

MARION COUNTY, MISSISSIPPI

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MARION COUNTY, MISSISSIPPI

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

Members of the Board of Supervisors
Marion County, Mississippi
Columbia, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Marion 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.

Members of the Board of Supervisors
Marion County, Mississippi

As discussed in Note 1(H) to the financial statements, management has not maintained adequate records regarding the existence, completeness and valuation of capital assets in the governmental activities and the business-type activities. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized at historical cost and depreciated which would increase the assets and expenses of the governmental activities and the business-type activities. The amount by which this departure would affect the assets and expenses of the governmental activities and business-type activities is not reasonably determinable.

The financial statements referred to above include only the primary government of Marion 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 Marion 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, except for the effects of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the business-type activities for the primary government of Marion County, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

Members of the Board of Supervisors
Marion County, Mississippi

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2007, on our consideration of Marion County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

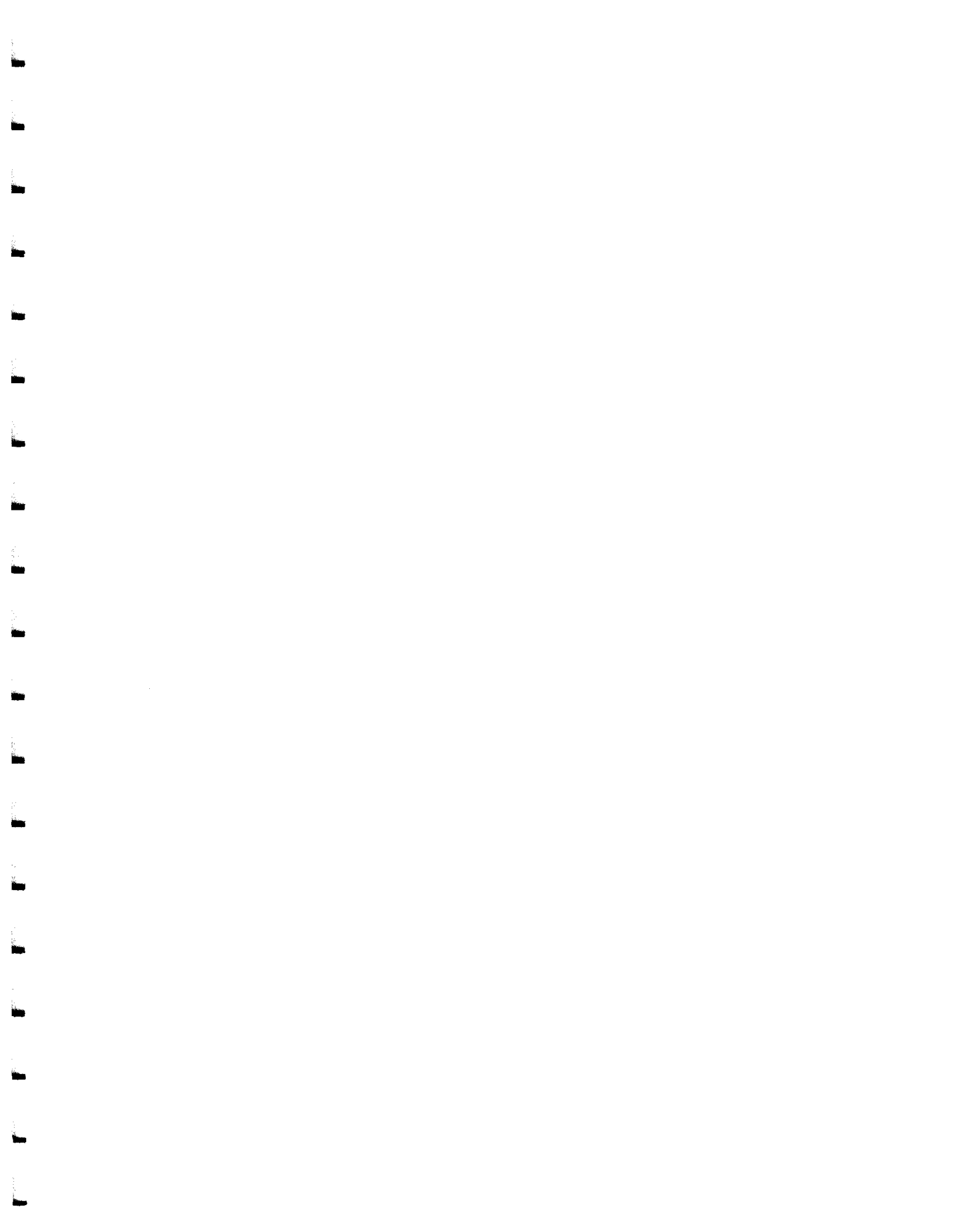
Marion County, Mississippi has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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

Nicholson & Company, P.C.
Hattiesburg, Mississippi
September 10, 2007

PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS



<u>Business-type Activities</u>	<u>Total</u>
\$ 1,774,300	\$ 6,730,235
-	7,365,788
238,611	238,611
-	261,085
-	125,959
-	5,469
(113,873)	-
5,447,106	21,141,133
<u>\$ 7,346,144</u>	<u>\$ 35,868,280</u>
\$ 223,301	\$ 754,653
-	298,116
-	158,010
91,364	7,457,152
-	118,267
335,000	864,203
-	311,577
6,070,000	7,133,348
-	4,113,117
<u>6,719,665</u>	<u>21,208,443</u>
(957,894)	13,143,582
-	100,585
-	(77,317)
1,522,973	2,131,497
90,110	2,107,182
-	(25,874)
-	47,241
-	34,675
(28,710)	(2,801,734)
<u>\$ 626,479</u>	<u>\$ 14,659,837</u>

EXHIBIT 2

MARION COUNTY, MISSISSIPPI
STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

