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PANOLA COUNTY, MISSISSIPPI

**Audited Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2006**

PANOLA COUNTY

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PANOLA COUNTY

FINANCIAL SECTION

Windham and Lacey, PLLC

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Mississippi Society of CPAs

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

Members of the Board of Supervisors
Panola 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 Panola County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 29, 2008, on our consideration of Panola County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Panola 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.



Windham and Lacey, PLLC
August 29, 2008

PANOLA COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

PANOLA COUNTY
Statement of Net Assets
September 30, 2006

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 13,167,722	78,341	13,246,063
Property tax receivable	6,225,000		6,225,000
Accounts receivable, net of allowance for uncollectible of \$2,329,502		603,931	603,931
Fines receivable, net of allowance for uncollectible of \$347,214	73,240		73,240
Intergovernmental receivables	216,150		216,150
Other receivables	284,824		284,824
Internal balances	666,659	(666,659)	
Capital assets, net	12,313,526	762,702	13,076,228
Total Assets	32,947,121	778,315	33,725,436
LIABILITIES			
Claims payable	576,038	49,249	625,287
Intergovernmental payables	700,152		700,152
Deferred revenue	6,225,101		6,225,101
Other payables	167,295		167,295
Accrued interest payable	42,591		42,591
Short-term debt	325,000		325,000
Long-term debt:			
Due within one year:			
Capital related debt	1,581,951	262,734	1,844,685
Non-capital debt	775,000		775,000
Due in more than one year:			
Capital related debt	1,836,256	315,860	2,152,116
Non-capital debt	3,625,000		3,625,000
Accrued vacation	113,832	5,146	118,978
Total Liabilities	15,968,216	632,989	16,601,205
NET ASSETS			
Invested in capital assets, net of related debt	8,895,319	184,108	9,079,427
Restricted net assets:			
Debt service	6,369,343		6,369,343
Unrestricted	1,714,243	(38,782)	1,675,461
Total Net Assets	\$ 16,978,905	145,326	17,124,231

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

PANOLA 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	Fines, Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 5,740,083	867,641			(4,872,442)		(4,872,442)
Public safety	4,567,430	459,106	704,179	484,714	(3,404,145)		(3,404,145)
Public works	5,540,336				(5,055,622)		(5,055,622)
Health and welfare	1,077,114		348,448		(728,666)		(728,666)
Culture and recreation	68,788	9,068			(59,720)		(59,720)
Conservation of natural resources	98,192				(98,192)		(98,192)
Economic development and assistance	113,991				(113,991)		(113,991)
Interest on long-term debt	246,627				(246,627)		(246,627)
Total Governmental Activities	17,452,561	1,335,815	1,052,627	484,714	(14,579,405)	0	(14,579,405)
Business-type activities:							
Solid waste	1,386,397	1,284,636				(101,761)	(101,761)
Interest on long-term debt	9,776					(9,776)	(9,776)
Total Primary Government	\$ 18,848,734	2,620,451	1,052,627	484,714	(14,579,405)	(111,537)	(14,690,942)
General revenues:							
Taxes:							
Property taxes					\$ 8,599,115		8,599,115
Road & bridge privilege taxes					379,309		379,309
Grants and contributions not restricted to specific programs					1,536,671		1,536,671
Unrestricted investment income					454,906		454,906
Miscellaneous					893,260	12,568	905,828
Gain from sale of assets					145,562	20,989	166,551
Total General Revenues and transfers					12,008,823	33,557	12,042,380
Special Item (Note 15)					4,778,970	0	4,778,970
Changes in Net Assets					2,208,388	(77,980)	2,130,408
Net Assets - Beginning					14,770,517	223,306	14,993,823
Net Assets - Ending					16,978,905	145,326	17,124,231

