\$ 7,957	9/30/07
Solid Waste/Dist. 5 Maintenance Building	47,466	9/30/07

(8) Claims and Judgments.

Risk Financing.

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

(9) Operating Leases.

As Lessor:

The county leases property from which it expects to receive income in future years. The county received \$88,000 from this lease for the year ended September 30, 2006. The future minimum lease receivables for the lease follows:

Year Ended September 30,	Amount
2007	\$ 60,000
2008	60,000
2009	60,000
2010	60,000
2011	60,000
2012-16	300,000
2017-21	300,000
2022-26	220,000
Total Minimum Payments Required	\$ <u>1,120,000</u>

CHOCTAW COUNTY

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

(10) Capital Leases.

As Lessee:

The county is obligated for the following capital assets through capital leases as of September 30, 2006:

Classes of Property	Governmental Activities
Mobile equipment	\$ 901,242
Furniture and equipment	222,088
 Total	 1,123,330
Less: Accumulated depreciation	515,157
 Leased Property Under Capital Leases	 \$ <u>608,173</u>

The following is a schedule by years of the total payments due as of September 30, 2006:

Year Ending September 30,	Governmental Activities	
	Principal	Interest
2007	\$ 239,188	12,421
2008	160,541	5,573
2009	71,221	2,155
2010	27,347	267
2011	-	-
 Total	 \$ <u>498,297</u>	 <u>20,416</u>

CHOCTAW COUNTY

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

(11) Long-term Debt.

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. Capital Leases:			
2002 Ford F150 pickup	\$ 1,743	4.24%	01/07
Sakai SW650 roller	11,629	3.80%	10/07
International 9900 tractor trailer	16,018	3.80%	10/07
International 9900 tractor trailer	13,715	3.80%	10/07
Chancery/Circuit imaging system	24,580	3.67%	02/08
Volunteer fire communication system	29,707	3.28%	07/08
Caterpillar 140H motor grader	52,465	2.64%	03/08
Caterpillar 140H motor grader	52,174	2.69%	04/08
2004 Ford E-350 Type II ambulance	14,812	2.92%	08/08
(2) 2004 Ford Crown Victoria's	16,246	3.19%	10/08
Caterpillar 320L track hoe	27,248	3.19%	10/08
New Holland TS115A tractor with mower	31,919	3.19%	08/09
Caterpillar front-end loader	80,808	3.19%	12/09
E911 equipment	75,835	3.30%	04/10
IBM computer system	49,398	3.46%	05/10
	<u>\$ 498,297</u>		
B. Other Loans:			
Community development block grant - The Taylor Group	\$ 258,442	6.00%	11/12
CAP loan – fire trucks	132,326	3.00%	10/12
CAP loan – fire truck	75,255	2.00%	01/14
CAP loan – fire truck	93,877	3.00%	01/15
	<u>\$ 559,900</u>		

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

Governmental Activities:

Year Ending September 30,	Other Loans	
	Principal	Interest
2007	\$ 81,602	22,160
2008	85,292	18,471
2009	89,172	14,590
2010	93,254	10,508
2011	97,550	6,213
2012-2016	113,030	3,467
Total	<u>\$ 559,900</u>	<u>75,409</u>

CHOCTAW COUNTY

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

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2006, the county had no outstanding debt limited by the legal debt margin.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

	Balance Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006	Amount due within one Year
Governmental Activities:					
Capital leases	\$ 735,612		(237,315)	498,297	239,188
Other loans	652,068		(92,168)	559,900	81,602
Total	\$ 1,387,680		(329,483)	1,058,197	320,790

(12) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2006.

Fund	Deficit Amount
Solid Waste	\$ 94,907
Emergency Medical Service	5,186
Airport Grant	1,398

(13) 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 part 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.

CHOCTAW COUNTY

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

(14) Joint Venture.