Functions / Programs	Program Revenues				Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 4,060,668	\$ 672,852	\$ 260,920	\$ -	\$ (3,126,896)	\$ -	\$ (3,126,896)
Public safety	2,490,484	646,529	1,974,630	66,018	196,693	-	196,693
Public works	14,364,315	-	9,334,500	-	(5,029,815)	-	(5,029,815)
Health and welfare	488,895	-	-	-	(488,895)	-	(488,895)
Culture and recreation	77,136	-	62,120	453,340	438,324	-	438,324
Conservation of natural resources	52,731	-	-	-	(52,731)	-	(52,731)
Economic development and assistance	131,626	-	42,050	2,500	(87,076)	-	(87,076)
Interest on long-term debt	358,837	-	-	-	(358,837)	-	(358,837)
Total governmental activities	22,024,692	1,319,381	11,674,220	521,858	(8,509,233)	-	(8,509,233)
Business-type activities:							
Correctional facility	3,369,169	3,753,644	-	-	-	\$ 384,475	\$ 384,475
Women's correctional facility	815,019	570,948	51,905	-	(192,166)	-	(192,166)
Garbage and solid waste	811,008	753,267	20,897	-	(36,844)	-	(36,844)
Total business-type activities	4,995,196	5,077,859	72,802	-	155,465	-	155,465
Total primary government	\$ 27,019,888	\$ 6,397,240	\$ 11,747,022	\$ 521,858	(8,509,233)	155,465	(8,353,768)
General revenues:							
Taxes:							
Property taxes						22	22
Road and bridge privilege taxes					6,684,744	-	6,684,766
Grants and contributions not restricted to specific programs					499,356	-	499,356
Unrestricted investment income					596,868	-	596,868
Gain on sale of capital assets					221,788	60,024	281,812
Miscellaneous					1,031,082	76,906	1,107,988
Transfers					16,033	(16,033)	-
Total general revenues					9,031,859	120,919	9,152,778
CHANGES IN NET ASSETS					522,626	276,384	799,010
NET ASSETS - BEGINNING					13,510,732	350,095	13,860,827
NET ASSETS - ENDING					\$ 14,033,358	\$ 626,479	\$ 14,659,837

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

EXHIBIT 1

MARION COUNTY, MISSISSIPPI

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 4,955,935
Property tax receivable	7,365,788
Accounts receivable, net of allowance for uncollectibles of \$147,246	-
Fines receivable, net of allowance for uncollectibles of \$2,384,369	261,085
Intergovernmental receivables	125,959
Other receivables	5,469
Internal balances	113,873
Capital assets, net	15,694,027
Total assets	<u>\$ 28,522,136</u>
LIABILITIES	
Claims payable	\$ 531,352
Intergovernmental payables	298,116
Accrued interest payable	158,010
Deferred revenue	7,365,788
Other payables	118,267
Long-term liabilities:	
Due within one year:	
Capital debt	529,203
Non-capital debt	311,577
Due in more than one year:	
Capital debt	1,063,348
Non-capital debt	4,113,117
Total liabilities	<u>14,488,778</u>
NET ASSETS	
Invested in capital assets, net of related debt	14,101,476
Restricted:	
Expendable:	
General government	100,585
Debt service	(77,317)
Public safety	608,524
Public works	2,017,072
Health and welfare	(25,874)
Culture and recreation	47,241
Unemployment compensation	34,675
Unrestricted	(2,773,024)
Total net assets	<u>\$ 14,033,358</u>

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

EXHIBIT 3

MARION COUNTY, MISSISSIPPI

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Major Funds		
	General Fund	Emergency Management Fund	District 4 Road & Bridge Fund
ASSETS			
Cash	\$ 2,123,562	\$ 163,592	\$ 482,134
Property tax receivable	5,413,482	-	237,928
Fines receivable, net	261,085	-	-
Intergovernmental receivables	125,959	-	-
Other receivables	5,469	-	-
Due from other funds	140,672	6,267	32,503
Total assets	\$ 8,070,229	\$ 169,859	\$ 752,565
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Claims payable	\$ 279,312	\$ -	\$ 22,649
Intergovernmental payables	266,002	-	-
Due to other funds	345,393	-	-
Deferred revenue	5,674,567	-	237,928
Other payables	118,267	-	-
Total liabilities	6,683,541	-	260,577
FUND BALANCES			
Reserved for:			
Debt service	-	-	-
Unemployment compensation	-	-	-
Unreserved, reported in:			
General fund	1,386,688	-	-
Special revenue funds	-	169,859	491,988
Total fund balances	1,386,688	169,859	491,988
Total liabilities and fund balances	\$ 8,070,229	\$ 169,859	\$ 752,565

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,186,647	\$ 4,955,935
1,714,378	7,365,788
-	261,085
-	125,959
-	5,469
<u>247,710</u>	<u>427,152</u>
<u>\$ 4,148,735</u>	<u>\$ 13,141,388</u>
\$ 229,391	\$ 531,352
-	266,002
-	345,393
1,714,378	7,626,873
-	118,267
<u>1,943,769</u>	<u>8,887,887</u>
80,693	80,693
34,675	34,675
-	1,386,688
<u>2,089,598</u>	<u>2,751,445</u>
<u>2,204,966</u>	<u>4,253,501</u>
<u>\$ 4,148,735</u>	<u>\$ 13,141,388</u>

EXHIBIT 3-1

MARION COUNTY, MISSISSIPPI

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 4,253,501
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 \$55,765,041.	15,694,027
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	261,085
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(6,017,245)
Interest on long-term liabilities is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	<u>(158,010)</u>
Total net assets - governmental activities (Exhibit 1)	<u><u>\$ 14,033,358</u></u>

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

EXHIBIT 4

MARION COUNTY, MISSISSIPPI

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2006

	Major Funds		
	General Fund	Emergency Management Fund	District 4 Road & Bridge Fund
REVENUES			
Property taxes	\$ 5,211,058	\$ -	\$ 195,704
Road and bridge privilege taxes	-	-	-
Licenses, commissions and other revenue	433,067	-	400,021
Fines and forfeitures	292,467	-	-
Intergovernmental revenues	799,313	9,448,451	-
Charges for services	-	-	-
Interest income	92,924	6,267	18,469
Miscellaneous revenues	351,091	-	45,152
Total revenues	<u>7,179,920</u>	<u>9,454,718</u>	<u>659,346</u>
EXPENDITURES			
Current:			
General government	3,774,140	-	-
Public safety	1,920,161	-	-
Public works	40,000	9,180,885	520,553
Health and welfare	392,794	-	-
Culture and recreation	77,136	-	-
Conservation of natural resources	52,731	-	-
Economic development and assistance	131,626	-	-
Debt Service:			
Principal	764,410	-	53,002
Interest and fiscal charges	236,864	-	8,200
Total expenditures	<u>7,389,862</u>	<u>9,180,885</u>	<u>581,755</u>
Excess of revenues over (under) expenditures	<u>(209,942)</u>	<u>273,833</u>	<u>77,591</u>
OTHER FINANCING SOURCES (USES)			
Long-term capital debt issued	1,000,000	-	-
Short-term debt issued	-	-	-
Proceeds from sale of capital assets	-	-	-
Transfers in	44,006	-	27,085
Transfers out	(10,254)	(103,974)	-
Total other financing sources (uses)	<u>1,033,752</u>	<u>(103,974)</u>	<u>27,085</u>
Net changes in fund balances	<u>823,810</u>	<u>169,859</u>	<u>104,676</u>
FUND BALANCES - BEGINNING	<u>562,878</u>	<u>-</u>	<u>387,312</u>
FUND BALANCES - ENDING	<u>\$ 1,386,688</u>	<u>\$ 169,859</u>	<u>\$ 491,988</u>