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

PANOLA COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2006

Exhibit 3

	Major Funds			Total Governmental Funds
	General Funds	Road Maintenance Fund	Other Governmental Funds	
ASSETS				
Cash	\$ 9,847,096	484,589	2,836,036	13,167,721
Property tax receivable	3,740,000	1,000,000	1,485,000	6,225,000
Fines receivable, net of allowance for uncollectible of \$332,484	73,240			73,240
Intergovernmental receivables	169,905		46,245	216,150
Other receivables	79,186	124,335		203,521
Advances to other funds	1,084,297	14,010	452,736	1,551,043
Due from other funds	861,467	869,611	154,126	1,885,204
Total Assets	<u>\$ 15,855,191</u>	<u>2,492,545</u>	<u>4,974,143</u>	<u>23,321,879</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 253,893	71,588	250,528	576,009
Short-term debt		325,000		325,000
Intergovernmental payables	502,016		198,136	700,152
Advances from other funds	42,706	681,688	162,867	887,261
Due to other funds	246,450		1,554,575	1,801,025
Deferred revenue	3,813,240	1,000,000	1,485,100	6,298,340
Other payables	109,923	49	57,321	167,293
Total Liabilities	<u>4,968,228</u>	<u>2,078,325</u>	<u>3,708,527</u>	<u>10,755,080</u>
Fund balances:				
Reserved for:				
Debt service			676,124	676,124
Advances	1,084,297	14,010	452,736	1,551,043
Unreserved, reported in:				
General fund	9,802,666			9,802,666
Special revenue funds		400,210	136,222	536,432
Capital project funds			534	534
Total Fund Balances	<u>10,886,963</u>	<u>414,220</u>	<u>1,265,616</u>	<u>12,566,799</u>
Total Liabilities and Fund Balances	<u>\$ 15,855,191</u>	<u>2,492,545</u>	<u>4,974,143</u>	<u>23,321,879</u>

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

PANOLA COUNTY
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 September 30, 2006

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 12,566,799
Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1) 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.	12,313,526
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fines receivable	73,240
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Long-term liabilities	(7,818,206)
Compensated absences	(113,832)
Accrued interest on debt	(42,591)
Other	<u>(31)</u>
Total net assets - governmental activities (Exhibit 1)	\$ <u>16,978,905</u>

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

PANOLA COUNTY

Exhibit 4

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	Road Maintenance Fund	Other Governmental Funds	
REVENUES				
Property taxes	\$ 5,265,994	1,118,998	2,213,746	8,598,738
Road and bridge privilege taxes	6,348	372,961		379,309
Licenses, commissions and other revenue	464,719		9,068	473,787
Fines and forfeitures	463,360		54,612	517,972
Intergovernmental revenues	1,615,688	915,299	532,251	3,063,238
Charges for services			329,510	329,510
Interest income	356,191	1,965	96,750	454,906
Miscellaneous revenues	839,175	176,149	39,288	1,054,612
Total Revenues	<u>9,011,475</u>	<u>2,585,372</u>	<u>3,275,225</u>	<u>14,872,072</u>
EXPENDITURES				
Current:				
General government	4,532,326		20,287	4,552,613
Public safety	3,850,125		561,271	4,411,396
Public works	284,777	5,187,925	1,651,563	7,124,265
Health and welfare	291,786		777,973	1,069,759
Culture and recreation	63,688		5,100	68,788
Conservation of natural resources	98,192			98,192
Economic development and assistance	119,167		10,376	129,543
Debt service:				
Principal	51,836	1,117,357	1,170,733	2,339,926
Interest	7,012	26,056	217,885	250,953
Total Expenditures	<u>9,298,909</u>	<u>6,331,338</u>	<u>4,415,188</u>	<u>20,045,435</u>
Excess of Revenues over (under) Expenditures	<u>(287,434)</u>	<u>(3,745,966)</u>	<u>(1,139,963)</u>	<u>(5,173,363)</u>
OTHER FINANCING SOURCES (USES)				
Short-term non-capital debt issued		325,000		325,000
Long-term capital debt issued		2,244,998		2,244,998
Proceeds from sale of capital assets	3,000	976,562		979,562
Transfers in	594,319	1,627,950	822,949	3,045,218
Transfers out	(2,450,899)	(544,319)	(50,000)	(3,045,218)
Total Other Financing Sources and Uses	<u>(1,853,580)</u>	<u>4,630,191</u>	<u>772,949</u>	<u>3,549,560</u>
SPECIAL ITEM (Note 15)	2,896,617	0	0	2,896,617
Net Changes in Fund Balances	<u>755,603</u>	<u>884,225</u>	<u>(367,014)</u>	<u>1,272,814</u>
Fund Balances - Beginning	10,131,360	(470,005)	1,632,630	11,293,985
Fund Balances - Ending	<u>\$ 10,886,963</u>	<u>414,220</u>	<u>1,265,616</u>	<u>12,566,799</u>

