



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

MARSHALL COUNTY
AUDITED PRIMARY GOVERNMENT FINANCIAL
STATEMENTS AND SPECIAL REPORTS
YEAR ENDED SEPTEMBER 30, 2006

**MARSHALL COUNTY
TABLE OF CONTENTS
SEPTEMBER 30, 2006**

	<u>Page</u>
FINANCIAL SECTION	4
INDEPENDENT AUDITORS' REPORT	5
PRIMARY GOVERNMENT FINANCIAL STATEMENTS	7
Statements of Net Assets	8
Statement of Activities	9
Balance Sheet – Governmental Funds	10
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Assets	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	12
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Fiduciary Assets and Liabilities	14
Notes to Financial Statements	15

**MARSHALL COUNTY
TABLE OF CONTENTS
SEPTEMBER 30, 2006**

	<u>Page</u>
REQUIRED SUPPLEMENTARY INFORMATION	33
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) General Fund	34
Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) Countywide Road Fund	35
Notes to the Required Supplementary Information	36
SPECIAL REPORTS	37
Independent Auditors’ 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	38
Independent Auditors’ Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972))	40
SCHEDULE OF FINDINGS	45
LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT	47

FINANCIAL SECTION



WATKINS, WARD AND STAFFORD
Professional Limited Liability Company
Certified Public Accountants

One Professional Plaza P.O. Box 1345 Starkville, MS 39760
200 Hospital Road
Phone (662) 323-9071

Fax (662) 323-9075

James L. Stafford, CPA
Harry W. Stevens, CPA
Boyd M. Edwards, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Staggers, CPA
Aubrey R. Holder, CPA
David M. Howell, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
Gary C. Hamilton, CPA

R. Steve Sinclair, CPA
Michael L. Pierce, CPA
Marsha L. McDonald, CPA
Wanda S. Holley, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Scrivner, CPA
Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA

**INDEPENDENT AUDITORS' REPORT
ON THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION**

Members of the Board of Supervisors
Marshall County, Mississippi

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

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

The financial statements referred to above include only the primary government of Marshall 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 Marshall County, Mississippi, as of September 30, 2006, and the respective changes in its financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund and the aggregate remaining fund information for the primary government of Marshall 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 accordance with *Government Auditing Standards*, we have also issued a report dated January 15, 2007, on our consideration of Marshall 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 result of our audit.

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

The Budgetary Comparison Schedule and corresponding notes on pages 33 through 36 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Starkville, Mississippi
January 15, 2007

Walter: Walter and Alfred P. C.

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

Marshall County
Statement of Net Assets
September 30, 2006

Exhibit 1

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 5,779,052
Accrued interest receivable	12,804
Property tax receivable	10,759,357
Fines receivable, (net of allowance for (uncollectibles of \$490,793)	336,616
Loans receivable	2,657,630
Intergovernmental receivables	644,734
Other receivables, net	0
Capital Assets, net	58,998,568
Total Assets	<u>79,188,761</u>
LIABILITIES	
Claims payable	277,863
Intergovernmental payables	312,813
Accrued interest payable	24,376
Deferred revenue	10,774,823
Other payables	117,401
Long-term liabilities	
Due within one year:	
Capital related debt	548,419
Non-capital debt	472,143
Due in more than one year:	
Capital related debt	3,501,934
Non-capital debt	2,442,283
Total Liabilities	<u>18,472,055</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,948,215
Restricted net assets:	
Expendable:	
General government	28,474
Debt service	101,928
Public safety	20,246
Public works	3,086,013
Culture and recreation	43,983
Economic development	0
Capital projects	3,280
Other purposes	2,642,170
Unrestricted	(157,603)
Total Net Assets	<u>\$ 60,716,706</u>

The accompanying notes and auditors' reports are integral parts of the statements.