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

<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,277,982	\$ 6,684,744
-	-
1,570,601	2,403,689
(153)	292,314
1,720,027	11,967,791
331,302	331,302
84,900	202,560
227,811	624,054
<u>5,212,470</u>	<u>22,506,454</u>
228,279	4,002,419
549,141	2,469,302
3,216,563	12,958,001
96,101	488,895
-	77,136
-	52,731
-	131,626
663,690	1,481,102
110,288	355,352
<u>4,864,062</u>	<u>22,016,564</u>
<u>348,408</u>	<u>489,890</u>
51,086	1,051,086
-	-
4,200	4,200
88,965	160,056
(29,795)	(144,023)
<u>114,456</u>	<u>1,071,319</u>
<u>462,864</u>	<u>1,561,209</u>
<u>1,742,102</u>	<u>2,692,292</u>
<u>\$ 2,204,966</u>	<u>\$ 4,253,501</u>

EXHIBIT 4-1

MARION COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ 1,561,209
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation (\$1,625,502) exceeded capital outlays (\$139,757) in the current period.	(1,485,745)
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 and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss (\$18,012) and the proceeds from the sale of \$4,200.	(22,212)
Fine revenue recognized on the modified accrual basis in the funds during the year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	42,843
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 \$1,481,102 exceeded debt proceeds of \$1,051,086.	430,016

EXHIBIT 4-1
PAGE TWO

MARION COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Amount</u>
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by the amount of the increases in accrued interest payable.	<u>\$ (3,485)</u>
Change in net assets of governmental activities (Exhibit 2)	<u><u>\$ 522,626</u></u>

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

EXHIBIT 5

MARION COUNTY, MISSISSIPPI

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
SEPTEMBER 30, 2006**

	Business-type Activities Enterprise Funds		
	Major Fund Marion/Walthall Correctional Facility	Other Funds	Total
ASSETS			
Current assets:			
Cash and investments	\$ 1,708,519	\$ 65,781	\$ 1,774,300
Accounts receivable, net	-	238,611	238,611
Due from other funds	11,977	7,630	19,607
Total current assets	<u>1,720,496</u>	<u>312,022</u>	<u>2,032,518</u>
Noncurrent assets:			
Capital assets, net	<u>3,767,500</u>	<u>1,679,606</u>	<u>5,447,106</u>
Total noncurrent assets	<u>3,767,500</u>	<u>1,679,606</u>	<u>5,447,106</u>
Total assets	<u><u>\$ 5,487,996</u></u>	<u><u>\$ 1,991,628</u></u>	<u><u>\$ 7,479,624</u></u>
LIABILITIES			
Current liabilities:			
Claims payable	\$ 105,848	\$ 117,453	\$ 223,301
Due to other funds	55,256	78,224	133,480
Deferred revenue	-	91,364	91,364
Capital debt:			
Other long-term liabilities	<u>275,000</u>	<u>60,000</u>	<u>335,000</u>
Total current liabilities	<u>436,104</u>	<u>347,041</u>	<u>783,145</u>
Noncurrent liabilities:			
Capital debt:			
Other long-term liabilities	4,180,000	1,890,000	6,070,000
Non-capital debt:			
Total noncurrent liabilities	<u>4,180,000</u>	<u>1,890,000</u>	<u>6,070,000</u>
Total liabilities	<u>4,616,104</u>	<u>2,237,041</u>	<u>6,853,145</u>
NET ASSETS			
Invested in capital assets, net of related debt	(687,500)	(270,394)	(957,894)
Restricted:			
Public Safety	1,559,392	(65,129)	1,494,263
Public Works	-	90,110	90,110
Total net assets	<u><u>\$ 871,892</u></u>	<u><u>\$ (245,413)</u></u>	<u><u>\$ 626,479</u></u>

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

EXHIBIT 6

MARION COUNTY, MISSISSIPPI

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET ASSETS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006**

	Business-type Activities Enterprise Funds		
	Major Fund		
	Marion/Walthall Correctional Facility	Other Funds	Total
OPERATING REVENUES			
Charges for services	\$ 3,753,644	\$ 1,324,216	\$ 5,077,860
Miscellaneous	1,770	96,054	97,824
Total operating revenues	<u>3,755,414</u>	<u>1,420,270</u>	<u>5,175,684</u>
OPERATING EXPENSES			
Personal services	1,780,457	811,119	2,591,576
Contractual services	449,374	395,851	845,225
Materials and supplies	785,655	203,388	989,043
Depreciation expense	91,798	77,757	169,555
Total operating expenses	<u>3,107,284</u>	<u>1,488,115</u>	<u>4,595,399</u>
OPERATING INCOME (LOSS)	<u>648,130</u>	<u>(67,845)</u>	<u>580,285</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	53,815	6,209	60,024
Operating grants	-	51,905	51,905
Interest expense	(244,336)	(83,569)	(327,905)
Other income (expense)	(17,549)	(54,343)	(71,892)
Net nonoperating revenue (expenses)	<u>(208,070)</u>	<u>(79,798)</u>	<u>(287,868)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>440,060</u>	<u>(147,643)</u>	<u>292,417</u>
Transfers in	52,268	242,874	295,142
Transfers out	<u>(132,000)</u>	<u>(179,175)</u>	<u>(311,175)</u>
CHANGES IN NET ASSETS	<u>360,328</u>	<u>(83,944)</u>	<u>276,384</u>
NET ASSETS - BEGINNING	<u>511,564</u>	<u>(161,469)</u>	<u>350,095</u>
NET ASSETS - ENDING	<u>\$ 871,892</u>	<u>\$ (245,413)</u>	<u>\$ 626,479</u>