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

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

Exhibit 4-1

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ 1,272,814
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 \$2,537,002 exceeded depreciation of \$1,222,463 in the current period.	1,314,539
Repossession of capital assets previously sold on a long-term note increases net assets in the Statement of Activities, but does not appear in the governmental funds. (Note 15)	1,882,353
Donating or disposing of capital assets decreases net assets in the Statement of Activities but does not impact the governmental funds because they are not financial resources.	(1,217,952)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the gain of \$145,562 and the proceeds from the sale in the current period of \$979,562.	(834,000)
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. Thus, the change in net assets differs from the change in fund balance by the increase (decrease) in fines receivable.	25,698
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$2,014,926 exceeded debt proceeds \$2,244,998.	(230,072)
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 a combination of the following items:	
Change in accrued interest payable	4,326
Other	(32)
Change in compensated absences	<u>(9,286)</u>
Change in net assets of governmental activities (Exhibit 2)	\$ <u>2,208,388</u>

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

PANOLA COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2006

Exhibit 5

	Business-type Activities - Enterprise Fund <u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 78,341
Accounts receivable (net of allowance for uncollectibles of \$2,329,502)	603,931
Total Current Assets	<u>682,272</u>
Noncurrent assets:	
Capital assets, net	762,702
Total Noncurrent Assets	<u>762,702</u>
Total Assets	<u>1,444,974</u>
LIABILITIES	
Current liabilities:	
Claims payable	49,249
Capital debt:	
Capital leases payable	262,734
Total Current Liabilities	<u>311,983</u>
Noncurrent liabilities:	
Due to other funds	2,877
Advances from other funds	663,782
Capital leases payable	315,857
Compensated absences payable	5,146
Total Noncurrent Liabilities	<u>987,662</u>
NET ASSETS	
Invested in capital assets, net of related debt	184,111
Unrestricted (deficit)	<u>(38,785)</u>
Total Net Assets	<u>\$ 145,326</u>

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

PANOLA COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Assets -
Proprietary Fund
For the Year Ended September 30, 2006

Exhibit 6

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
Operating Revenues	
Charges for services	\$ 1,284,636
Total Operating Revenues	<u>1,284,636</u>
Operating Expenses	
Personal services	356,369
Contractual services	385,198
Materials and supplies	473,257
Depreciation expense	171,573
Total Operating Expenses	<u>1,386,397</u>
Operating Income (Loss)	<u>(101,761)</u>
Nonoperating Revenues (Expenses)	
Miscellaneous revenue	33,557
Interest expense	(9,776)
Net Nonoperating Revenue (Expenses)	<u>23,781</u>
Changes in Net Assets	(77,980)
Net Assets - Beginning	<u>223,306</u>
Net Assets - Ending	<u>\$ 145,326</u>

