

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

NEWTON COUNTY

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NEWTON COUNTY

FINANCIAL SECTION



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

Members of the Board of Supervisors
Newton County, 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 Newton County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's basic 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.

Except as discussed in the following paragraph, 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.

Management did not include the financial information of the Circuit Clerk's Office, which should be reported under the General Fund, in the financial statements for the year ended September 30, 2006. We were unable to obtain all the information and explanations we considered necessary to satisfy ourselves as to the existence and completeness of the financial accounts of the Circuit Clerk's Office.

Because of the matter discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express an opinion on the General Fund of Newton County, Mississippi, as of and for the year ended September 30, 2006.

Accounting principles generally accepted in the United States of America require that fines receivable be recorded and an adequate allowance be provided for uncollectible receivables, which would increase the assets and change the revenues in the governmental activities and the General Fund. The amount by which this departure would affect the assets and revenues of the governmental activities and the General Fund is not reasonably determinable.

In our opinion, except for the effects of not recording fines receivable, net of allowance for uncollectibles of the Circuit Court for the general fund as described above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the Beat 2 Road Maintenance Fund, the Beat 4 Road Maintenance Fund, and the aggregate remaining fund information of Newton County, Mississippi, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2007, on our consideration of Newton 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 read in conjunction with this report in considering the results of our audit.

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

The Budgetary Comparison Schedules and corresponding notes on pages 34 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Newton 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 and 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.

Watkins, Ward and Stafford, PLLC
July 2, 2007

(Watkins, Ward & Stafford, PLLC)

NEWTON COUNTY

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NEWTON COUNTY

FINANCIAL STATEMENTS

NEWTON COUNTY
Statement of Net Assets
September 30, 2006

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 3,221,924	310,651	3,532,575
Property tax receivable	3,257,525		3,257,525
Accounts receivable (net of allowance for uncollectibles of \$117,663)		129,483	129,483
Fines receivable (net of allowance for uncollectibles of \$264,138)	69,951		69,951
Intergovernmental receivables	254,201		254,201
Other receivables	1,474	57,726	59,200
Internal balances	(165,261)	165,261	-
Capital assets:			
Land	326,803	66,000	392,803
Other capital assets, net	7,294,078	270,391	7,564,469
Total Assets	14,260,695	999,512	15,260,207
LIABILITIES			
Claims payable	665,938	36,700	702,638
Intergovernmental payables	161,432		161,432
Deferred revenue	3,257,525		3,257,525
Other payables	310		310
Long-term liabilities			
Due within one year:			
Capital debt	1,516,900	16,765	1,533,665
Non-capital debt			
Due in more than one year:			
Capital debt	4,036,979	13,762	4,050,741
Non-capital debt	66,654	2,569	69,223
Total Liabilities	9,705,738	69,796	9,775,534
NET ASSETS			
Invested in capital assets, net of related debt	2,067,002	305,864	2,372,866
Restricted:			
Expendable:			
General government	147,540		147,540
Debt service	225,792		225,792
Public safety	105,569		105,569
Public works	1,835,207		1,835,207
Health and welfare	9,212		9,212
Economic development	19,754		19,754
Other purposes	106,584		106,584
Unrestricted	38,297	623,852	662,149
Total Net Assets	\$ 4,554,957	929,716	5,484,673

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

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

Exhibit 2

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
GOVERNMENTAL ACTIVITIES:							
General	\$ 2,631,776	547,893	209,640		(1,874,243)		(1,874,243)
Public Safety	2,026,217	361,491	132,411	88,773	(1,443,542)		(1,443,542)
Public Works	2,698,067		769,252	781,186	(1,147,629)		(1,147,629)
Health and Welfare	110,918		22,367		(88,551)		(88,551)
Culture and Recreation	73,950				(73,950)		(73,950)
Education	126,370				(126,370)		(126,370)
Conservation of Natural Resources	60,309				(60,309)		(60,309)
Economic Development & Assistance			13,125		13,125		13,125
Interest on Long-Term Debt	613,247				(613,247)		(613,247)
Total Governmental Activities	8,340,854	909,384	1,146,795	869,959	(5,414,716)		(5,414,716)
Business-type activities							
Solid waste	557,087	733,622	38,113			214,648	214,648
Total Business-type Activities	557,087	733,622	38,113	0	0	214,648	214,648
TOTAL	\$ 8,897,941	1,643,006	1,184,908	869,959	(5,414,716)	214,648	(5,200,068)
General Revenues:							
Property taxes					\$ 4,621,172		4,621,172
Road and bridge privilege taxes					232,398		232,398
Grants and contributions not restricted to specific programs					391,421	18,288	409,709
Unrestricted interest income					112,333	16,660	128,993
Miscellaneous					350,463		350,463
Total General Revenues, Special Item, Extradordinary Item and Transfer:					5,707,787	34,948	5,742,735
Changes in Net Assets					293,071	249,596	542,667
Net Assets - Beginning					4,261,886	680,120	4,942,006
Net Assets - Ending					\$ 4,554,957	929,716	5,484,673

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

Newton County
Balance Sheet - Governmental Funds
September 30, 2006

Exhibit 3

	Major Funds				Total Governmental Funds
	General Fund	Beat 2 Road Maintenance Fund	Beat 4 Road Maintenance Fund	Other Governmental Funds	
ASSETS					
Cash	\$ 826,893	408,228	154,831	1,831,972	3,221,924
Property tax receivable	1,973,437	98,489	77,849	1,107,750	3,257,525
Fines receivable (net of allowance for uncollectibles of \$264,138)	69,951				69,951
Intergovernmental receivables	95,601	103,479		55,121	254,201
Other receivables	1,474				1,474
Due from other funds	9,739	7,357	5,815	45,219	68,130
Advances to other funds				106,584	106,584
Total Assets	\$ 2,977,095	617,553	238,495	3,146,646	6,979,789
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 382,109	72,518	66,154	145,157	665,938
Intergovernmental payables	154,089				154,089
Due to other funds	240,734				240,734
Advances from other funds				106,584	106,584
Deferred revenue	2,043,388	98,489	77,849	1,107,750	3,327,476
Other payables	310				310
Total Liabilities	2,820,630	171,007	144,003	1,359,491	4,495,131
Fund balances:					
Reserved for:					
Debt service				225,792	225,792
Advances				106,584	106,584
Unreserved - undesignated, reported in:					
General fund	156,465				156,465
Special revenue funds		446,546	94,492	1,451,461	1,992,499
Capital project funds				3,318	3,318
Total Fund Balances	156,465	446,546	94,492	1,787,155	2,484,658
Total Liabilities and Fund Balances	\$ 2,977,095	617,553	238,495	3,146,646	6,979,789