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

EXHIBIT 7

MARION COUNTY, MISSISSIPPI

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006**

	Business-type Activities Enterprise Funds		
	Major Fund		
	Marion/Walthall Correctional Facility	Other Funds	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 3,753,644	\$ 1,262,186	\$ 5,015,830
Payments to suppliers	(1,212,736)	(531,885)	(1,744,621)
Payments to employees	(1,780,457)	(811,119)	(2,591,576)
Other receipts (payments)	1,770	96,054	97,824
Net cash provided (used) by operating activities	<u>762,221</u>	<u>15,236</u>	<u>777,457</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term debt	(260,000)	(50,000)	(310,000)
Interest paid on debt	(244,336)	(83,569)	(327,905)
Other receipts (payments)	(97,281)	61,261	(36,020)
Net cash provided (used) by capital and related financing activities	<u>(601,617)</u>	<u>(72,308)</u>	<u>(673,925)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends on investments	46,280	500	46,780
Net cash provided (used) by investing activities	<u>46,280</u>	<u>500</u>	<u>46,780</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	206,884	(56,572)	150,312
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>1,501,635</u>	<u>122,353</u>	<u>1,623,988</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,708,519</u>	<u>\$ 65,781</u>	<u>\$ 1,774,300</u>

EXHIBIT 7
PAGE TWO

MARION COUNTY, MISSISSIPPI

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED SEPTEMBER 30, 2006**

	Business-type Activities Enterprise Funds		
	Major Fund		
	Marlon/Walthall Correctional Facility	Other Funds	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ 648,130</u>	<u>\$ (67,845)</u>	<u>\$ 580,285</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	91,798	77,757	169,555
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	-	(153,378)	(153,378)
Increase (decrease) in claims payable	(7,723)	39,898	32,175
Increase (decrease) in interfund payables	30,016	27,456	57,472
Increase (decrease) in deferred revenue	-	91,348	91,348
Total adjustments	<u>114,091</u>	<u>83,081</u>	<u>197,172</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 762,221</u>	<u>\$ 15,236</u>	<u>\$ 777,457</u>

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

EXHIBIT 8

MARION COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 314,056
Due from other funds	32,114
Other receivables	<u>10,320</u>
Total assets	<u><u>\$ 356,490</u></u>
LIABILITIES	
Other liabilities	\$ 307,738
Intergovernmental payables	<u>48,752</u>
Total liabilities	<u><u>\$ 356,490</u></u>

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

NOTES TO FINANCIAL STATEMENTS

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - Marion 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 Marion 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:

- Marion General Hospital
- Tri-Community Fire District
- Southwest Marion Fire District
- South Marion Fire District
- Pineburr Fire District
- Foxworth Fire District
- Morgantown Fire District
- Marion 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.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

The Statement of Net Assets presents the financial condition of the governmental activities and business-type 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 and business-type 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 business-type activity or governmental function is self-financing or draws from the general revenues of the County.

Fund Financial Statements

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

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

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within sixty (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.

The County reports the following major Governmental Funds:

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

Emergency Management Fund - This fund is used to account for federal funds received from the Federal Emergency Management Agency to fund Hurricane Katrina clean-up costs.

District 4 Road & Bridge Maintenance Fund - This fund is used to account for monies specifically budgeted for District 4 road and bridge maintenance.

The County reports the following major Proprietary Fund:

Marion/Walthall Correctional Facility Fund - This fund is used to account for the County's activities of the men's correctional facility within the County.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

PROPRIETARY FUND TYPES

Enterprise Funds - These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the County has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

FIDUCIARY FUND TYPES

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 (14) days to one (1) 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.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 (3) 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.

G. Interfund Transactions and Balances - Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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 applicable governmental or business-type activities column in the government-wide financial statements. However, the capital assets amount reported on the accompanying Statement of Net Assets is not fairly presented because the County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets. 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 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 retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980, are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the County's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

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 and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ -	n/a
Infrastructure	-	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 and in the Proprietary Funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Fund Statement of Net Assets.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

J. Equity Classifications

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved with unreserved classified as designated and undesignated.

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

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

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1st. Real property taxes become a lien on January 1st of the current year, and personal property taxes become a lien on March 1st of the current year. Taxes on both real and personal property, however, are due on or before February 1st 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 can not 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2006, was \$5,517,690 and the bank balance was \$6,316,040. 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 (FDIC).

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS (Cont.)

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.

Investments - The County's investments at year end consisted entirely of money market funds held by the Bank of New York and Hancock Bank trust department. At year end, the carrying amount of the County's investments was \$1,526,601 and the cost was \$1,526,601. All of the County's investments are uninsured and unregistered. The money market mutual fund investments are not backed by the full faith and credit of the federal government. As of September 30, 2006, the County's investments in Bank of New York's Money Market Fund was rated A-1 by Standard's and Pools.

Credit Risk - State law limits investment to those authorized by Section 19-9-29, Miss. Code Ann. (1972). The County does not have a formal investment policy that would further limit its investment choices or one that address credit risk.

Custodial Credit Risk - Investments - Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk.

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES

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

(See Table on Next Page)

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES (Cont.)

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Marion/Walthall Correctional Facility	\$ 55,256
General Fund	Other Proprietary Funds	78,224
General Fund	General Fund	7,192
District 4 Road and Bridge Fund	General Fund	32,503
Emergency Management Fund	General Fund	6,267
Marion/Walthall Correctional Facility	General Fund	11,977
Other Governmental Funds	General Fund	247,710
Other Proprietary Funds	General Fund	7,630
Agency Funds	General Fund	32,114
Total		\$ 478,873

The receivables represent the tax revenue collected but not settled until October, 2006, indirect cost reimbursements from enterprise funds and interest earned but not allocated between the funds. All interfund balances are expected to be repaid within one (1) year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 27,429
General Fund	Other Enterprise Funds	16,577
District 4 Road and Bridge Fund	Emergency Management Fund	27,085
Marion/Walthall Correctional Facility	Other Governmental Funds	268
Marion/Walthall Correctional Facility	Other Enterprise Funds	52,000
Other Governmental Funds	General Fund	10,255
Other Governmental Funds	Emergency Management Fund	76,612
Other Governmental Funds	Other Governmental Funds	2,098
Other Enterprise Funds	Emergency Management Fund	276
Other Enterprise Funds	Other Enterprise Funds	242,598
Total		\$ 455,198

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 3 - INTERFUND TRANSACTIONS AND BALANCES (Cont.)