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

PANOLA COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2006

Exhibit 7

	Business-type Activities - Enterprise Fund
	Solid Waste Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,284,636
Payments to suppliers	(714,379)
Payments to employees	(355,702)
Net Cash Provided (Used) by Operating Activities	<u>214,555</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from sale of assets	157,421
Other nonoperating receipts	12,568
Net Cash Provided (Used) by Noncapital Financing Activities	<u>169,989</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on long-term debt	(302,803)
Interest paid on debt	(9,776)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(312,579)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	71,965
Cash and Cash Equivalents - Beginning of Year	<u>6,376</u>
Cash and Cash Equivalents - End of Year	\$ <u><u>78,341</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ <u>(101,761)</u>
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation expense	171,573
Change in assets and liabilities:	
Increase (decrease) in amounts payable related to equipment purchases	151,937
Increase (decrease) in claims payable	13,173
Increase (decrease) in interfund payables	(21,034)
Increase (decrease) in other payables	667
Total adjustments	<u>316,316</u>
Net Cash Provided (Used) by Operating Activities	\$ <u><u>214,555</u></u>

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

PANOLA COUNTY
Statement of Fiduciary Assets & Liabilities
September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 478,485
Intergovernmental receivables	694,600
Total Assets	<u>\$ 1,173,085</u>
LIABILITIES	
Claims payable and other accrued liabilities	\$ 21,883
Intergovernmental payables	1,069,899
Due to other funds	81,303
Total Liabilities	<u>\$ 1,173,085</u>

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

PANOLA COUNTY

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

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Panola 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 Panola County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

Management has chosen to omit from these financial statements the following component units which have significant operational or financial relationships with the county. Accordingly, the financial statements do not include the data of all of the county's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Bynum Fire District
- Cole's Point Fire District
- Curtis Fire Department
- Mt. Olivett Fire Department
- Sardis Lower Lake Fire District
- Pope Volunteer Fire District
- Pleasant Grove Fire District
- Union Fire District
- North Panola Utility District

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

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

B. Blended Component Units.

Certain component units, although legally separate from the primary government, are nevertheless so intertwined with the primary government that they are, in substance, the same as the primary government. Therefore, these component units are reported as if they are part of the primary government. The following component units' balances and transactions are blended with the balances and transactions of the primary government:

The Panola County Civic Improvement Corporation is comprised solely of the five members of the Board of Supervisors. Although it is legally separate from the county, the corporation is reported as if it were part of the primary government because its sole purpose is to finance and construct the county's new jail building.

PANOLA COUNTY

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

The Panola County Industrial Authority is a legally separate entity, organized by a local and private bill to provide for land acquisitions and improvements for industrial development purposes. Its five-member board of commissioners is appointed by the Board of Supervisors.

C. Basis of Presentation.

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government and its blended component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 governmental function is self-financing or draws from the general revenues of the county.

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, 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.

D. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds (excluding agency funds) financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenue is 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.

PANOLA COUNTY

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

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

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

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

The county reports the following major Governmental Funds:

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

Countywide Road Maintenance Fund - This fund is used to account for monies from specific revenue sources that are 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 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.

PANOLA COUNTY

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

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.

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.

E. Account Classifications.

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

F. Deposits.

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.

G. Receivables.

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

H. Interfund Transactions and Balances.

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

PANOLA COUNTY

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

I. Capital Assets.

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980 are reported on the government-wide financial statements. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

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

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

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

J. Long-term Liabilities.

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

In the government-wide financial statements and in the Proprietary Fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, business-type activities or Proprietary Fund Statement of Net Assets.

PANOLA COUNTY

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

K. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

L. Property Tax Revenues.

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

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

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

PANOLA COUNTY

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

M. Intergovernmental Revenues in Governmental Funds.

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

N. 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, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

Therefore, the county's full liability in the amount of \$113,833 or accumulated unpaid personal leave up to a maximum of 20 days per employee payable from the Governmental Funds is reported as a liability in the Statement of Net Assets. In the Proprietary Funds, the compensated absences are reported as a liability of the fund in the amount of \$5,146, which represents an amount up to a maximum of 20 days per employee.

(2) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$13,724,548, and the bank balance was \$12,819,245. 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.