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

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 3,125,110	773,995			(2,351,115)
Public safety	3,356,124	362,356	339,670	197,092	(2,457,006)
Public works	929,184	235,352	456,334	438,778	201,280
Health and welfare	814,823		185,000	85,387	(544,436)
Culture and recreation	392,855			153,775	(239,080)
Conservation of natural resources	78,597				(78,597)
Economic development and assistance	290,689				(290,689)
Interest on long-term debt	206,138				(206,138)
Total Governmental Activities	\$ 9,193,520	1,371,703	981,004	875,032	(5,965,781)
General revenues:					
Taxes:					
Property taxes				\$	11,111,161
Road & bridge privilege taxes					398,722
Unrestricted investment income					190,678
Miscellaneous					1,511,631
Total General Revenues, Special Item, Extraordinary Item and Transfers					13,212,192
Changes in Net Assets					7,246,411
Net Assets - Beginning					53,470,295
Prior period adjustment					
Net Assets - Beginning, as restated					53,470,295
Net Assets - Ending				\$	60,716,706

Marshall County
 Balance Sheet - Governmental Funds
 September 30, 2006

Exhibit 3

	Major Funds					Total Governmental Funds
	General Fund	Countywide Road Fund	Gas Tax Sinking Fund	Thomas & Betts Fund	Other Governmental Funds	
ASSETS						
Cash	\$ 2,605,576	1,303,077	1,720,216		150,183	5,779,052
Accrued interest receivable	3,143	0	9,661		0	12,804
Property tax receivable	6,463,281	3,590,429			705,647	10,759,357
Fines receivable	336,616				0	336,616
Loans receivable				2,113,994	543,636	2,657,630
Intergovernmental receivables	212,999	34,089			397,646	644,734
Other receivables					0	0
Due from other funds	442,457	114,424			36,662	593,543
Total Assets	\$ 10,064,072	5,042,019	1,729,877	2,113,994	1,833,774	20,783,736
LIABILITIES AND FUND BALANCES						
Liabilities:					0	
Claims payable	\$ 173,478	93,295			11,090	277,863
Intergovernmental payables	312,813				0	312,813
Due to other funds	151,087				442,456	593,543
Deferred revenue	6,799,897	3,590,429			721,107	11,111,433
Other payables	94,477	2,159			20,765	117,401
Total Liabilities	7,531,752	3,685,883	0	0	1,195,418	12,413,053
Fund balances:						
Reserved for:						
Debt service					35,424	35,424
Loans receivable				2,113,994	528,176	2,642,170
Unreserved, reported in:					0	0
General fund	2,532,320				0	2,532,320
Special revenue funds		1,356,136	1,729,877		71,476	3,157,489
Capital project funds					3,280	3,280
Total Fund Balances	2,532,320	1,356,136	1,729,877	2,113,994	638,356	8,370,683
Total Liabilities and Fund Balance \$	10,064,072	5,042,019	1,729,877	2,113,994	1,833,774	20,783,736

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

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 8,370,683
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets that are used in governmental activities are not financial resources and therefore, are not reported in the funds	
Governmental capital assets	126,608,799
Less accumulated depreciation	<u>(67,610,231)</u>
	58,998,568
Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the funds.	
	336,616
Long-term liabilities are not due and payable in the current period and therefore, are not reported in the funds.	
Long-term liabilities	(6,964,785)
Accrued interest on long-term debt	(24,376)
Total net assets - governmental activities (Exhibit 1)	<u>\$ 60,716,706</u>

Marshall County
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2006

Exhibit 4

	Major Funds					Total Governmental Funds
	General Fund	Countywide Road Fund	Gas Tax Sinking Fund	Thomas & Betts Fund	Other Governmental Funds	
REVENUES						
Property taxes	\$ 6,552,216	3,806,249			752,696	11,111,161
Road and bridge privilege taxes		398,722				398,722
Licenses, commissions and other revenues	806,484					806,484
Fines and forfeitures	215,977				48,512	264,489
Special assessments					13,157	13,157
Intergovernmental revenues	863,927	877,556			884,199	2,625,682
Charges for services	332,312				315,703	648,015
Interest income	93,646	49,905	42,511		4,616	190,678
Miscellaneous revenues	185,230	29,303		50	34,094	248,677
Total Revenues	<u>9,049,792</u>	<u>5,161,735</u>	<u>42,511</u>	<u>50</u>	<u>2,052,977</u>	<u>16,307,065</u>
EXPENDITURES						
Current:						
General government	4,002,723				-	4,002,723
Public safety	3,020,180				980,631	4,000,811
Public works	589,143	6,405,448			369,373	7,363,964
Health and welfare	814,823					814,823
Culture and recreation	201,672				191,183	392,855
Education	-					-
Conservation of natural resources	78,597					78,597
Economic development and assistance	233,015				286,570	519,585
Debt service:						
Principal	77,398	253,330		400,000	374,465	1,105,193
Interest	10,695	28,179			167,264	206,138
Total Expenditures	<u>9,028,246</u>	<u>6,686,957</u>	<u>-</u>	<u>400,000</u>	<u>2,369,486</u>	<u>18,484,689</u>
Excess of Revenues over (under) Expenditures	21,546	(1,525,222)	42,511	(399,950)	(316,509)	(2,177,624)
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued	215,302	773,700				989,002
Proceeds from sale of capital assets						-
Compensation for loss of capital assets	1,198					1,198
Transfers in	154,317				336,999	491,316
Transfers out	(488,632)				(2,684)	(491,316)
Total Other Financing Sources and Uses	<u>(117,815)</u>	<u>773,700</u>	<u>-</u>	<u>-</u>	<u>334,315</u>	<u>990,200</u>
Net Changes in Fund Balances	<u>(96,269)</u>	<u>(751,522)</u>	<u>42,511</u>	<u>(399,950)</u>	<u>17,806</u>	<u>(1,187,424)</u>
Fund Balances - Beginning	<u>2,628,589</u>	<u>2,107,658</u>	<u>1,687,366</u>	<u>2,513,944</u>	<u>620,550</u>	<u>9,558,107</u>
Fund Balances - Ending	<u>\$ 2,532,320</u>	<u>1,356,136</u>	<u>1,729,877</u>	<u>2,113,994</u>	<u>638,356</u>	<u>8,370,683</u>