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

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

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

<u>Description</u>	<u>Amount</u>
Governmental activities:	
Legislative tax credit	<u>\$ 125,959</u>

NOTE 5 - OTHER RECEIVABLES

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

<u>Description</u>	<u>Amount</u>
General Fund:	
Tax Collector bad checks	<u>\$ 5,469</u>
Total General Fund	<u>5,469</u>
Total all governmental funds	<u><u>\$ 5,469</u></u>

MARION COUNTY, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 6 - CAPITAL ASSETS

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

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sep. 30, 2006
Governmental activities:					
Non-depreciable capital assets:					
Land	\$ 377,671	-	-	-	\$ 377,671
Total non-depreciable capital assets	<u>377,671</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>377,671</u>
Depreciable capital assets:					
Infrastructure	62,296,185	-	-	-	62,296,185
Buildings	3,351,255	-	-	-	3,351,255
Improvements other than buildings	88,395	-	-	-	88,395
Mobile equipment	3,471,363	-	90,186	122,914	3,504,091
Furniture and equipment	446,440	-	-	16,843	463,283
Leased property under capital leases	1,378,188	-	-	-	1,378,188
Total depreciable capital assets	<u>71,031,826</u>	<u>-</u>	<u>90,186</u>	<u>139,757</u>	<u>71,081,397</u>
Less accumulated depreciation for:					
Infrastructure	49,385,094	1,343,369	-	-	50,728,463
Buildings	1,841,037	45,499	-	-	1,886,536
Improvements other than buildings	8,877	3,537	-	-	12,414
Mobile equipment	2,602,851	212,041	67,974	-	2,746,918
Furniture and equipment	276,438	21,056	-	-	297,494
Leased property under capital leases	93,216	-	-	-	93,216
Total accumulated depreciation	<u>54,207,513</u>	<u>1,625,502</u>	<u>67,974</u>	<u>-</u>	<u>55,765,041</u>
Total depreciable capital assets, net	<u>16,824,313</u>	<u>(1,625,502)</u>	<u>22,212</u>	<u>139,757</u>	<u>15,316,356</u>
Governmental activities capital assets, net	<u>\$ 17,201,984</u>	<u>\$ (1,625,502)</u>	<u>\$ 22,212</u>	<u>\$ 139,757</u>	<u>\$ 15,694,027</u>

* Adjustments were required to record prior period adjustments to capital assets

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 6 - CAPITAL ASSETS (Cont.)

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	Balance Sep. 30, 2006
Business-type activities:					
Depreciable capital assets:					
Buildings	\$ 6,264,510	-	-	-	\$ 6,264,510
Mobile equipment	603,740	-	-	-	603,740
Furniture and equipment	53,285	-	-	-	53,285
Total depreciable capital assets	<u>6,921,535</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,921,535</u>
Less accumulated depreciation for:					
Buildings	786,831	122,646	-	-	909,477
Mobile equipment	477,579	43,588	-	-	521,167
Furniture and equipment	40,464	3,321	-	-	43,785
Total accumulated depreciation	<u>1,304,874</u>	<u>169,555</u>	<u>-</u>	<u>-</u>	<u>1,474,429</u>
Total depreciable capital assets, net	<u>5,616,661</u>	<u>(169,555)</u>	<u>-</u>	<u>-</u>	<u>5,447,106</u>
Business-type activities capital assets, net	<u>\$ 5,616,661</u>	<u>\$ (169,555)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,447,106</u>

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOURTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 6 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	Amount
General government	\$ 58,249
Public safety	102,608
Public works	<u>1,464,645</u>
Total governmental activities depreciation expense	<u>\$ 1,625,502</u>
Business-type Activities:	Amount
Garbage and Solid Waste	\$ 44,499
Marion/Walthall Correctional Facility	91,798
Women's Correctional Facility	<u>33,258</u>
Total business-type activities depreciation expense	<u>\$ 169,555</u>

NOTE 7 - CLAIMS AND JUDGMENTS

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

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 8 - CAPITAL LEASES

As Lessee, the County is obligated for the following capital assets acquired through capital leases as of September 30, 2006:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 1,378,188
<i>Leased property under capital leases</i>	<u>\$ 1,378,188</u>

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

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 145,658	\$ 26,154
2008	101,610	22,132
2009	632,207	7,395
2010	-	-
Total	<u>\$ 879,475</u>	<u>\$ 55,681</u>

NOTE 9 - SHORT-TERM DEBT AND LIQUIDITY

The following is a summary of short-term debt activity for the year ended September 30, 2006:

<u>Description of Debt</u>	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance Sept. 30, 2006</u>
Governmental activities:					
Promissory note	\$ 600,000	\$ -	\$ (600,000)	\$ -	\$ -
	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ (600,000)</u>	<u>\$ -</u>	<u>\$ -</u>

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - LONG-TERM DEBT

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

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General obligation bonds:			
Industrial development bonds	<u>\$ 2,175,000</u>	4.75 - 5.40%	09/2024
Total general obligation bonds	<u>\$ 2,175,000</u>		
B. Limited obligation bonds:			
Hospital revenue bonds	<u>\$ 1,251,770</u>	5.00%	06/2012
Total limited obligation bonds	<u>\$ 1,251,770</u>		
C. Equipment notes:			
District 3 road equipment note	\$ 20,003	6.50%	12/2006
District 3 road equipment note	<u>34,268</u>	6.00%	06/2007
Total equipment notes	<u>\$ 54,271</u>		

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVENTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - LONG-TERM DEBT (Cont.)

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
D. Capital leases:			
Radio equipment - Emergency management	\$ 24,893	4.09%	11/2007
District 1 road equipment	9,846	2.99%	04/2007
District 1 road equipment	140,121	3.20%	01/2009
District 2 road equipment	141,348	3.20%	01/2009
District 3 road equipment	140,121	3.20%	01/2009
District 4 road equipment	9,846	2.99%	04/2007
District 4 road equipment	125,099	3.20%	01/2009
District 4 road equipment	69,117	3.30%	01/2009
District 5 road equipment	9,846	2.99%	04/2007
District 5 road equipment	140,121	3.20%	01/2009
District 5 road equipment	69,117	3.20%	01/2009
Total capital leases	<u>\$ 879,475</u>		
E. Other loans:			
Energy investment loan	\$ 227,226	9.75%	09/2006
Energy investment loan	412,670	9.75%	05/2006
District 2 road repair loan	16,833	7.25%	04/2006
Promissory note - emergency funds	<u>1,000,000</u>	3.97%	12/2010
Total other loans	<u>\$ 1,656,729</u>		
Business-type activities:			
A. Limited obligation bonds:			
Urban renewal bonds - correctional facility	\$ 4,455,000	4.90 - 6.25%	02/2018
Economic development - women's facility	<u>1,950,000</u>	3.62 - 4.50%	03/2023
Total limited obligation bonds	<u>\$ 6,405,000</u>		

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - LONG-TERM DEBT (Cont.)