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

Exhibit 3-1

NEWTON COUNTY

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets

September 30, 2006

	<u>Amount</u>
Total Fund Balance – Governmental Funds	\$ 2,484,658
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 \$4,357,771.	7,620,881
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	69,951
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(5,620,533)</u>
Total Net Assets – Governmental Activities	\$ <u>4,554,957</u>

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

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

	Major Funds				Total Governmental Funds
	General Fund	Beat 2 Road Maintenance Fund	Beat 4 Road Maintenance Fund	Other Governmental Funds	
REVENUES					
Property taxes	\$ 2,852,840	138,490	109,206	1,520,636	4,621,172
Road and bridge privilege taxes		52,452	41,460	138,486	232,398
Licenses, commissions and other revenue	210,507			9,149	219,656
Fines and forfeitures	274,708				274,708
Intergovernmental revenues	879,554	235,990	392,812	899,819	2,408,175
Charges for services	121,893			223,176	345,069
Interest income	30,790	18,605	7,376	55,562	112,333
Miscellaneous revenues	182,302	1,362	19,551	26,671	229,886
Total Revenues	<u>4,552,594</u>	<u>446,899</u>	<u>570,405</u>	<u>2,873,499</u>	<u>8,443,397</u>
EXPENDITURES					
Current:					
General government	2,572,832				2,572,832
Public safety	1,676,050			297,618	1,973,668
Public works	100	843,155	597,954	3,436,372	4,877,581
Health and welfare	94,926			15,992	110,918
Culture and recreation	69,886			4,064	73,950
Conservation of natural resources	126,370				126,370
Economic development and assistance	37,184			23,125	60,309
Debt service:					
Principal	631,045	17,646	464,801	219,010	1,332,502
Interest	14,411	7,280	15,721	575,835	613,247
Total Expenditures	<u>5,222,804</u>	<u>868,081</u>	<u>1,078,476</u>	<u>4,572,016</u>	<u>11,741,377</u>
Excess of Revenues over (under) Expenditures	<u>(670,210)</u>	<u>(421,182)</u>	<u>(508,071)</u>	<u>(1,698,517)</u>	<u>(3,297,980)</u>
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	569,540	180,526	390,926	1,900,025	3,041,017
Long-term non-capital debt issued				348,108	348,108
Proceeds from sale of capital assets		29,104	150,660	71,042	250,806
Transfers in	89,629				89,629
Transfers out				(89,629)	(89,629)
Total Other Financing Sources and Uses	<u>659,169</u>	<u>209,630</u>	<u>541,586</u>	<u>2,229,546</u>	<u>3,639,931</u>
Net Changes in Fund Balances	<u>(11,041)</u>	<u>(211,552)</u>	<u>33,515</u>	<u>531,029</u>	<u>341,951</u>
Fund Balance - Beginning	<u>167,506</u>	<u>658,098</u>	<u>60,977</u>	<u>1,256,126</u>	<u>2,142,707</u>
Fund Balances - Ending	<u>\$ 156,465</u>	<u>446,546</u>	<u>94,492</u>	<u>1,787,155</u>	<u>2,484,658</u>

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

NEWTON COUNTY

Exhibit 4-1

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

	<u>Amount</u>
Net Changes in Fund Balances – Governmental Funds	\$ 341,951
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$2,971,585 exceeded depreciation of \$1,004,133 in the current period.	1,967,452
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 decreases financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net (gain/loss) of \$228,593 and the proceeds from the sale of \$250,806 in the current period.	(22,213)
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	69,951
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 \$1,332,502 exceeded debt proceeds of \$3,389,125.	(2,056,623)
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 increase in compensated absences.	(7,447)
Change in Net Assets of Governmental Activities	\$ <u>293,071</u>

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

NEWTON COUNTY
Statement of Net Assets – Proprietary Fund
September 30, 2006

Exhibit 5

	Business-type Activities Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash	\$ 310,651
Accounts receivable (net of allowance for uncollectibles of \$144,846)	129,483
Due from governmental funds	175,000
Other receivables	57,726
Total Current Assets	<u>672,860</u>
Noncurrent assets:	
Land	66,000
Other capital assets, net	270,391
Total noncurrent assets	<u>336,391</u>
Total Assets	<u>1,009,251</u>
LIABILITIES	
Current liabilities:	
Claims payable	36,700
Due to other funds	9,739
Current portions of long-term capital-related debt:	
Capital leases payable	16,765
Total Current Liabilities	<u>63,204</u>
Non-current liabilities:	
Capital related debt:	
Capital loans payable	13,762
Non-capital debt:	
Compensated absences payable	2,569
Total Non-current Liabilities	<u>16,331</u>
Total Liabilities	<u>79,535</u>
NET ASSETS	
Invested in capital assets, net of related debt	305,864
Unrestricted	<u>623,852</u>
Total Net Assets	<u>\$ 929,716</u>

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

NEWTON COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Assets -
Proprietary Fund
September 30, 2006

Exhibit 6

	Business-type Activities Enterprise Fund
	Solid Waste Fund
Operating Revenues	
Charges for services	\$ 733,622
Miscellaneous	38,113
Total Operating Revenues	<u>771,735</u>
Operating Expenses	
Personal services	243,159
Contractual services	93,092
Materials and supplies	155,779
Depreciation expense	49,741
Indirect administrative cost	9,739
Total Operating Expenses	<u>551,510</u>
Operating Income (Loss)	<u>220,225</u>
Nonoperating Revenues (Expenses)	
Interest income	16,660
Operating grants	18,288
Loss on sale of capital assets	(4,233)
Interest expense	(1,344)
Net Nonoperating Revenue (Expenses)	<u>29,371</u>
Net Income (Loss)	<u>249,596</u>
Changes in Net Assets	249,596
Net Assets – Beginning	<u>680,120</u>
Net Assets – Ending	<u>\$ 929,716</u>