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

Exhibit 4-1

Net changes in fund balances - total governmental funds (Exhibit 4) \$ (1,187,424)

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 these assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$10,349,371 exceeded depreciation of \$1,836,264 in the current period. 8,513,107

In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of proceeds from the sale compensation from loss in the current period. (331,103)

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the statement of activities using the full-accrual basis of accounting. 131,668

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of 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 \$1,105,193 exceeded debt proceeds \$989,002. 116,191

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:

The amount of decrease in compensated absences. 2,043
The amount of decrease in accrued interest payable. 1,929

Change in net assets of governmental activities (Exhibit 2) \$ 7,246,411

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

Exhibit 5

	Agency Funds
ASSETS	
Cash	\$ 43,469
Total Assets	\$ 43,469
LIABILITIES	
Accounts Payable	29,167
Intergovernmental Payable	14,302
Total Liabilities	\$ 43,469

The accompanying notes and auditors' reports are integral parts of the statements.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

Marshall 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 Marshall 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.

- Marshall County Industrial Development Authority
- Marshall County Library
- Northwest Mississippi Consolidated District of Marshall, Tate and DeSoto Counties
- Oaklimiter Drainage District
- Tippah River Tri-County Drainage 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
- Tax Collector
- Sheriff

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

B. Basis of Presentation

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

Government-wide Financial Statements

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

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

Fund Financial Statements

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund 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 the economic assets 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.

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 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to 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 – Accounts for all activities of the general government for which a separate fund has not been established.

Countywide Road Maintenance Fund – Accounts for monies from specific revenue sources that are restricted for road maintenance.

Gas Tax Sinking Fund – Accounts for monies from specific revenue that is restricted for road construction.

Thomas & Betts Fund – Accounts for resources accumulated and used for the payment of long-term debt principal, interest and related costs of borrowing used for Thomas & Betts industrial construction.

Additionally, the county reports the following fund types:

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

C. Measurement Focus and Basis of Accounting (Continued)

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 specific purposes. Special Revenue Funds account for, among other, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

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

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

Fiduciary Fund Type

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

D. Account Classifications

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

E. Deposits and Investments

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

E. Deposits and Investments (Continued)

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

F. Receivables

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

G. Interfund Transactions and Balances

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

H. Capital Assets

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

H. Capital Assets (Continued)

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. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported 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.

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

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

I. Long-Term Liabilities

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

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

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, constructions 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 or regulation of other governments; or law through constitutional provisions or enabling legislation.

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

Fund Financial Statements:

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

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

K. Property Tax Revenues

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with 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.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

K. Property Taxes (Continued)

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

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

L. Intergovernmental Revenues in Governmental Funds

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

M. Compensated Absences

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(2) Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$5,822,521 and the bank balance was \$6,080,840. 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 a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

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.