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

Governmental Activities:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 70,000	\$ 111,418
2008	75,000	107,918
2009	80,000	104,168
2010	95,000	100,068
2011	95,000	95,655
2012 - 2016	525,000	407,622
2017 - 2021	700,000	257,904
2022 - 2025	535,000	58,965
Total	\$ 2,175,000	\$ 1,243,718

<u>Year Ending September 30,</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 288,491	\$ 64,524
2008	303,251	49,764
2009	318,766	34,249
2010	341,262	17,940
2011	-	-
Total	\$ 1,251,770	\$ 166,477

<u>Year Ending September 30,</u>	<u>Equipment Notes</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 54,271	\$ 2,071
2008	-	-
2009	-	-
2010	-	-
2011	-	-
Total	\$ 54,271	\$ 2,071

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINETEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - LONG-TERM DEBT (Cont.)

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 282,360	\$ 58,829
2008	275,177	48,661
2009	285,208	38,631
2010	295,636	28,203
2011	306,606	17,234
2012 - 2016	211,742	10,175
Total	\$ 1,656,729	\$ 201,733

Business-type Activities:

<u>Year Ending September 30,</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 335,000	\$ 308,791
2008	355,000	289,750
2009	380,000	271,393
2010	400,000	252,433
2011	425,000	232,050
2012 - 2016	2,525,000	807,483
2017 - 2021	1,650,000	204,326
2022 - 2023	335,000	15,188
Total	\$ 6,405,000	\$ 2,381,414

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 amount of outstanding debt was equal to 7.63% of the latest property assessments.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - LONG-TERM DEBT (Cont.)

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

	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>
Governmental Activities:		
General obligation bonds	\$ 2,240,000	\$ -
Limited obligation bonds	1,527,968	-
Equipment notes	72,855	51,086
Capital leases	1,084,923	-
Other loans	<u>921,515</u>	<u>1,000,000</u>
Total governmental activities	<u>\$ 5,847,261</u>	<u>\$ 1,051,086</u>
Business-type Activities:		
Limited obligation bonds	<u>\$ 6,715,000</u>	<u>\$ -</u>
Total business-type activities	<u>\$ 6,715,000</u>	<u>\$ -</u>

<u>Reductions</u>	<u>Adjustments</u>	<u>Balance Sep. 30, 2006</u>	<u>Amount Due Within One Year</u>
\$ (65,000)	\$ -	\$ 2,175,000	\$ 70,000
(276,198)	-	1,251,770	288,491
(69,670)	-	54,271	54,271
(205,448)	-	879,475	145,658
<u>(264,786)</u>	<u>-</u>	<u>1,656,729</u>	<u>282,360</u>
<u>\$ (881,102)</u>	<u>\$ - *</u>	<u>\$ 6,017,245</u>	<u>\$ 840,780</u>
\$ (310,000)	\$ -	\$ 6,405,000	\$ 335,000
<u>\$ (310,000)</u>	<u>\$ -</u>	<u>\$ 6,405,000</u>	<u>\$ 335,000</u>

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-ONE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 11 - DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

The following funds reported deficits in fund balances or net assets at September 30, 2006:

<u>Fund</u>	<u>Deficit Amount</u>
Re-appraisal Maintenance Fund	\$ 2,103
Family Resource Services	25,874
Countywide State Aid	8,387
Marion County Women's Facility	360,225

NOTE 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.

Economic Development Note Contingencies - The County issued a notes payable to provide funds for constructing and improving infrastructure for the purpose of economic development. The notes are paid by the Marion County Economic Development District, a component unit of the County. However, the County remains contingently liable for the retirement of this note because the full faith, credit and taxing power of the County is secondarily pledged in case of default by the District. The principal amount of notes payable outstanding at September 30, 2006, is \$699,869.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-TWO

YEAR ENDED SEPTEMBER 30, 2006

NOTE 13 - JOINT VENTURES

The County participates in the following joint venture:

Marion County is a participant with Jefferson Davis County in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the South Mississippi Regional Library. The joint venture was created to provide library service for the Counties of Jefferson Davis and Marion and is governed by a five-member board. The two counties rotate board appointments so that each county has a majority of board members in alternate years. Complete financial statements for the South Mississippi Regional Library can be obtained from the Marion County branch located at 900 Broad Street, Columbia, Mississippi.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

The County participates in the following jointly governed organizations:

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Marion County Board of Supervisors appoints two (2) of the sixteen (16) members of the college board of trustees. The County appropriated \$331,053 for maintenance and support of the college in fiscal year 2006.

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Marion County Board of Supervisors appoints one (1) of the nine (9) members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The County contributed \$40,850 for support of the district in fiscal year 2006.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Marion County Board of Supervisors appoints one (1) of the twenty-seven (27) members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$65,561 to the agency in fiscal year 2006.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2006

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Marion County Board of Supervisors appoints one (1) of the twenty-four (24) members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Marion County Board of Supervisors appoints one (1) of the nine (9) members of the board of commissioners. The County appropriated \$70,712 for support of the agency in fiscal year 2006.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one (1) appointed by the Board of Supervisors of each of the member counties and one (1) appointed at large. The County appropriated \$353,015 for support of the authority in fiscal year 2006.

NOTE 15 - DEFINED BENEFIT PENSION PLAN

Plan Description - Marion 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, Mississippi 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 ended September 30, 2006, 2005 and 2004 were \$485,293, \$442,427 and \$387,471, respectively, equal to the required contributions for each year.

MARION COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2006

NOTE 16 - SUBSEQUENT EVENTS

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

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
10/5/2006	4.12%	125,000	Promissory Note	General Fund
5/8/2007	4.27%	64,795	Lease Purchase	District 2 Road & Bridge Fund
5/8/2007	5.03%	133,899	Promissory Note	General Fund

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

MARION COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ 4,874,856
Licenses, commissions and other revenue	222,000
Fines and forfeitures	220,000
Intergovernmental revenues	585,100
Charges for services	150,000
Interest income	75,000
Miscellaneous revenues	28,000
Total revenues	<u>6,154,956</u>
EXPENDITURES	
Current:	
General government	3,292,164
Public safety	1,428,786
Public works	20,000
Health and welfare	372,565
Culture and recreation	75,534
Conservation of natural resources	60,390
Economic development and assistance	321,299
Debt service:	693,766
Total expenditures	<u>6,264,504</u>
Excess of revenues over (under) expenditures	<u>(109,548)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	-
Transfers out	-
Other sources	109,548
Other uses	-
Total other financing sources (uses)	<u>109,548</u>
NET CHANGE IN FUND BALANCES	
Fund balances - beginning	<u>316,121</u>
Fund balances - ending	<u>\$ 316,121</u>

The accompanying notes to the required supplementary information are an integral part of this statement.