The county participates in the following joint venture:

Choctaw County is a participant with the Counties of Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston, and the Cities of Ackerman, Columbus, Eupora, Louisville, Macon, Starkville and West Point in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Golden Triangle Regional Solid Waste Management Authority. The joint venture was created to provide a regional disposal site for solid waste. The Choctaw County Board of Supervisors appoints one of the 14 members of the board of directors. Choctaw County did not appropriate any funds to the organization in the fiscal year 2006. Complete financial statements for the Golden Triangle Regional Solid Waste Management Authority can be obtained from Golden Triangle Planning and Development District, Post Office Box 828, Starkville, Mississippi 39760-0828.

(15) 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 Choctaw County Board of Supervisors appoints two of the 22 members of the board of trustees. The county appropriated \$87,418 for maintenance and support of the college in fiscal year 2006.

The Golden Triangle Planning and Development District operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The Choctaw County Board of Supervisors appoints four of the 28 members of the board of directors. The county appropriated \$15,000 to the district in fiscal year 2006.

Tombigbee Regional Library System provides services for the Counties of Choctaw, Clay, Monroe and Webster. The Choctaw County Board of Supervisors appoints one of the five members of the board of directors. The county appropriated \$42,000 to the district in fiscal year 2006.

The Mississippi Regional Housing Authority IV operates in a district composed of the Counties of Carroll, Choctaw, Clay, Grenada, Lowndes, Montgomery, Oktibbeha, Webster and Winston. The Choctaw County Board of Supervisors appoints one of the nine board members. The counties generally provide no financial support to the organization.

Community Counseling Services operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The Choctaw County Board of Supervisors appoints one of the seven members of the board of directors. The county appropriated \$14,000 for support of the agency in fiscal year 2006.

Prairie Opportunity, Inc. operates in a district composed of the Counties of Choctaw, Clay, Lowndes, Noxubee, Oktibbeha, Webster and Winston. The Choctaw County Board of Supervisors appoints one of the 21 members of the board of directors. Most of the funding for the district is derived from federal funds, and the county provides a modest amount of financial support when matching funds are required for federal grants.

CHOCTAW COUNTY

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

(16) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005, and 2004 were \$138,892, \$119,164, and \$103,889 respectively, equal to the required contributions for each year.

(17) Subsequent Events.

Subsequent to September 30, 2006, the county issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Funding	Source of Financing
1/16/07	4.24%	\$ 63,581	Lease purchase	Hancock Bank Ad valorem taxes
4/09/07	3.00%	95,827	Other loans	MS Development Authority Ad valorem taxes
5/14/07	4.23%	100,000	Lease purchase	Hancock Bank Ad valorem taxes

- Approved payments of \$220,784 to Columbus Fence and \$34,700 to Crowder Engineering for Airport project that was financed with a grant from the Mississippi Department of Transportation.
- On January 2, 2007 accepted bid from Deep South Truck and Equipment Sales of \$174,440 for a new fire truck.
- Approved payment of \$161,667 to Pickering Engineering Services on feasibility study.
- On January 11, 2007 accepted bid of Thompson Equipment of \$185,300 for the purchase of a motor grader.
- On March 26, 2007 accepted bid of JJ Ferguson on State Aid Road Project STP-0010(22)B for \$167,423.
- On May 7, 2007 approved purchase of a fire truck from the Town of Ackerman totaling \$95,827 for the Ackerman Volunteer Fire Department.

CHOCTAW COUNTY

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

- On May 7, 2007 approved purchase of a 2007 International 9900 truck/tractor for \$88,752 and a 2007 24' Palmer Trailer for \$24,735 from Waters Truck and Tractor.
- On May 21, 2007 approved purchase of 2008 7400 International Truck for \$68,678 from Waters Truck and Tractor.
- On May 21, 2007 approved purchase of Garbage Compactor Body for \$52,930 from Hol Mac.