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

NEWTON COUNTY
Statement of Cash Flows – Proprietary Fund
For the Year Ended September 30, 2006

Exhibit 7

	Business-type Activities Enterprise Fund
	<u>Solid Waste Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 719,247
Payments to suppliers	(259,770)
Payments to employees	(220,225)
Payments to general fund for indirect cost	(18,509)
Other operating cash receipts	<u>38,113</u>
Net Cash Provided by Operating Activities	<u>258,856</u>
Cash Flows From Noncapital Financing Activities	
Operating grants received	18,288
Cash received from other funds:	
Loans to other funds	<u>(17,400)</u>
Net Cash Provided by Noncapital Financing Activities	<u>888</u>
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(54,339)
Proceeds of long-term debt	41,584
Principal paid on long-term debt	(37,110)
Interest paid on debt	<u>(1,344)</u>
Net Cash Provided by Capital and Related Financing Activities	<u>(51,209)</u>
Cash Flows From Investing Activities	
Interest on investments	<u>16,660</u>
Net Cash Provided by Investing Activities	<u>16,660</u>
Net Increase in Cash and Cash Equivalents	225,195
Cash and Cash Equivalents at Beginning of Year	<u>85,456</u>
Cash and Cash Equivalents at End of Year	<u>\$ 310,651</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating income	\$ <u>220,225</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation expense	49,741
Changes in assets and liabilities:	
Increase in provision for uncollectible accounts	27,183
(Increase) in accounts receivable	(41,558)
Increase in claims payable	12,128
(Decrease) in compensated absences liability	(93)
(Decrease) in interfund payables	<u>(8,770)</u>
Total Adjustments	<u>38,631</u>
Net Cash Provided by Operating Activities	<u>\$ 258,856</u>

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

NEWTON COUNTY
Statement of Fiduciary Assets and Liabilities
For the Year Ended September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 36,829
Due from other funds	<u>7,343</u>
Total Assets	\$ <u>44,172</u>
LIABILITIES	
Intergovernmental payables	\$ <u>44,172</u>
Total Liabilities	\$ <u>44,172</u>

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

NEWTON COUNTY

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

1. Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Newton 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 Newton County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county. There are no outside organizations that should be included as component units of the county's reporting entity.

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 financial statements.

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

NEWTON COUNTY

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

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.

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 non-operating. Operating revenues and expenses generally result from providing services in connections with a Proprietary Funds' primary operations. All other revenues and expenses are reported as non-operating.

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 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.

NEWTON COUNTY

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

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.

Beat 2 Road Maintenance Fund – This fund accounts for monies from specific revenue sources restricted for road maintenance.

Beat 4 Road Maintenance Fund – This fund accounts for monies from specific revenue sources restricted for road maintenance.

The county reports the following major Proprietary Fund:

Solid Waste Fund – This fund is used to account for the County's activities of the disposal of solid waste within the county.

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.

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

PROPRIETARY FUND TYPE

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 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.

NEWTON COUNTY

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

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Inter-fund 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." Non-current portions of inter-fund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

NEWTON COUNTY

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

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 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.

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

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 non-capitalization 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 and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

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

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

NEWTON COUNTY

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

I. Long-term liabilities.

Long-term liabilities are the un-matured principal of bonds, loans, notes or other forms of non-current 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 Funds Statement of Net Assets.

J. Equity Classifications.

Government-wide Financial Statements:

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

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

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws 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 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.

NEWTON COUNTY

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

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 those 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 and Proprietary Funds financial statements. In fund financial statements, Government Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

2. Changes in Accounting Standards.

For the fiscal year ended September 30, 2006, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 40, "Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3." GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this new statement have been incorporated into the financial statements and the accompanying notes.

NEWTON COUNTY

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

3. Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$3,569,404, and the bank balance was \$3,645,491. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

4. Interfund Transactions and Balances.

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

A. Due From/To Other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Solid waste	\$ 9,739
Solid Waste	General	175,000
Beat 2 Road Maintenance	General	7,357
Beat 4 Road Maintenance	General	5,815
Other Governmental Funds	General	45,219
Agency Fund	General	<u>7,343</u>
Total		\$ <u>250,473</u>

The General Fund receivable is the amount of indirect costs due to solid waste operations. The solid waste receivable was to provide funds for necessary operating funds. All other amounts are the tax revenue collected but not settled until October 2006. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other	Other	\$ <u>106,584</u>

The purpose of the advances was to provide funds for bond payments and needed bridge work.

NEWTON COUNTY

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

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ <u>89,629</u>

The purpose of the interfund transfers was to provide funds for administrative services. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

5. Intergovernmental Receivables.

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

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 95,601
State aid road	<u>158,600</u>
Total Governmental Activities	\$ <u>254,201</u>

6. Other Receivable.

The other receivable of \$57,726 in the Proprietary Fund Type is funds due to the Solid Waste Enterprise Fund from the Sprint Auction Company. The county sold garbage trucks through an auction operated by the company and did not receive payment from the sale before the company filed bankruptcy. There is a court decision pending related to the county's collection of these funds.