PANOLA COUNTY

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

(3) Interfund Transactions and Balances.

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

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste	\$ 2,877 *
General Fund	Other Governmental Funds	777,287
General Fund	Agency	81,303
Road Maintenance Fund	General Fund	92,324
Road Maintenance Fund	Other Governmental Funds	777,287
Other Governmental Funds	General Fund	<u>154,126</u>
Total		<u>\$ 1,885,204</u>

* Amount due from Solid Waste represents indirect administrative costs. Other amounts listed are the tax revenues or court fees collected but not settled until October, 2006, as well as funds paid to respective funds to alleviate funding shortages. All interfund balances are expected to be repaid within one year from the date of the financial statements.

Advances:

The following balances represent funds advanced to respective funds to alleviate funding shortages. All interfund balances are not expected to be repaid within one year from the date of the financial statements.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Road Maintenance Fund	\$ 661,658
General Fund	Solid Waste	309,772
General Fund	Other Governmental Funds	112,867
Road Maintenance	Solid Waste	14,010
Other Governmental Funds	Solid Waste	340,000
Other Governmental Funds	Road Maintenance Fund	20,030
Other Governmental Funds	General Fund	42,706
Other Governmental Funds	Other Governmental Funds	<u>50,000</u>
Total		<u>\$ 1,551,043</u>

PANOLA COUNTY

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

Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Major Funds:	Major Funds:	
General Fund	Other Governmental Funds	\$ 50,000
General Fund	County-wide Road Maintenance	544,319
County-wide Road Maintenance	General Fund	1,627,950
Other Governmental Funds	General Fund	822,949
Total		<u>\$ 3,045,218</u>

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

(4) Intergovernmental Receivables.

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

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 151,019
Other	<u>65,131</u>
Total Governmental Activities	<u>\$ 216,150</u>

(5) Capital Assets.

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

Governmental activities:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ <u>1,204,731</u>	<u>103,500</u>	<u>(21,000)</u>	<u>1,287,231</u>
Total capital assets, not being depreciated	<u>1,204,731</u>	<u>103,500</u>	<u>(21,000)</u>	<u>1,287,231</u>
Capital assets, being depreciated:				
Buildings	7,979,926	1,808,853	(1,075,804)	8,712,975
Improvements other than buildings	1,056,504	19,513		1,076,017
Mobile equipment	1,829,905	173,860	(22,417)	1,981,348
Furniture and equipment	672,805	68,600		741,405
Property under capital leases	5,007,769	2,245,029	(1,178,427)	6,074,371
Infrastructure	429,965			429,965
Total capital assets being depreciated	<u>16,976,874</u>	<u>4,315,855</u>	<u>(2,276,648)</u>	<u>19,016,081</u>

PANOLA COUNTY

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Less: Accumulated depreciation for:				
Buildings	2,718,186	163,348	(43,034)	2,838,500
Improvements other than buildings	177,730	43,041		220,771
Mobile equipment	1,714,002	285,980	(4,035)	1,995,947
Furniture and equipment	521,513	33,786		555,299
Property under capital leases	1,836,441	681,259	(198,627)	2,319,073
Infrastructure	45,147	15,049		60,196
Total accumulated depreciation	<u>7,013,019</u>	<u>1,222,463</u>	<u>(245,696)</u>	<u>7,989,786</u>
Total capital assets, being depreciated, net	<u>9,963,855</u>	<u>3,093,392</u>	<u>(2,030,952)</u>	<u>11,026,295</u>
Governmental activities capital assets, net	<u>\$ 11,168,586</u>	<u>3,196,892</u>	<u>(2,051,952)</u>	<u>12,313,526</u>
Business-type activities				
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 0	0	0	0
Total capital assets, not being depreciated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Capital assets, being depreciated:				
Buildings	201,428			201,428
Improvements other than buildings	38,069			38,069
Mobile equipment	263,186			263,186
Furniture and equipment	92,496			92,496
Property under capital leases	1,044,774	300,053	(166,380)	1,178,447
Total capital assets being depreciated	<u>1,639,953</u>	<u>300,053</u>	<u>(166,380)</u>	<u>1,773,626</u>
Less: Accumulated depreciation for:				
Buildings	16,116	4,029		20,145
Improvements other than buildings	6,092	1,523		7,615
Mobile equipment	69,612	47,500		117,112
Furniture and equipment	69,913	7,798		77,711
Property under capital leases	707,566	110,723	(29,948)	788,341
Total accumulated depreciation	<u>869,299</u>	<u>171,573</u>	<u>(29,948)</u>	<u>1,010,924</u>
Total capital assets, being depreciated, net	<u>770,654</u>	<u>128,480</u>	<u>(136,432)</u>	<u>762,702</u>
Business-type activities capital assets, net	<u>\$ 770,654</u>	<u>128,480</u>	<u>(136,432)</u>	<u>762,702</u>