(3) Interfund Transactions and Balances

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

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 442,457
Countywide Road	General Fund	114,424
Other Governmental Funds	General Fund	<u>36,662</u>
Total		<u>\$ 593,543</u>

B. Transfers In/Out

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	General fund	\$ 151,633
General Fund	Other Governmental Funds	2,684
Other Governmental Funds	General Fund	<u>336,999</u>
Total		<u>\$ 491,316</u>

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(4) Intergovernmental Receivables

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

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 130,162
Community Heritage Project	185,000
Homeland Security grant	241,265
Reimbursement for Victim's Assistance	4,431
Local privilege licenses	7,174
Reimbursement for housing prisoners	33,540
State aid road	11,513
Motor vehicle fuel tax	34,089
Other	<u>9,073</u>
 Total Governmental Activities	 \$ <u>656,247</u>

(5) Loans Receivable

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

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Thomas & Betts MBIA loan	12/95	0	12/10	\$ 2,000,000
Thomas & Betts infrastructure loan	12/96	5.25	3/06	113,994
Lighthouse Plastics, LLC loan	10/02	3.00	12/17	528,176
MC 34 subdivision special assessment	9/98	5.00	9/08	6,800
MC Hillview subdivision special assessment	11/97	5.00	11/07	<u>8,660</u>
Total				\$ <u>2,657,630</u>

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(6) Capital Assets

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

Governmental activities:

	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2006</u>
<u>Non-depreciable capital assets</u>				
Land	\$ 681,339			681,339
Construction in progress	264,730	134,488		399,218
Total non-depreciable capital assets	<u>946,069</u>	<u>134,488</u>	<u>-</u>	<u>1,080,557</u>
<u>Depreciable capital assets</u>				
Infrastructure	101,021,763	5,563,162		106,584,925
Buildings	8,116,006	455,005		8,571,011
Mobile Equipment	4,650,986	1,851,084	(1,436,268)	5,065,802
Furniture and equipment	1,737,755	607,605	(178,316)	2,167,044
Leased property under capital leases	2,373,785	1,738,027	(972,352)	3,139,460
Total depreciable assets	<u>117,900,295</u>	<u>10,214,883</u>	<u>(2,586,936)</u>	<u>125,528,242</u>
Less accumulated depreciation for:				
Infrastructure	59,627,849	815,204		60,443,053
Buildings	2,410,975	161,652		2,572,627
Mobile equipment	3,022,426	373,633	(1,105,165)	2,290,894
Furniture and equipment	1,464,941	42,202	(178,316)	1,328,827
Leased property under capital leases	1,503,609	443,573	(972,352)	974,830
Total accumulated depreciation	<u>68,029,800</u>	<u>1,836,264</u>	<u>(2,255,833)</u>	<u>67,610,231</u>
Total depreciable capital assets, net	<u>49,870,495</u>	<u>8,378,619</u>	<u>(331,103)</u>	<u>57,918,011</u>
Governmental activities capital assets, net	<u>\$ 50,816,564</u>	<u>8,513,107</u>	<u>(331,103)</u>	<u>58,998,568</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(6) Capital Assets (Continued)

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 465,554
Public safety	35,567
Public works	<u>1,335,143</u>
 Total governmental activities depreciation expense	 \$ <u>1,836,264</u>

(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 Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2006, to January 1, 2007. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(8) Capital Leases

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Building	\$ 190,000
Mobile equipment	2,822,469
Other furniture and equipment	<u>126,991</u>
Total	3,139,460
Less: Accumulated Depreciation	<u>974,830</u>
Leased Property Under Capital Lease	<u><u>\$ 2,164,630</u></u>

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

Year Ending September 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 338,719	37,545
2008	280,017	29,133
2009	215,881	17,027
2010	207,846	8,791
2011	85,069	1,907
2012	<u>13,421</u>	<u>24</u>
Total	<u><u>\$ 1,140,953</u></u>	<u><u>94,427</u></u>

**MARSHALL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(9) Long-term Debt

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

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Justice complex	2,890,000	4.5-6.0	9/17
Total General Obligation Bonds	<u>\$ 2,890,000</u>		
B. Special Assessment Debt with Governmental Commitment:			
Marshall County 34 Pine Hill subdivision	\$ 6,800	4.5-5.0	9/08
Marshall County Hill View subdivision	<u>12,600</u>	5.0	11/07
Total Special Assessment Debt	<u>\$ 19,400</u>		
C. Capital Leases:			
3 Cat Motor Graders	\$ 484,232	3.75	1/11
Trailboss Trailers	59,652	3.75	1/11
Caterpillar Backhoe Loader	134,831	3.75	1/11
Fire Truck - Victoria	7,811	3.74	12/06
Fire Truck - Mt. Pleasant/Slayden	10,403	3.74	1/07
Fire Truck - Red Banks	10,397	3.74	1/07
Fire Truck - Waterford	12,977	3.74	1/07
Tax Collector Building	91,097	5.5	7/12
Computer System Upgrade	113,445	3.990	2/11
2006 Ford Crown Victoria	23,898	4.080	8/09
2006 Ford Crown Victoria	15,928	3.33	10/08
2 2006 Ford Crown Victorias	34,942	3.75	4/2009
Volvo tractor	28,259	3.07	6/08