NEWTON COUNTY

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

7. Capital Assets.

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

Governmental activities:

	Balance October 1, 2005	Additions	Deletions	Adjustments	Balance Sept. 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 326,803	-	-	-	326,803
Total non-depreciable capital assets	<u>326,803</u>	-	-	-	<u>326,803</u>
<u>Depreciable capital assets:</u>					
Infrastructure	298,172				298,172
Buildings	4,752,027				4,752,027
Mobile equipment	2,341,189	424,916	440,728	104,072	2,429,449
Furniture and equipment	318,175	25,652	24,181		319,646
Leased property under capital leases	<u>3,479,981</u>	<u>2,521,017</u>	<u>82,851</u>	(2,065,592)	<u>3,852,555</u>
Total depreciable capital assets	<u>11,189,544</u>	<u>2,971,585</u>	<u>547,760</u>	<u>(1,961,520)</u>	<u>11,651,849</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	14,375	5,987			20,362
Buildings	1,439,696	84,482			1,524,178
Mobile equipment	1,602,388	223,340	314,746	29,252	1,540,234
Furniture and equipment	197,941	54,001	19,934	(36,137)	195,871
Leased property under capital leases	<u>761,055</u>	<u>636,323</u>	<u>88,976</u>	(231,276)	<u>1,077,126</u>
Total accumulated depreciation	<u>4,015,455</u>	<u>1,004,133</u>	<u>423,656</u>	<u>(238,161)</u>	<u>4,357,771</u>
Total depreciable capital assets, net	<u>7,174,089</u>	<u>1,967,452</u>	<u>124,104</u>	<u>(1,723,359)</u>	<u>7,294,078</u>
Governmental activities capital assets, net	\$ <u>7,500,892</u>	<u>1,967,452</u>	<u>124,104</u>	<u>(1,723,359)</u>	<u>7,620,881</u>

Business-type activities:

<u>Non-depreciable capital assets:</u>					
Land	66,000	-	-	-	66,000
Total non-depreciable capital assets	<u>66,000</u>	-	-	-	<u>66,000</u>
<u>Depreciable capital assets:</u>					
Mobile equipment	270,818	11,900	77,996	238,404	443,126
Furniture and equipment	139,497	855		5,095	145,447
Leased property under capital leases	<u>238,404</u>	<u>41,584</u>	-	(238,404)	<u>41,584</u>
Total depreciable capital assets	<u>648,719</u>	<u>54,339</u>	<u>77,996</u>	<u>5,095</u>	<u>630,157</u>
<u>Less accumulated depreciation for:</u>					
Mobile equipment	112,149	34,465	70,197	181,760	258,177
Furniture and equipment	84,785	7,791		1,528	94,104
Leased property under capital leases	<u>181,759</u>	<u>7,485</u>	-	(181,759)	<u>7,485</u>
Total accumulated depreciation	<u>378,693</u>	<u>49,741</u>	<u>70,197</u>	<u>1,529</u>	<u>359,766</u>
Total depreciable capital assets, net	<u>270,026</u>	<u>4,598</u>	<u>7,799</u>	<u>3,566</u>	<u>270,391</u>
Business-type activities capital assets, net	\$ <u>336,026</u>	<u>4,598</u>	<u>7,799</u>	<u>3,566</u>	<u>336,391</u>

NEWTON COUNTY

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

Adjustments to capital assets reflect the maturing and buy back agreements.

7. Capital Assets (Continued):

Depreciation expenses was charged to the following functions:

	<u>Amount</u>	
Governmental Activities:		
General government	\$	56,610
Public safety		210,130
Public works		<u>737,393</u>
Total governmental activities depreciation expense	\$	<u>1,004,133</u>
Business-type activities:		
Solid waste	\$	<u>49,741</u>

9. Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$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 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.

9. 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>	<u>Business-type Activities</u>
Mobile equipment	\$ 3,537,495	41,584
Other furniture and equipment	<u>315,060</u>	<u>-</u>
Total	3,852,555	41,584
Less: Accumulated depreciation	<u>1,077,126</u>	<u>7,485</u>
Leased Property Under Capital Leases	\$ <u>2,716,278</u>	<u>34,099</u>

NEWTON COUNTY

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

9. Capital Leases (Continued).

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>Business-type Activities</u>	
		<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$	1,381,900	114,464	13,762	968
2008		390,219	64,035	14,322	409
2009		1,373,374	41,058	2,443	12
2010		44,502	2,601		
2011		<u>38,884</u>	<u>706</u>	<u>-</u>	<u>-</u>
Total	\$	<u>3,228,879</u>	<u>222,864</u>	<u>30,527</u>	<u>1,389</u>

NEWTON COUNTY

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

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:		
	\$ 65,000	7.5 to 10%	9/10
	95,000	5.4 to 5.5%	9/10
	<u>2,165,000</u>	4 to 5.7 %	10/21
	Total General Obligation Bonds		
	\$ <u>2,325,000</u>		
B.	Capital Leases:		
	\$ 3,453	3.15%	9/10
	95,727	3.07%	10/08
	5,915	3.04%	2/07
	9,819	3.15%	11/07
	11,661	3.25%	4/05
	20,651	3.99%	3/09
	25,000	4.32%	9/09
	11,227	3.17%	3/09
	108,098	2.95%	7/09
	41,297	2.95%	8/09
	107,931	2.95%	7/09
	41,297	2.95%	8/09
	11,227	3.17%	3/09
	19,364	3.15%	7/09
	89,725	2.94%	11/06
	38,072	3.15%	7/09
	35,251	3.24%	11/09
	53,546	3.25%	8/08
	82,851	3.19%	7/09
	82,851	3.19%	7/09
	128,500	3.49%	3/07
	189,980	3.41%	5/07
	189,980	3.41%	5/07
	189,980	3.41%	5/07
	94,990	3.41%	5/07
	175,527	3.99%	6/09
	175,527	3.99%	6/09
	351,055	3.99%	6/09
	175,527	3.99%	6/09
	351,055	3.99%	6/09
	10,647	3.99%	5/09
	83,239	4.25%	6/11
	101,112	4.25%	7/11
	19,807	4.25%	7/11
	<u>96,990</u>	4.26%	9/07
	Total Capital Leases		
	\$ <u>3,228,879</u>		

NEWTON COUNTY

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

10. Long Term Debt (Continued).

Business-type Activities:
Capital Lease:
Garbage trucks/trailer

30,527 3.99% 11/08

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

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 135,000	104,801
2008	145,000	96,663
2009	145,000	88,213
2010	135,000	80,513
2011	110,000	72,988
2012-2016	650,000	290,100
2017-2021	820,000	133,434
2022-2026	<u>185,000</u>	<u>4,046</u>
 Total	 \$ <u>2,325,000</u>	 <u>870,758</u>

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 2.32% of the latest property assessments.