PANOLA COUNTY

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

Depreciation expense was charged to the following functions:

Governmental activities:	
General government	\$ 185,685
Public safety	342,426
Public works	686,997
Health and welfare	<u>7,355</u>
Total depreciation expense - governmental activities	<u>\$ 1,222,463</u>
Business-type activities:	
Solid waste	<u>\$ 171,573</u>

(6) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2006, to January 1, 2007. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(7) Capital Leases.

As Lessee:

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

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Machinery and equipment	\$ 6,074,371	1,178,447
Less: Accumulated depreciation	<u>(2,319,073)</u>	<u>(788,341)</u>
Total	<u>\$ 3,755,298</u>	<u>390,106</u>

PANOLA COUNTY

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

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 1,581,951	126,623	262,734	20,828
2008	492,060	69,445	125,887	11,341
2009	492,372	50,334	104,711	6,725
2010	423,677	31,711	46,955	3,334
2011	322,071	13,929	38,305	1,011
2012	106,075	4,958		
Total	\$ 3,418,206	297,000	578,592	43,239

(8) Short-term Debt and Liquidity.

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

Description of Debt	Balance Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006
Tax Anticipation Notes	\$ 325,000	325,000	325,000	325,000
Total	\$ 325,000	325,000	325,000	325,000

During the month of September 2006, the county issued \$325,000 of tax anticipation notes in order to alleviate a temporary operating cash flow deficiency. The note outstanding as of September 30, 2006, has a maturity date of April 2007, bearing interest at 4.00%.

(9) Long-term Debt.

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
1998 Series A refunding bonds	\$ 2,050,000	3.65/4.35	11/14
Road and bridge bonds	790,000	3.375/4.8	07/12
Total General Obligation Bonds	2,840,000		

PANOLA COUNTY

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
B. Capital Leases:			
Asphalt spreader	41,577	3.94%	04/11
4000 gallon Dura tank	24,220	3.28%	02/09
2007 GMC pickup/air condition system	556,111	4.07%	08/11
10 Mack trucks, 3 trailers, excavator, etc.	1,605,222	3.73%	06/11
6 motor graders, 1 FEL	521,060	3.39%	06/10
7 fire trucks	569,939	4.67%	08/12
Computer system	10,386	3.19%	07/07
John Deere tractor	17,883	3.11%	10/08
M3000 Pro Touch-N-Go	6,119	13.32%	10/08
Canon 6080 duplex scanner and Intel server	65,689	3.01%	08/09
Total Capital Leases	<u>3,418,206</u>		
C. Other Loan:			
2004 Series general obligation note	960,000		
2005 Series general obligation note	600,000		
Total Other Loans	<u>1,560,000</u>		
Total Governmental Activities	<u>\$ 7,818,206</u>		
Business-type Activities:			
Capital Leases:			
7 dumpsters and trailer	\$ 60,325	3.88%	04/09
2006 International truck and body	52,582	3.28%	02/09
Trash cans	127,244	4.07%	08/11
2 Mack trucks; GMC pickup	188,150	3.73%	06/11
2 garbage trucks	138,449	3.49%	08/10
2 Transfer trailers	11,844	3.85%	02/07
Total Capital Leases	<u>\$ 578,594</u>		