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 5,248,180	\$ 5,248,180	\$ -
312,345	429,293	116,948
280,086	280,111	25
782,304	869,955	87,651
205,503	-	(205,503)
217,859	217,859	-
366,138	369,585	3,447
<u>7,412,415</u>	<u>7,414,983</u>	<u>2,568</u>
3,920,845	3,777,000	143,845
1,891,809	1,889,948	1,861
40,000	40,000	-
398,417	392,999	5,418
88,115	88,115	-
52,937	52,937	-
313,913	313,913	-
776,938	776,938	-
<u>7,482,974</u>	<u>7,331,850</u>	<u>151,124</u>
<u>(70,559)</u>	<u>83,133</u>	<u>153,692</u>
-	168,603	168,603
-	(151,428)	(151,428)
1,168,603	1,000,000	(168,603)
-	-	-
<u>1,168,603</u>	<u>1,017,175</u>	<u>(151,428)</u>
1,098,044	1,100,308	2,264
316,121	316,121	-
<u>\$ 1,414,165</u>	<u>\$ 1,416,429</u>	<u>\$ 2,264</u>

SCHEDULE 2

MARION COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
DISTRICT 4 ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Original Budget
REVENUES	
Property taxes	\$ 173,000
Licenses, commissions and other revenue	53,000
Intergovernmental revenues	153,100
Miscellaneous revenues	6,000
Total revenues	<u>385,100</u>
EXPENDITURES	
Current:	
Public works	432,587
Debt service:	
Principal	70,000
Total expenditures	<u>502,587</u>
Excess of revenues over (under) expenditures	<u>(117,487)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	<u>-</u>
Total other financing sources (uses)	<u>-</u>
NET CHANGE IN FUND BALANCES	(117,487)
Fund balances - beginning	<u>399,075</u>
Fund balances - ending	<u>\$ 281,588</u>

The accompanying notes to the required supplementary information are an integral part of this statement.

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 195,704	\$ 195,704	\$ -
65,493	65,493	-
325,599	334,528	8,929
54,145	45,152	(8,993)
<u>640,941</u>	<u>640,877</u>	<u>(64)</u>
523,698	523,698	-
61,202	61,202	-
<u>584,900</u>	<u>584,900</u>	<u>-</u>
56,041	55,977	(64)
27,085	27,085	-
<u>27,085</u>	<u>27,085</u>	<u>-</u>
83,126	83,062	(64)
<u>399,075</u>	<u>399,075</u>	<u>-</u>
<u>\$ 482,201</u>	<u>\$ 482,137</u>	<u>\$ (64)</u>

SCHEDULE 3

MARION COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
EMERGENCY MANAGEMENT FUND
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ -
Licenses, commissions and other revenue	-
Intergovernmental revenues	-
Miscellaneous revenues	-
Total revenues	<u>-</u>
EXPENDITURES	
Current:	
Public works	-
Debt service:	
Principal	-
Total expenditures	<u>-</u>
Excess of revenues over (under) expenditures	<u>-</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	-
Total other financing sources (uses)	<u>-</u>
NET CHANGE IN FUND BALANCES	-
Fund balances - beginning	<u>-</u>
Fund balances - ending	<u>\$ -</u>

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ -	\$ -	\$ -
-	-	-
9,448,451	9,448,451	-
-	-	-
<u>9,448,451</u>	<u>9,448,451</u>	<u>-</u>
9,284,859	9,284,859	-
-	-	-
<u>9,284,859</u>	<u>9,284,859</u>	<u>-</u>
163,592	163,592	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
163,592	163,592	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 163,592</u>	<u>\$ 163,592</u>	<u>\$ -</u>

MARION COUNTY, MISSISSIPPI

**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1 - 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 1st, 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.

NOTE 2 - BASIS OF PRESENTATION

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

NOTE 3 - 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).

MARION COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2006

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

	Governmental Fund Types		
	General Fund	Emergency Management Fund	District 4 Road & Bridge Maintenance Fund
Budget (cash basis)	\$ 1,100,308	\$ 163,592	\$ 83,062
Increase (decrease):			
Net adjustments for revenue accruals	(225,365)	6,267	18,469
Net adjustments for expenditure accruals	(51,133)	-	3,145
GAAP Basis	\$ 823,810	\$ 169,859	\$ 104,676

SUPPLEMENTAL INFORMATION

SCHEDULE 4

MARION COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

<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 PROGRAMS:			
U.S. Department of Transportation			
Pass through programs from:			
Mississippi Department of Transportation			
State Aid Roads and Bridges	20.205	BR NBIS 065 B	\$ 3,850
State Aid Roads and Bridges	20.205	BR NBIS 066 B	12,310
State Aid Roads and Bridges	20.205	ER 0046 16B	1,084,102
Total U.S. Department of Transportation			<u>1,100,262</u>
U.S. Department of Homeland Security			
Pass through programs from:			
Mississippi Emergency Management Agency			
Public Assistance Grant	97.036		<u>9,441,870</u>
NONMAJOR PROGRAMS:			
U.S. Department of Housing and Urban Development			
Pass through programs from:			
Mississippi Development Authority			
Community Development Block Grant	14.228	1120-03-046-ED-01	<u>7,700</u>
Total U.S. Department of Housing			<u>7,700</u>

MARION COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

<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>
U.S. Department of Justice			
Pass through programs from:			
Mississippi Department of Public Safety			
Congressional Earmarked Justice Grant-Sheriff's Department	16.XXX	--	45,585
Total U.S. Department of Justice			<u>45,585</u>
U.S. Department of Homeland Security			
Pass through programs from:			
Mississippi Emergency Management Agency			
State Domestic Preparedness	97.004	2DPG2	\$ 249,567
Other Grants			
Pass through programs from:			
Pearl River Basin Development			
Water Park Improvements	99.XXX	--	4,000
Total Other Grants			<u>4,000</u>
Total expenditures of federal awards			\$ 10,848,984

MARION COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

SPECIAL REPORTS

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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
Marion County, Mississippi
Columbia, Mississippi

We have audited the primary government financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Marion 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 September 10, 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 units, and the report is qualified on the governmental activities because the County did not record certain general infrastructure assets and related depreciation in the government-wide financial statements as required by accounting principles generally accepted in the United States of America. 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 Marion 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

Members of the Board of Supervisors
Marion County, Mississippi

internal control over financial reporting that, in our judgment, could adversely affect Marion 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, 06-2, 06-3, 06-4 and 06-5.

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 caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Marion 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-1. We also noted a certain instance of noncompliance which we have reported to the management of Marion County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated September 10, 2007, included within this document.