**MARSHALL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(9) Long-term Debt (Continued)

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
Governmental Activities:			
C. Capital Leases:			
4 John Deere tractors	97,176	3.07	7/08
2004 3/4 ton Dodge	5,416	2.985	4/07
2004 Dodge Ram	4,699	3.03	5/07
2004 Ford Crown Victoria	5,797	3.03	7/07
Total Capital Leases	<u>\$ 1,140,960</u>		
D. Other Loans:			
Thomas & Betts debt	\$ 2,000,000	0	12/10
MS Development Authority-CAP loan	498,662	3.00	12/17
New CAT dozer	122,561	3.02	6/09
Total Other Loans	<u>\$ 2,621,223</u>		

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>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 200,000	142,155	472,142	17,581
2008	210,000	132,955	474,343	15,380
2009	220,000	123,085	494,431	12,943
2010	230,000	112,525	441,876	10,746
2011	245,000	101,255	443,149	9,473
Thereafter	1,785,000	326,250	295,282	27,846
Total	<u>\$ 2,890,000</u>	<u>938,225</u>	<u>2,621,223</u>	<u>93,969</u>

**MARSHALL COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(9) Long-term Debt (Continued)

Year Ending September 30,	Special Assessment	
	Principal	Interest
2007	\$ 9,700	1,140
2008	9,700	825
 Total	 \$ 19,400	 1,965

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 3.17% of the latest property assessments.

Special Assessment Debt with Commitments - The county issued special assessment bond issues totaling \$602,000. The debt was issued to provide funds for the paving of subdivision roads. The bonds are secured by the full faith and credit of the county. The county levied a special assessment tax upon all taxable property in the benefited areas. The tax is adequate and sufficient to provide for the payment of the principal and interest on the bonds.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(9) Long-term Debt (Continued)

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

	Balance Sept. 30, 2005	Additions	Reductions	Adjustments	Balance Sept. 30, 2006	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 295,245		2,043		293,202	
General obligation bonds	3,075,000		185,000		2,890,000	200,000
Special assessment debt with governmental commitment	29,100		9,700		19,400	9,700
Capital leases	592,439	989,002	440,481		1,140,960	338,719
Other loans	3,091,229		470,006		2,621,223	472,143
Totals	<u>\$ 7,083,013</u>	<u>989,002</u>	<u>1,107,230</u>	<u>-</u>	<u>6,964,785</u>	<u>1,020,562</u>

(10) 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.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(11) Joint Ventures

The county participates in the following joint venture:

Marshall County is a participant with the city of Holly Springs in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Marshall County-Holly Springs Airport Authority. The joint venture was created to provide a governing authority for the airport facilities in Marshall County and is governed by a five-member board of commissioners. The board of commissioners is appointed as follows: Marshall County, two; City of Holly Springs, two; joint, one. The county did not appropriate any funds to the joint venture in fiscal year 2006.

(12) Jointly Governed Organizations

The county participates in the following jointly governed organizations:

Communicare operates in a district composed of the Counties of Calhoun, DeSoto, Lafayette, Marshall, Panola, Tate and Yalobusha. The Marshall County Board of Supervisors appoints one of the seven members of the board of commissioners

Northwest Mississippi Community College operates in a district composed of the Counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The Marshall County Board of Supervisors appoints two of the 23 members of the college board of trustees. The county appropriated \$721,956 for maintenance and support of the college in fiscal year 2006.

Northeast Mississippi Planning and Development District is composed of the Counties of Alcorn, Benton, Marshall, Prentiss, Tippah and Tishomingo. The Marshall County Board of Supervisors appoints four of the 24 members of the board of directors. The county appropriated \$15,000 for support of the district in fiscal year 2006.