PANOLA COUNTY

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

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

Governmental Activities:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 305,000	110,489
2008	325,000	97,404
2009	340,000	84,918
2010	350,000	71,855
2011	370,000	58,102
2012-2016	<u>1,150,000</u>	<u>94,230</u>
Total	<u>\$ 2,840,000</u>	<u>516,998</u>

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 470,000	43,224
2008	470,000	30,466
2009	470,000	17,708
2010	<u>150,000</u>	<u>4,950</u>
Total	<u>\$ 1,560,000</u>	<u>96,348</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 1.8 % 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>10/1/2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2006</u>	<u>Amount due</u> <u>within one</u> <u>year</u>
Governmental Activities:					
Compensated absences	\$ 104,547	9,286		113,833	
General obligation bonds	3,135,000		295,000	2,840,000	305,000
General obligation note	750,000		150,000	600,000	150,000
Capital leases	2,423,135	2,244,998	1,249,926	3,418,207	1,581,951
Other loans	<u>1,280,000</u>		<u>320,000</u>	<u>960,000</u>	<u>320,000</u>
Total	<u>\$ 7,692,682</u>	<u>2,254,284</u>	<u>2,014,926</u>	<u>7,932,040</u>	<u>2,356,951</u>

PANOLA COUNTY

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

	Balance 10/1/2005	Additions	Reductions	Balance 9/30/2006	Amount due within one year
Business-type Activities:					
Compensated absences	\$ 4,479	667		5,146	
Capital leases	429,407	451,990	302,803	578,594	262,734
Total	\$ 433,886	452,657	302,803	583,740	262,734

(10) Deficit Fund Balances of Individual Funds.

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

Fund	Deficit Amount
Other Governmental Funds:	
Tax Anticipation	\$ (11,415)
Bridge	(358,279)
Families First	(22,343)
Juvenile Work Program	(10,728)
South Panola Comm Coalition	(26,956)
Underage Drinking	(2,620)
Panola County Prevention	(5,475)
Paving	(1,076,534)
Total	\$ (1,514,350)

(11) Contingencies.

Federal Grants – The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. No provision for any liability that may result has been recognized in the county's financial statements.

Litigation - The county is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the county with respect to the various proceedings. However, the county's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the county.

PANOLA COUNTY

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

(12) Joint Venture.

The county participates in the following joint venture:

Panola County is a participant with the counties of DeSoto, Lafayette, Tate and Tunica in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the First Regional Library. This joint venture was created to provide library services and is governed by a five-member board, with each county appointing one member. The county did not appropriate any funds for support of the library in fiscal year 2006. Complete financial statements for the First Regional Library can be obtained from P. O. Box 386, Hernando, Mississippi 38632.

(13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

North Delta Planning and Development District is composed of the counties of Coahoma, DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The Panola County Board of Supervisors appoints four of the 30 members of the board of directors. The county appropriated and made a payment of \$20,000 for support of the district in fiscal year 2006.

The Yazoo-Mississippi Water Management District operates in a district composed of the counties of Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, Leflore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Washington and Yazoo. The Panola County Board of Supervisors appoints one of the 21 members of the board of commissioners. The county levied a .61 mill tax which resulted in \$2,724 to help support the district in fiscal year 2006.

Northwest Mississippi Community College operates in a district composed of the counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The Panola County Board of Supervisors appoints two of the 23 members of the college board of trustees. The county appropriated \$424,610 for maintenance and support of the college in fiscal year 2006.

Mid-State Opportunity, Inc. operates in a district composed of the counties of DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The Panola County Board of Supervisors appoints two of the 30 board members, with ten members coming from the business sector and ten members coming from the minority disadvantaged. The county did not appropriate any funds for support of the agency in fiscal 2006.