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

	<u>Balance</u>				<u>Balance</u>	<u>Amount due</u>
	<u>Oct. 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Sept. 30, 2006</u>	<u>Within one</u>
						<u>Year</u>
Governmental Activities:						
Compensated absences	\$ 59,207	7,447			66,654	
General obligated bonds	2,450,000		125,000		2,325,000	135,000
Capital leases	2,876,656	2,521,017	339,394	(1,829,400)	3,228,879	1,381,900
Other loans	-	868,108	868,108	-	-	-
 Total	 \$ <u>5,385,863</u>	 <u>3,396,572</u>	 <u>1,332,502</u>	 <u>(1,829,400)</u>	 <u>5,620,533</u>	 <u>1,516,900</u>
Business-type Activities:						
Compensated absences	\$ 2,662		93		2,569	
Capital leases	<u>26,053</u>	<u>41,584</u>	<u>37,110</u>	<u>-</u>	<u>30,527</u>	<u>13,762</u>
 Total	 \$ <u>28,715</u>	 <u>41,584</u>	 <u>37,203</u>	 <u>-</u>	 <u>33,096</u>	 <u>13,762</u>

NEWTON COUNTY

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

Adjustment is to remove long-term liability for capital leases cancelled by the county.

11. Deficit Fund Balances of Individual funds:

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

Fund	Deficit Amount
Countywide road and bridge	\$ 655
E-911	22,279
County fire	8,555
Beat 4 road bond I & S	22,668

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 disallowances 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.

Open Investigation – It came to our attention that there is an open investigation by the Investigative Division of the State Audit Department relating to the Office of the Circuit Clerk including the year ended September 30, 2006. This investigation is still open at the date of this report July 2, 2007.

13. Joint Venture.

The county participates in the following joint venture:

Newton County is a participant with Kemper County in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Kemper-Newton Regional Library System. The joint venture was created to provide free public library service to the citizens of the respective counties. The Newton County Board of Supervisors alternately appoints two or three of the five members of the board of directors. By contractual agreement, the county's appropriation to the joint venture was \$69,170 in fiscal year 2006. Complete financial statements for the Kemper-Newton Regional Library System can be obtained from 101 Peachtree Street, Union, MS 39365.

NEWTON COUNTY

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

14. Joint Governed Organizations.

The county participates in the following jointly governed organizations:

Mid-Mississippi Development District operates in a district composed of the Counties of Clarke, Jasper, Lauderdale, Newton, Scott and Smith. The district was organized to foster, encourage and facilitate economic development in the member counties. The district's board of trustees is composed of 30 members, five each from the six-member counties. The county appropriated \$24,187 for support of the district in fiscal year 2006.

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Newton County Board of Supervisors appoints one of the 15 members of the board of directors. The county appropriated \$12,805 for support of the district in fiscal year 2006.

Region Ten Mental Health-Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Newton County Board of Supervisors appoints one of the nine members of the board of commissioners. The county appropriated \$29,500 for support of the commission in fiscal year 2006.

The Multi-County Community Service Agency operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Newton and Wayne. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Newton County Board of Supervisors appoints one of the 24 members of the board of directors. Most of the 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.

East Central Community College operates in a district composed of the Counties of Leake, Neshoba, Newton, Scott and Winston. The Newton County Board of Supervisors appoint one of the 30 members of the college board of trustees. The county appropriated \$339,420 for maintenance and support of the college in fiscal year 2006.

NEWTON COUNTY

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

15. Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The 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 years ending September 30, 2006, 2005, and 2004, were \$ 255,926, \$228,407, and \$212,907, respectively, equal to the required contributions for each year.

16. Subsequent Events.

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

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
10/06	4.32%	\$ 22,950	Lease purchase	Ad valorem
11/06	4.39%	88,775	Lease purchase	Ad valorem
01/07	4.39%	31,172	Lease purchase	Ad valorem
03/07	4.16%	22,749	Lease purchase	Ad valorem

NEWTON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

NEWTON 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	\$ 2,590,906	2,861,689	2,861,689	
Licenses, commissions and other revenue	152,985	209,552	209,552	
Fines and forfeitures	263,500	273,929	273,929	
Intergovernmental revenues	1,018,100	1,192,881	1,130,429	(62,452)
Charges for services	15,500	57,641	121,893	64,252
Interest income	11,975	36,099	30,703	(5,396)
Miscellaneous revenues	150,440	180,680	184,276	3,596
Total Revenues	<u>4,203,406</u>	<u>4,812,471</u>	<u>4,812,471</u>	<u>-</u>
EXPENDITURES				
Current:				
General government	2,514,761	2,377,239	2,377,239	
Public safety	1,493,286	1,664,828	1,568,400	96,428
Public works	120	100	100	
Health and welfare	103,300	100,802	100,802	
Culture and recreation	64,470	69,470	69,470	
Education	309,661	295,108	295,108	
Conservation of natural resources	124,421	122,486	122,486	
Economic development and assistance	37,492	37,392	37,392	
Debt service:				
Principal	20,344	540,344	630,925	(90,581)
Interest	458	8,684	14,531	(5,847)
Other expenditures				
Total Expenditures	<u>4,668,313</u>	<u>5,216,453</u>	<u>5,216,453</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>(464,907)</u>	<u>(403,982)</u>	<u>(403,982)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from long-term capital debt issued		520,000	520,000	
Compensation for loss of capital assets		15,939	15,939	
Transfers in		211,845	211,845	
Transfers out	(317,600)	(83,957)	(83,957)	
Total Other Financing Sources and Uses	<u>(317,600)</u>	<u>663,827</u>	<u>663,827</u>	<u>-</u>
Net Change in Fund Balance	(782,507)	259,845	259,845	
Fund Balances – Beginning	<u>(257,667)</u>	<u>(258,789)</u>	<u>(257,667)</u>	<u>1,122</u>
Fund Balances – Ending	\$ <u>(1,040,174)</u>	<u>1,056</u>	<u>2,178</u>	<u>1,122</u>