(13) Defined Benefit Pension Plan

Plan Description – Marshall 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 provision are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

(14) Defined Benefit Pension Plan (Continued)

Funding Policy – PERS members are required to contribute 7.25% of their annual covered salary and the county is required to contribute at an actuarially determined rate. The current rate is 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 year ending September 30, 2006, 2005, and 2004, were \$540,801, \$484,480, and \$442,670, respectively, equal to the required contributions for each year.

REQUIRED SUPPLEMENTARY INFORMATION

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 6,663,281	6,633,501	6,552,216	(81,285)
Licenses, commissions and other revenue	564,200	737,847	806,484	68,637
Fines and forfeitures	248,500	215,977	215,977	-
Intergovernmental revenues	717,500	846,867	863,927	17,060
Charges for services	285,000	304,672	332,312	27,640
Interest income	35,750	72,459	93,646	21,187
Miscellaneous revenues	269,381	295,590	185,230	(110,360)
Total Revenues	<u>8,783,612</u>	<u>9,106,913</u>	<u>9,049,792</u>	<u>(57,121)</u>
EXPENDITURES				
Current:				
General government	4,633,511	4,033,391	4,002,723	30,668
Public safety	3,294,018	2,841,597	3,020,180	(178,583)
Public works	498,968	547,552	589,143	(41,591)
Health and welfare	852,553	815,329	814,823	506
Culture and recreation	157,665	152,051	201,672	(49,621)
Education	50,000	50,000		50,000
Conservation of natural resources	92,709	78,596	78,597	(1)
Economic development and assistance	233,138	233,138	233,015	123
Debt service:				
Principal			77,398	(77,398)
Interest			10,695	10,695
Total Expenditures	<u>9,812,562</u>	<u>8,751,654</u>	<u>9,028,246</u>	<u>(255,202)</u>
Excess of Revenues over (under) Expenditures	<u>(1,028,950)</u>	<u>355,259</u>	<u>21,546</u>	<u>(312,323)</u>
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets			1,198	1,198
Long-term capital debt issued			215,302	215,302
Extraordinary items	(119,776)	43,210		(43,210)
Transfers in			154,317	154,317
Transfers out	(687,024)	(488,635)	(488,632)	3
Total Other Financing Sources and Uses	<u>(806,800)</u>	<u>(445,425)</u>	<u>(117,815)</u>	<u>327,610</u>
Net Change in Fund Balance	(1,835,750)	(90,166)	(96,269)	(6,103)
Fund Balances - Beginning	(1,275,489)	2,628,589	2,628,589	-
Fund Balances - Ending	<u>\$ (3,111,239)</u>	<u>2,538,423</u>	<u>2,532,320</u>	<u>(6,103)</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Marshall County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Countrywide Road Maintenance
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,186,380	3,430,846	3,806,249	375,403
Road and bridge privilege taxes	380,000	400,608	398,722	(1,886)
Intergovernmental revenues	565,229	692,188	877,556	185,368
Interest income	12,000	36,453	49,905	13,452
Miscellaneous revenues	37,075	72,635	29,303	(43,332)
Total Revenues	<u>4,180,684</u>	<u>4,632,730</u>	<u>5,161,735</u>	<u>529,005</u>
EXPENDITURES				
Current:				
Public works	8,911,834	5,763,026	6,405,448	(642,422)
Debt service:				
Principal			253,330	(253,330)
Interest			28,179	(28,179)
Total Expenditures	<u>8,911,834</u>	<u>5,763,026</u>	<u>6,686,957</u>	<u>(923,931)</u>
Excess of Revenues over (under) Expenditures	<u>(4,731,150)</u>	<u>(1,130,296)</u>	<u>(1,525,222)</u>	<u>(394,926)</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	-	-	773,700	773,700
Transfers in	206,461	-	-	-
Total Other Financing Sources and Uses	<u>206,461</u>	<u>-</u>	<u>773,700</u>	<u>773,700</u>
Net Change in Fund Balance	(4,524,689)	(1,130,296)	(751,522)	378,774
Fund Balances - Beginning	(387,973)	2,107,658	2,107,658	-
Fund Balances - Ending	<u>(4,912,662)</u>	<u>977,362</u>	<u>1,356,136</u>	<u>378,774</u>

The accompanying notes and auditors' reports are integral parts of these statements.