CHOCTAW COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Choctaw County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,861,493	1,004,831	1,004,831	-
Licenses, commissions and other revenue	64,165	63,104	63,104	-
Fines and forfeitures	58,000	72,554	72,554	-
Special assessments		1,122,907	1,122,907	-
Intergovernmental revenues	273,740	1,153,414	1,153,414	-
Charges for services	70,000	95,866	95,866	-
Interest income	11,000	63,984	63,984	-
Miscellaneous revenues	261,650	177,954	177,954	-
Total Revenues	2,600,048	3,754,614	3,754,614	-
EXPENDITURES				
Current:				
General government	1,691,806	2,168,281	2,168,281	-
Public safety	642,809	697,633	697,633	-
Public works	6,622	1,625	1,625	-
Health and welfare	75,245	82,419	82,419	-
Culture and recreation	56,000	56,173	56,173	-
Conservation of natural resources	46,335	42,087	42,087	-
Economic development and assistance	10,000	10,000	10,000	-
Debt service:				
Principal	111,231	95,438	95,438	-
Interest		20,932	20,932	-
Total Expenditures	2,640,048	3,174,588	3,174,588	-
Excess of Revenues over (under) Expenditures	(40,000)	580,026	580,026	-
OTHER FINANCING SOURCES (USES)				
Other financing sources	40,000	37,235	37,235	-
Total Other Financing Sources and Uses	40,000	37,235	37,235	-
Net Change in Fund Balance	-	617,261	617,261	-
Fund Balances - Beginning	200,000	1,082,992	1,082,992	-
Fund Balances - Ending	\$ 200,000	1,700,253	1,700,253	-

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

CHOCTAW COUNTY

**Notes to the Required Supplementary Information
For the Year Ended September 30, 2006**

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

		Governmental Fund Type
		General Fund
Budget (Cash Basis)	\$	617,261
Increase (Decrease)		
Net adjustments for revenue accruals	(379,514)
Net adjustments for expenditure accruals		88,884
GAAP Basis	\$	326,631

CHOCTAW COUNTY

SPECIAL REPORTS



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

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Mort Stroud, CPA	Stephen D. Flake, CPA
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INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE
PRIMARY GOVERNMENT FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board of Supervisors
Choctaw County, Mississippi

We have audited the primary government financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Choctaw County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated August 14, 2007. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Choctaw County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Choctaw County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 through 06-8.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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

However, we noted a certain immaterial instance of noncompliance which we have reported to the management of Choctaw County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated August 14, 2007.

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
August 14, 2007

Watkins, Ward and Stafford, PLLC



Watkins, Ward and Stafford
 Professional Limited Liability Company
 Certified Public Accountants

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

Members of the Board of Supervisors
 Choctaw County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Choctaw County, Mississippi, as of and for the year ended September 30, 2006. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Choctaw 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 Choctaw 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, Choctaw 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 Choctaw County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Watkins, Ward and Stafford, PLLC
 Louisville, Mississippi
 August 14, 2007

Watkins, Ward and Stafford, PLLC

CHOCTAW COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2006

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

Schedule 2

CHOCTAW COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2006

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
1/23/06	DLS boards, processor boards, relay boards, labor	\$ 13,131	B & E Communications	To delay incident for competitive bidding would be detrimental to the interest of the county
1/24/06	Repair security camera at county jail	\$ 8,450	B & E Communications	To delay incident for competitive bidding would be detrimental to the interest of the county
1/30/06	Repair dispatching consoles damaged by lightning	\$ 37,000	Central MS Communications	To delay incident for competitive bidding would be detrimental to the interest of the county

CHOCTAW COUNTY
Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2006

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



**LIMITED INTERNAL CONTROL AND COMPLIANCE
REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors
Choctaw County, Mississippi

In planning and performing our audit of the financial statements of Choctaw County, Mississippi for the year ended September 30, 2006, we considered Choctaw County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Choctaw County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated August 14, 2007, on the financial statements of Choctaw County, Mississippi.