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

Nicholson & Company, P.C.
Hattiesburg, Mississippi
September 10, 2007

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

Members of the Board of Supervisors
Marion County, Mississippi
Columbia, Mississippi

Compliance

We have audited the compliance of Marion 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, 2006. Marion County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Finding and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Marion County, Mississippi's management. Our responsibility is to express an opinion on Marion 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 Marion 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 of Marion County, Mississippi's compliance with those requirements.

Members of the Board of Supervisors
Marion County, Mississippi

In our opinion, Marion 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, 2006.

Internal Control Over Compliance

The management of Marion 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 Marion County, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Nicholson & Company, PLLC
Hattiesburg, Mississippi
September 10, 2007

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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,
MISSISSIPPI CODE ANNOTATED [1972])

Members of the Board of Supervisors
Marion County, Mississippi
Columbia, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Marion 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 Marion 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 Marion 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.

The County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets.

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.

Members of the Board of Supervisors
Marion County, Mississippi

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

Inventory Control Clerk

Finding

Section 31-7-107, Miss Code Ann. (1972), gives the Office of the State Auditor the authority to prescribe an accounting system for general fixed assets. We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets:

- a. The deletion report did not include some assets deleted during the year.
- b. There was conflicting historical cost data produced on different reports.
- c. All additions were not included on the report.

The lack of documentation resulted in a qualified opinion on the governmental activities and business-type activities in the Independent Auditor's Report.

Recommendation

The Inventory Control Clerk should implement policies and procedures to maintain accurate inventory records documenting the existence, completeness and valuation of capital assets.

Inventory Control Clerk's Response

I will comply.

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

Members of the Board of Supervisors
Marion County, Mississippi

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 Marion 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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 10, 2007

SCHEDULE 5

MARION COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2006**

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

SCHEDULE 6

MARION COUNTY, MISSISSIPPI

SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2006

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
-------------	-----------------------	--------------------	---------------	---------------------------------------

None

SCHEDULE 7

MARION COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2006**

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

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

Members of the Board of Supervisors
Marion County, Mississippi
Columbia, Mississippi

In planning and performing our audit of the financial statements of Marion County, Mississippi, for the year ended September 30, 2006, we considered Marion 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 Marion 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 September 10, 2007, on the financial statements of Marion County, Mississippi.

These review procedures and compliance test 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.

Members of the Board of Supervisors
Marion County, Mississippi

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk

1. Finding

We noted that inventory reports were not filed with the Board of Supervisors by October 1st, and inventory reports were not forwarded to the Office of the State Auditor by October 15th as required.

Recommendation

The Inventory Control Clerk should file inventory reports with applicable parties by the prescribed dates listed above.

Inventory Control Clerk's Response

I will comply.

Chancery Clerk

2. Finding

According to Section 27-31-05, mineral stamp collections are to be settled by the 15th day of the next succeeding month. There were several instances where the settlement of the mineral stamp collections were late.

Recommendation

The Chancery Clerk should implement procedures to ensure that mineral stamp settlements are made to the County in a timely matter in accordance with state statute.

Members of the Board of Supervisors
Marion County, Mississippi

Chancery Clerk's Response

I will comply.

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.

Nicholson & Company, PLLC

Hattiesburg, Mississippi
September 10, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

MARION COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS 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: | |
| | Governmental activities | Qualified |
| | Business-type activities | Qualified |
| | General Fund | Unqualified |
| | Emergency Management Fund | Unqualified |
| | District 4 Road and Bridge Maintenance Fund | Unqualified |
| | Marion/Walthall Correctional Facility | Qualified |
| | Aggregate remaining governmental fund information | Unqualified |
| | Aggregate remaining proprietary fund information | Qualified |
| 2. | Internal control over financial reporting: | |
| | A. Material weakness identified? | Yes |
| | B. Reportable condition identified that is not considered to be a material weakness? | Yes |
| 3. | Noncompliance material relating to the primary government financial statements: | Yes |

Federal Awards:

- | | | |
|----|--|---------------|
| 4. | Internal control over major programs: | |
| | A. Material weakness identified? | No |
| | B. Reportable condition identified that is not considered to be a material weakness? | No |
| 5. | Type of auditor's report issued on compliance for major funds programs: | Unqualified |
| 6. | Any audit findings reported as required by Section .510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | Highway Planning and Construction Grant | CFDA # 20.205 |
| | MEMA Public Assistance Grant | CFDA # 97.036 |

MARION COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2006

SECTION 1: SUMMARY OF AUDITOR'S RESULTS (Cont.)

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs? | \$325,470 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule or prior audit findings as discussed in Section .315(b) of OMB Circular A-133? | No |

SECTION 2: FINANCIAL STATEMENT FINDINGS

Inventory Control Clerk

06-1. Finding

We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets:

- a. The deletion report did not include some assets deleted during the year.
- b. There was conflicting historical cost data produced on different reports.
- c. All additions were not included on the report.

The lack of documentation resulted in a qualified opinion on the governmental activities and the business-type activities in the Independent Auditor's Report.

MARION COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Recommendation

The Inventory Control Clerk should implement policies and procedures to maintain accurate inventory records documenting the existence, completeness and valuation of capital assets.

Inventory Control Clerk's Response

I will comply.

Chancery Clerk

06-2. Finding

According to Section 27-31-05, mineral stamp collections are to be settled by the 15th day of the next succeeding month. There were several instances where the settlement of the mineral stamp collections were late.

Recommendation

The Chancery Clerk should implement procedures to ensure that mineral stamp settlements are made to the County in a timely matter in accordance with state statute.

Chancery Clerk's Response

I will comply.

MARION COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

06-3 Finding

The County is not currently centrally tracking compensated absences for accumulated leave time earned by active employees.

Recommendation

The County should implement policies and procedures that would allow for consistent application for tracking accumulated leave time for vacation and sick days earned by employees to ensure proper accounting for these transactions.

Chancery Clerk's Response

I will comply.

Justice Court Clerk

06-4. Finding

We noted that proper segregation of duties was not maintained in handling the activities of the Justice Court Collections in that one person is in control over the checking accounts, reconciliation of those accounts, and receipts and disbursements of the checking account funds.

Recommendation

The Justice Court Clerk should implement policies and procedures that would allow for proper segregation of duties in handing cash transactions and the reconciliation of the checking account.

I will comply.

MARION COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Circuit Clerk

06-5. Finding

We noted that proper segregation of duties was not maintained in handling cash transactions and accounting for activity in the Circuit Clerk's office.

Recommendation

The Circuit Clerk should implement policies so that proper segregation of duties is maintained in the Clerk's activities, including receipt of cash, deposit of funds, reconciliation of clearing, civil and criminal accounts.

Circuit Clerk's Response

I will comply.

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.