MARSHALL COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

A. Budgetary Information

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

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

B. Basis of Presentation

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

C. Budget/GAAP Reconciliation

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

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

SPECIAL REPORTS



WATKINS, WARD AND STAFFORD
Professional Limited Liability Company
Certified Public Accountants

One Professional Plaza P.O. Box 1345 Starkville, MS 39760
200 Hospital Road
Phone (662) 323-9071 Fax (662) 323-9075

James L. Stafford, CPA
Harry W. Stevens, CPA
Boyd M. Edwards, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Stagers, CPA
Aubrey R. Holder, CPA
David M. Howell, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
Gary C. Hamilton, CPA
R. Steve Sinclair, CPA
Michael L. Pierce, CPA
Marsha L. McDonald, CPA
Wanda S. Holley, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Scrivner, CPA
Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA

INDEPENDENT AUDITORS' 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
Marshall County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marshall 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 January 15, 2007. The auditors' report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshall County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Marshall County, Mississippi's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

Compliance

As part of obtaining reasonable assurance about whether Marshall 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 specified party. However, this report is a matter of public record and its distribution is not limited.

Starkville, Mississippi
January 15, 2007

Walter W. Alford III



WATKINS, WARD AND STAFFORD
Professional Limited Liability Company
Certified Public Accountants

One Professional Plaza P.O. Box 1345 Starkville, MS 39760
200 Hospital Road
Phone (662) 323-9071 Fax (662) 323-9075

James L. Stafford, CPA	R. Steve Sinclair, CPA
Harry W. Stevens, CPA	Michael L. Pierce, CPA
Boyd M. Edwards, CPA	Marsha L. McDonald, CPA
Paul A. Ray, CPA	Wanda S. Holley, CPA
S. Keith Winfield, CPA	Robin Y. McCormick, CPA/PFS
William B. Staggers, CPA	J. Randy Scrivner, CPA
Aubrey R. Holder, CPA	Kimberly S. Caskey, CPA
David M. Howell, CPA	Susan M. Lummus, CPA
Michael W. McCully, CPA	Thomas J. Browder, CPA
Mort Stroud, CPA	Stephen D. Flake, CPA
Gary C. Hamilton, CPA	John N. Russell, CPA

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

Members of the Board of Supervisors
Marshall County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Marshall 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 Marshall 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 Marshall County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

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

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

This report is intended for use in evaluating the central purchasing system and inventory control system of Marshall 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.

Starkville, Mississippi
January 15, 2007

Walter W. and H. P. P. C.

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

Schedule 1

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

**Marshall County
Schedule of Emergency Purchases
For the Year Ended September 30, 2006**

Schedule 2

Our test results did not identify any emergency purchases.

Marshall County
Schedule of Purchases Made Noncompetitively from a Sole Source
For the Year Ended September 30, 2006

Schedule 3

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

SCHEDULE OF FINDINGS

**MARSHALL COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Section 2: Financial Statements Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.



WATKINS, WARD AND STAFFORD
 Professional Limited Liability Company
 Certified Public Accountants

One Professional Plaza P.O. Box 1345 Starkville, MS 39760
 200 Hospital Road
 Phone (662) 323-9071 Fax (662) 323-9075

James L. Stafford, CPA
 Harry W. Stevens, CPA
 Boyd M. Edwards, CPA
 Paul A. Ray, CPA
 S. Keith Winfield, CPA
 William B. Stagers, CPA
 Aubrey R. Holder, CPA
 David M. Howell, CPA
 Michael W. McCully, CPA
 Mort Stroud, CPA
 Gary C. Hamilton, CPA
 R. Steve Sinclair, CPA
 Michael L. Pierce, CPA
 Marsha L. McDonald, CPA
 Wanda S. Holley, CPA
 Robin Y. McCormick, CPA/PFS
 J. Randy Scrivner, CPA
 Kimberly S. Caskey, CPA
 Susan M. Lummus, CPA
 Thomas J. Browder, CPA
 Stephen D. Flake, CPA
 John N. Russell, CPA

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

Members of the Board of Supervisors
 Marshall County, Mississippi

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

In addition, for areas not considered material to Marshall 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 and tests were substantially less in scope than an audit, the objective of which is an 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 January 15, 2007, on the financial statements of Marshall County, Mississippi.

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

The results of our review procedures and compliance tests did not identify any immaterial instances of noncompliance with state laws and regulations or any other matters that are opportunities for strengthening internal controls and operating efficiency

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.

Starkville, Mississippi
 January 15, 2007

Wattis Ward and Stafford