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

NEWTON COUNTY
Budgetary Comparison Schedule-
Budget and Actual (Non-GAAP Basis)
Major special revenue fund Beat 2 Road Maintenance Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 126,058	140,732	140,732	
Road and bridge privilege taxes	51,008	52,817	52,817	
Intergovernmental revenues	122,812	291,006	291,006	
Interest income		18,605	18,605	
Miscellaneous revenues	87,002	1,362	1,362	
Total Revenues	<u>386,880</u>	<u>504,522</u>	<u>504,522</u>	<u>-</u>
EXPENDITURES				
Current:				
Public works	317,540	760,581	760,581	
Debt service:				
Principal	56,528	245,382	245,382	
Interest	12,812	7,280	7,280	
Total Expenditures	<u>386,880</u>	<u>1,013,243</u>	<u>1,013,243</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>-</u>	<u>(508,721)</u>	<u>(508,721)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets		283,700	283,700	
Total Other Financing Sources & Uses	<u>-</u>	<u>283,700</u>	<u>283,700</u>	<u>-</u>
Net Change in Fund Balance	-	(225,021)	(225,021)	-
Fund Balances – Beginning	<u>511,437</u>	<u>510,021</u>	<u>511,437</u>	<u>1,416</u>
Fund Balances – Ending	<u>\$ 511,437</u>	<u>285,000</u>	<u>286,416</u>	<u>1,416</u>

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

NEWTON COUNTY
Budgetary Comparison Schedule-
Budget and Actual (Non-GAAP Basis)
Major special revenue fund Beat 4 Road Maintenance Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 99,640	110,978	110,978	
Road and bridge privilege taxes	40,318	41,749	41,749	
Intergovernmental revenues	99,882	459,430	459,430	
Interest income		7,376	7,376	
Miscellaneous revenues	174,004	19,551	19,551	
Total Revenues	<u>413,844</u>	<u>639,084</u>	<u>639,084</u>	<u>-</u>
EXPENDITURES				
Current:				
Public works	279,093	514,448	514,448	
Debt service:				
Principal	112,431	919,809	919,809	
Interest	22,320	15,721	15,721	
Total Expenditures	<u>413,844</u>	<u>1,449,978</u>	<u>1,449,978</u>	<u>-</u>
Excess of Revenues over (under) Expenditures	<u>-</u>	<u>(810,894)</u>	<u>(810,894)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of long-term non-capital debt issued		348,108	348,108	
Compensation for loss of capital assets		3,692	3,692	
Proceeds from sale of capital assets		662,258	662,258	
Total Other Financing Sources & Uses	<u>-</u>	<u>1,014,058</u>	<u>1,014,058</u>	<u>-</u>
Net Change in Fund Balance	-	203,164	203,164	
Fund Balances – Beginning	60,977	60,977	60,977	-
Fund Balances – Ending	<u>\$ 60,977</u>	<u>264,141</u>	<u>264,141</u>	<u>-</u>

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

NEWTON COUNTY

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

Notes to the Required Supplementary Information.

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

NEWTON COUNTY

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

	General Fund	Beat 2 Road Maintenance Fund	Beat 4 Road Maintenance fund
Budget (Cash Basis)	\$ 259,845	(225,021)	203,164
Increase (Decrease)			
Net adjustments for revenue accruals	(53,935)	57,732	(135,316)
Net adjustments for expenditure accruals other uses for nonbudgeted funds	(216,954)	(44,263)	(34,333)
	<hr/>	<hr/>	<hr/>
GAAP Basis	\$(<u>11,041</u>)	(<u>211,552</u>)	<u>33,515</u>

NEWTON COUNTY

SUPPLEMENTAL INFORMATION

Newton County, Mississippi
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
<u>U.S. Department of Transportation</u>			
Passed through Mississippi Department of Transportation			
Highway Planning and Construction	20.205	N/A	\$ 17,300
Highway Planning and Construction	20.205	Er-0051(26)b	383,198
Total U.S. Department of Transportation			<u>400,498</u>
Total Expenditures of Major Federal Awards			<u>400,498</u>
OTHER FEDERAL AWARDS			
<u>U.S. Department of Housing and Urban Development</u>			
Passed through the Mississippi Development Authority/Office of Community Planning and Development			
Home Investment Partnership Program	14.239	home 2001	13,125
<u>U.S. Department of Justice</u>			
Passed through the Mississippi Department of Public Safety			
Local Law Enforcement Block Grant Program	16.592	041b1511	2,049
<u>Election Assistance Commission</u>			
Passed through the Mississippi Secretary of State's Office			
Help America Vote ACT Requirements Payments	90.401	N/A	127,838
<u>U.S. Department of Health and Human Services</u>			
Passed through Mississippi Secretary of State's Office			
Voting Access for Individuals with Disabilities - Grants to States	93.617	N/A	14,185
<u>Social Security Administration</u>			
Social Security Incentive Payments	96.XXX	N/A	1,800
<u>U.S. Department of Homeland Security</u>			
Passed through the Mississippi Emergency Management Agency			
Public Assistance Grants (Presidentially Declared Disasters)	97.036	FEMA-1604-dr-ms	60,591
Public Assistance Grants (Presidentially Declared Disasters)	97.036	FEMA-1594-dr-ms	1,735
Passed through the Mississippi Department of Public Safety			
State Domestic Preparedness Equipment Support Program	97.004	05hs051	65,875
State Domestic Preparedness Equipment Support Program	97.004	04hs051	1,177
Law Enforcement Terrorism Prevention Program	97.074	05ls0515	26,188
Citizen Corps	97.053	04cc051	2,479
Total U.S. Department of Homeland Security			<u>158,045</u>
Total Expenditures of Other Federal Awards			<u>317,042</u>
Total for all Federal Awards			<u><u>\$717,540</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1: Significant Accounting Policies

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

Note 2: Help America Vote Act Requirements Payments (CFDA#90.401).

Of the federal expenditures presented in the schedule, federal awards totaling \$127,838 represented non cash awards for computerized voting machines during the fiscal year ended September 30, 2006.