These review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified a certain immaterial instance of noncompliance with state laws and regulations and other matters that is an opportunity for strengthening internal controls and operating efficiency. Our finding and recommendation and your response is disclosed below:

Board of Supervisors

Finding

Per review of the county's compliance with requirements applicable to Section 25-11-127, Miss. Code Ann. (1972) we noted the following violations of the statutory guidelines associated with the Public Employees Retirement System:

- a. One PERS retiree that had been hired by the county had exceeded the amount that he could earn by \$5,226 as noted on Form 4B located in the personnel file.
- b. There was one employee noted who should have been included in the retirement system but was not.

Recommendation

We recommend that the county require all PERS retirees that are employed by the county to complete Form 4B "Certification/Acknowledgement of Reemployment of Retiree" annually and pay these employees within the guidelines noted on this form. We also recommend that the county evaluate any new hires to determine if they should be covered by PERS.

Board of Supervisors' Response

We will correct these two findings immediately.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than this party. However, this report is a matter of public record and its distribution is not limited.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
August 14, 2007

Watkins, Ward and Stafford, PLLC

CHOCTAW COUNTY

SCHEDULE OF FINDINGS

CHOCTAW COUNTY

**Schedule of Findings
For the Year Ended September 30, 2006**

Section 1: Summary of Auditor's Results

Financial Statements

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

CHOCTAW COUNTY

Schedule of Findings For the Year Ended September 30, 2006

Section 2: Financial Statement Findings

Board of Supervisors.

06-1. Finding

Per review of internal controls over solid waste accounts receivable we noted the following problems with the solid waste reports:

- a. The ending balances of the accounts receivables ledger at the end of one month did not agree with the beginning balances of the accounts receivables ledger the next month.
- b. The aged accounts receivable listing at September 30, 2006 did not agree with the accounts receivable ledger at September 30, 2006.

Failure to establish control procedures over solid waste billings, collections and accounts receivable could result in the loss of public funds and in erroneous amounts being reported in the financial statements.

Recommendation

The Board of Supervisors should ensure that control procedures are in place to allow for the preparation of a detailed aged accounts receivable schedule for solid waste fees to properly report the accounts receivable due to the county at net realizable value in the financial statements. They should also ensure that the accounts receivable amounts reported on various reports agree or that they are properly reconciled.

Board of Supervisors' Response

We have implemented a corrective action to eliminate the problem.

06-2. Finding

As reported in the prior year audit report an effective system of internal control over the county payroll should include proper segregation of duties, proper authorization of payroll and documentation for all withholdings, deductions, leave and hours worked. As reported in the prior year's audit report, inadequate controls exist in the payroll function. The employment and salaries of county employees are not authorized in the Board of Supervisors' minutes and filed in the individual personnel files. Time sheets documenting hours worked and records documenting accumulated leave are not maintained in the payroll department. Without proper controls, unauthorized or inaccurate payroll checks could be processed.

CHOCTAW COUNTY

Schedule of Findings For the Year Ended September 30, 2006

Recommendation

The Board of Supervisors should install an adequate system of internal control over the county payroll function. An adequate system should include the following control features:

- a. Responsibilities for the supervision and time-keeping function should be separate from personnel, payroll processing, disbursement and general ledger functions.
- b. Authorization for all payroll and employment status changes should be recorded in the Board of Supervisors minute books.
- c. Documentation for all payroll and employment status changes should be kept in each individual personnel file.
- d. Payroll records should be maintained for accumulated and used employee benefits (vacation, medical, etc.).
- e. Written personnel policies should be adopted and recorded in the Board of Supervisors minutes.
- f. Hours worked should be reviewed and approved by the employee's supervisor for each payroll period.
- g. Changes to the EDP master payroll file should be documented.
- h. The hiring and termination of all county employees should be documented in the Board of Supervisors' minute books.

Board of Supervisors' Response

We will start listing employee monthly salaries in the October Board minutes of each year by employee number. Time sheets are maintained in the payroll department. We are complying with these recommendations.