NEWTON COUNTY

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 FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Supervisors
Newton County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Newton County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the County's basic financial statements and have issued our report thereon dated July 2, 2007. We did not express an opinion on the General Fund of Newton County, Mississippi because the financial records of the Circuit Clerk were not included by management under the general fund in the financial statements for the year then ended September 30, 2006. Except as discussed in the preceding sentence, 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 Governmental Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Newton County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 Newton County, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Cost as item 06-1, 06-2, 06-3, 06-4, and 06-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions 06-1 and 06-2 described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Newton County, Mississippi's 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of findings and Questioned Costs as Item 06-01. We also noted certain instances of noncompliance that we have reported to the management of Newton County, Mississippi, in Limited Internal Control and Compliance and Review Management Report dated July 2, 2007, included within this document.

This part 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.

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
July 2, 2007

Watkins, Ward & Stafford, PLLC



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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
 Newton County, Mississippi

Compliance

We have audited the compliance of Newton County 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 each of its major federal programs for the year ended September 30, 2006. Newton County, Mississippi’s major federal programs are identified in the summary of auditor’s results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of Newton County, Mississippi’s management. Our responsibility is to express an opinion on Newton 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 Newton 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 Newton County’s compliance with those requirements.

In our opinion, Newton County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

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

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

This report is intended solely for the information and use of management, 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.

Watkins, Ward and Stafford, PLLC
July 2, 2007

Watkins, Ward & Stafford, PLLC



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

Members of the Board of Supervisors
Newton County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Newton 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 Newton 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 Newton 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, Newton 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 an inventory control system of Newton County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
July 2, 2007

Watkins, Ward & Stafford, PLLC

NEWTON 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 from other than the lowest bidder.

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

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
6/05/2006	Laser Jet Ink Cartridge	\$ 187.21	Office Max	Due to changes in personnel in Circuit Clerk Office, ran out of ink while attempting to print juror lists for an 8:00 meeting.

NEWTON 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.



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

Members of the Board of Supervisors
Newton County, Mississippi

In planning and performing our audit of the financial statements of Newton County, Mississippi for the year ended September 30, 2006, we considered Newton 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 Newton 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 July 2, 2007, on the financial statements of Newton County, Mississippi.

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

The results of our review procedures and compliance tests identified 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:

Tax Collector

1. Finding

Section 27-49-1, Miss Code Ann. (1972), requires the Tax Collector to present the Board of Supervisors at its meeting on the first Monday of October in each year, a report of all insolvent and delinquent taxpayers in the county, with the amount due from each. The Tax Collector did not present the required report to the Board of Supervisors.

Recommendation

The Tax Collector should present to the Board of Supervisors the report of insolvent and delinquent taxpayers at the first Monday in October Board of Supervisors meeting.

Response

The insolvent and delinquent report on mobile homes was filed with the Board of Supervisors at their meeting on December 4, 2006. The first Monday in October has been marked on the calendar and will be reported timely in the future.

2. Finding

Exempt industries under Section 27-31-1-101, Miss. Code Ann. (1972), were not levied the one mill ad valorem tax authorized by Section 27-39-329, Miss. Code Ann. (1972).

Recommendation

We recommend Newton County comply with Sections 27-39-329, Miss Code Ann. (1972), and levy the one mill ad valorem tax for years not levied up to seven years..

Response

The problem was located and a report filed with the Board of Supervisors on April 19, 2007. Letters explaining the error and levies were mailed to the businesses involved on May 3, 2007, for the seven previous years. This levy will be assessed correctly for future years beginning with 2007.

3. Finding

Exempt industries under Section 27-31-101, Miss. Code Ann. (1972), were not levied the ad valorem tax for support and maintenance of a Community College under the authority of Section 37-2-141, Miss. Code Ann. (1972).

Recommendation

We recommend Newton County comply with Section 37-29-141, Miss. Code Ann. (1972), and levy the ad valorem tax for support and maintenance of a Community College for the years not levied up to seven years.

Response

This problem was located and a report filed with the Board of Supervisors on April 19, 2007. Letters explaining the error and levies were mailed to the businesses involved on May 3, 2007, for the seven previous years. This levy will be assessed correctly for future years beginning with 2007.

Sheriff

4. Finding

It came to our attention during our audit of the Sheriff's department petty cash, authorized for purchasing information and/or evidence, determined under Section 99-3-39, Miss. Code Ann. (1972), that the following information was not present on the "voucher for purchase of information and purchases of evidence":

1. Signature of informant was not present.
2. Signature of officer receiving petty cash was not present.

Recommendation

We recommend Newton County Sheriff department comply with Section 99-3-39, Miss. Code Ann. (1972), and complete all necessary information as required on the "voucher for purchase of information and purchase of evidence".

Response

The Newton County Sheriff's Department will get with County Administrator Steve Seale to resolve the problems that were found with drug buy vouchers from this audit. However, Newton County Sheriff's Department will make changes to comply with codes and guidelines under Section 99-3-39, Miss. Code Ann. (1972).

Circuit Clerk

5. Finding

Section 9-1-43 allows expenses to be paid from the Circuit Clerk's fee journal that are allowed as deductions by Schedule C of the Internal Revenue Code. The Circuit clerk was reimbursed \$10,111.45 for 75% of the amount of his bank note on the purchase of a truck in 2006. The payment for a bank note includes an undetermined amount for principle and interest on the note. The payment of principal on a bank loan is not a deduction allowable by Schedule C of the Internal Revenue Code

Recommendation

We recommend that the Circuit Clerk limit expenses paid out of the fee journal to expenses that are allowed as deductions on Schedule C of the Internal Revenue Code.

Response

Typically, if property (such as vehicle) has a useful life of more than one year, the cost must be spread across several years as depreciation with a portion of the cost deducted each year. The provisions of Internal Revenue Code Section 179 allows a sole proprietor to expense property in the year it is purchased and record the expense on his schedule c as a deduction. The Clerk's Accountant talked with Scott Speights and Rhuel Dickinson about reporting a vehicle under code section 179 on the Schedule C and using this as a reportable reimbursement for a Circuit Clerk. He was told as long as the vehicle met the eligible property rules and a detailed mileage was used to show business use of the vehicle the expense would qualify. The Circuit Clerk took the 179 deduction his Schedule C as reported on his 1040 tax return and has met the guidelines and tests associated with this deduction as allowed by the Internal Revenue Code.

Auditor Note

This finding has been referred to the investigative division of the State Auditor's Office.

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

Watkins, Ward and Stafford, PLLC
Philadelphia, Mississippi
July 2, 2007

Watkins Ward & Stafford PLLC

NEWTON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COST

NEWTON 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 basic financial statements: | |
| | Governmental activities | Qualified |
| | General Fund | Disclaimer |
| | Beat 2 Road Maintenance Fund | Unqualified |
| | Beat 4 Road Maintenance Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Business Activities | Unqualified |
| 2. | Noncompliance material relating to the basic financial statements? | Yes |
| 3. | Internal control over financial reporting: | |
| | A. Material weakness identified | Yes |
| | B. Reportable condition identified that is not considered to be a material weakness? | 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 fund programs: | Unqualified |
| 6. | Any audit findings reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal program identified as a major program:
Highway Planning and Construction – CFDA#20.205 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

SECTION 2: FINANCIAL STATEMENT FINDINGS

Circuit Clerk

06-1 Finding

The fines receivable nor the allowance for doubtful accounts listing maintained by the Circuit Clerk were not recorded on the financial statements of Newton County for the fiscal year ended September 30, 2006. The opinion on the governmental activities in the independent auditor's report is qualified because accounts receivable nor the allowance for uncollectible accounts amount is presented in the financial statements.

Recommendation

The Circuit Clerk's office should verify the accuracy of the fines receivable and allowance for doubtful accounts listing for the coming year to ensure the booking of these on the financial statements of the County.

Response

The Circuit Clerk's office submitted "Newton County Circuit Clerk's Aging of Accounts Receivable Schedule September 30, 2006" to the Newton County Chancery Clerk on October 31, 2006. The report was submitted timely and accurately based on the records of the Circuit Clerk's office. The financial statements are not the responsibility of the Circuit Clerk's office. It is the duty of the County Administrator to prepare financial statements including the accounts receivable and the allowance for uncollectible accounts. As such, this finding is not related to the office of the Circuit Clerk.

06-2 Finding

The Circuit Clerk's office did not keep adequate documentation to support revenue. The pre-numbered receipts had been torn out of the receipt book and were filed in more than one place making them unable to be accounted for. The opinion on the governmental activities in the Independent Auditor's Report is qualified because we could not satisfy ourselves as to the correctness of the amount of revenue collected.

Recommendation

The Circuit Clerk should issue a receipt for all fees collected in the amount of \$10 or more and duplicate copy of the receipt should be kept in tact in the receipt book.

Response

The Circuit Clerk's office does issue a receipt for all fees collected regardless of the amount. The Circuit Clerk's office corrected the problem of tearing out copies of receipts from the receipt book effective November 6, 2006; and all monies in the Circuit Clerk's office have been properly receipted and maintained in an efficient and organized procedure since November 2006.

06-3 Finding

The Circuit Clerk did not prepare the Distribution of Cash form by September 30, as prescribed by the *Mississippi County Financial Manual* as issued by the Office of the State Auditor.

Recommendation

The Circuit Clerk should prepare the Distribution of Cash Form by September 30, as prescribed by the law.

Response

The State Auditor's office has all records from the Circuit Clerk's office from October 5, 2005, thru May 17, 2006, except for a copy of bank statements for that period, thus making it impossible to complete the report. The report will be prepared for September 2007.

06-4 Finding

We noted the following deviations from the prescribed accounting system contained in *Mississippi County Financial Accounting Manual*:

- a. The criminal, civil and fee accounts were not properly utilized during 2006. The *Mississippi County Accounting Financial Manual* is specific as to what should be deposited and expended from each account. During 2006, \$21,062.37 of expense checks that should have been written from the fee account were written from the civil court account instead. There was \$2,388.00 of fees deposited into the civil court account that should have been deposited into the fee account. There was \$25,075.50 of civil court expenses improperly written from the fee account that should have been written from the civil court account. There was \$17,798.88 of fees due to the circuit clerk from the civil court account that had not been transferred to the circuit clerk fee account as of December 31, 2006.
- b. The Circuit Clerk did not keep the fee journal in the prescribed format making it impossible to verify the figures reported on the Annual Report filed with the Office of the State Auditor.
- c. Settlements of various criminal fines, assessments and other fees were not made to the county on a monthly basis.

Recommendation

The Circuit Clerk should comply with the prescribed accounting system contained in the *Mississippi County Financial Accounting Manual*.

Response

- a. In November the Circuit Clerk discovered that the Deputy Clerk had not been maintaining the accounts according to the *Mississippi County Financial Accounting Manual*. In December 2006 the Circuit Clerk started maintaining all accounts according to the *Mississippi County Financial Accounting Manual*. The State Auditor's office was notified in December about the problem. The Circuit Clerk reconstructed the financial statements. This office informed the auditors that the errors were corrected in April 2007 and that the books for April 2007 had all the documentation. All the Circuit Clerk's accounts are being maintained according to the *Mississippi County Financial Accounting Manual*.
- b. The Clerk's Fee Journal for 2007 is being maintained according to the *Mississippi County Financial Accounting Manual*.
- c. Beginning in April 2007 the Circuit Clerk's office has been making settlements for civil fees and criminal fees on a monthly basis.

Sheriff

06-5 Finding

Two donations totaling \$732.00 were received by the Sheriff's department and deposited directly into the Sheriff departments funds. Donations are required to be approved by the Board of Supervisors and deposited into general county funds.

Recommendation

We recommend all donations to the County be approved by the Board of Supervisors and deposited into general county funds.

Response

From this day forward, all donations will be made payable to the order of Newton County Sheriff's Department/Newton County Board of Supervisors. All donations will be immediately signed by the Sheriff and turned over to County Administrator Steve Seale.

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

The results of our tests did not disclose any Findings and Questioned Costs related to the federal awards.