06-3. Finding

As reported in the prior year audit report, an effective system of internal control should include a written disaster recovery plan in the event of a disaster to the computer system. The county did not have a written disaster recovery plan. Without a written disaster recovery plan, there are no guidelines or procedures to follow in the event of a disaster to the computer system.

Recommendation

The Board of Supervisor's should establish a written disaster recovery plan. The plan should be tested periodically by having disaster recovery walk-throughs in which recovery team members get together and simulate disastrous situations and recovery techniques.

CHOCTAW COUNTY

**Schedule of Findings
For the Year Ended September 30, 2006**

Board of Supervisors' Response

We now have a disaster recovery plan.

Chancery Clerk

06-4. Finding

As reported in prior years' audit reports, insufficient documentation exists within the payroll function relating to time worked and leave taken for county employees. This lack of documentation makes it more difficult to conduct an audit and could result in unauthorized payments to employees.

Recommendation

The Chancery Clerk should establish procedures to obtain and maintain payroll information relating to time worked and leave accrued and used in a central location.

Chancery Clerk's Response

Effective 10-1-06, I began collecting times sheets from all departments.

Circuit Clerk.

06-5. Finding

As reported in the prior year audit report, an effective system of internal control over Circuit Clerk's fines receivable should ensure that fines receivable balances are properly aged in order to estimate the collectibility of these fines receivable. As reported in the prior year's audit report, the aging schedule of the Circuit Clerk's fines receivable erroneously included some accounts of individuals who were incarcerated in past due categories even though the individuals were not scheduled to begin making payments until after their release. As a result, the allowance for doubtful accounts could be overstated.

Recommendation

The Circuit Clerk should establish procedures documenting the aging of fines receivable that ensures that all account balances are included in the proper aging categories based on delinquency.

Circuit Clerk's Response

The clerk will performed the required duties to the computer system in December 2006, to mark incarcerated defendants who owe court costs, etc., as inactive in the system.

CHOCTAW COUNTY

**Schedule of Findings
For the Year Ended September 30, 2006**

Sheriff

06-6 Finding

Per review of internal controls in the sheriff's office it was noted that bank deposits were not being deposited on a timely basis.

Recommendation

We recommend that bank deposits be deposited on a timely basis.

Sheriff's Response

All money received will be deposited the next business day.

Board of Supervisors

06-7 Finding

Per review of internal controls in the justice court clerk's office it was noted that there is no segregation of duties as the justice court clerk is responsible for all duties in the justice court clerk office. She is responsible for receipting and depositing all cash, preparing the bank reconciliation, and posting all transactions to the fines receivable listing and preparing all financial reporting information.

Recommendation

We recommend that the duties in the justice court clerk office be separated as much as possible, particularly the duties of receipting and depositing cash should be separated from reconciling daily cash activity and bookkeeping functions. Also there should be more oversight over the justice court clerk office to ensure that there are adequate controls over this office.

Board of Supervisor's Response

We have hired another fulltime person to share responsibilities. The Chancery Clerk is reviewing receipts, deposits, and bank statements.

Board of Supervisors

06-8 Finding

Per review of internal controls in the solid waste department's office it was noted that there is no segregation of duties as the solid waste clerk is responsible for all duties in the solid waste department. She is responsible for receipting and depositing all cash, preparing the bank reconciliation, and posting all transactions to the accounts receivable listing and preparing all financial reporting information.

CHOCTAW COUNTY

**Schedule of Findings
For the Year Ended September 30, 2006**

Recommendation

We recommend that the duties in the solid waste department be separated as much as possible, particularly the duties of receipting and depositing cash should be separated from reconciling daily cash activity and bookkeeping functions. Also there should be more oversight over the solid waste department to ensure that there are adequate controls over this office.

Board of Supervisors' Response

We have shifted an employee to assist (part-time) with the operations of the office. The Chancery Clerk is reviewing receipts, deposits and bank statements.