Communicare operates in a district composed of the counties of Calhoun, DeSoto, Lafayette, Marshall, Panola, Tate and Yalobusha. The Panola County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$30,000 for support of the agency in fiscal year 2006.

(14) Defined Benefit Pension Plan.

Plan Description. Panola 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.

PANOLA COUNTY

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2005 was 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$568,043, \$501,084 and \$470,429, respectively, equal to the required contributions for each year.

(15) Special Items.

Other Revenue:

On the Statement of Activities, the county recorded a gain of \$689,030 on repossession of property previously sold on a long-term note. The repossessed assets were recorded at their combined estimated fair market value of \$1,882,353 and the note of \$1,193,323 eliminated. These assets were previously part of a North Panola Hospital District sale transaction, which included the building and grounds.

In the Fund Statements, elimination of the note receivable related to the transaction discussed above results in a loss of \$1,193,323.

PANOLA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PANOLA 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	\$ 4,986,800	5,253,242	5,253,242	
Licenses, commissions and other revenue	463,000	477,370	477,370	
Fines and forfeitures	371,600	463,360	463,360	
Intergovernmental revenues	1,727,589	1,590,760	1,590,760	
Charges for services				
Interest income	62,000	282,845	282,845	
Miscellaneous revenues	816,310	4,919,535	4,919,535	
Total Revenues	<u>8,427,299</u>	<u>12,987,112</u>	<u>12,987,112</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	5,320,583	4,514,275	4,514,275	
Public safety	4,613,283	3,840,741	3,840,741	
Public works	332,732	281,459	281,459	
Health and welfare	267,405	276,122	276,122	
Culture and recreation	69,500	64,188	64,188	
Conservation of natural resources	103,522	97,644	97,644	
Economic development and assistance	258,605	110,000	110,000	
Debt service:				
Principal		51,836	51,836	
Interest		7,012	7,012	
Total Expenditures	<u>10,965,630</u>	<u>9,243,277</u>	<u>9,243,277</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(2,538,331)</u>	<u>3,743,835</u>	<u>3,743,835</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets		3,000	3,000	
Transfers in	41,000	1,358,519	1,358,519	
Transfers out	(899,336)	(3,255,099)	(3,255,099)	
Total Other Financing Sources and Uses	<u>(858,336)</u>	<u>(1,893,580)</u>	<u>(1,893,580)</u>	<u>0</u>
Net Change in Fund Balance	(3,396,667)	1,850,255	1,850,255	0
Fund Balances - Beginning	<u>8,109,628</u>	<u>8,109,628</u>	<u>8,109,628</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 4,712,961</u>	<u>9,959,883</u>	<u>9,959,883</u>	<u>0</u>

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

PANOLA COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 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	\$ 1,050,000	1,110,839	1,110,839	
Road and bridge privilege taxes	360,000	376,491	376,491	
Intergovernmental revenues	783,000	915,299	915,299	
Interest income	5,000	1,965	1,965	
Miscellaneous revenues	31,000	51,814	51,814	
Total Revenues	<u>2,229,000</u>	<u>2,456,408</u>	<u>2,456,408</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	4,293,927	3,926,924	3,926,924	
Debt service:				
Principal	190,200	201,566	201,566	
Interest	26,057	26,056	26,056	
Total Expenditures	<u>4,510,184</u>	<u>4,154,546</u>	<u>4,154,546</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(2,281,184)</u>	<u>(1,698,138)</u>	<u>(1,698,138)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	325,000	1,252,156	1,252,156	
Proceeds from sale of assets		60,771	60,771	
Transfers in		1,627,950	1,627,950	
Transfers out		(544,319)	(544,319)	
Total Other Financing Sources and Uses	<u>325,000</u>	<u>2,396,558</u>	<u>2,396,558</u>	<u>0</u>
Net Change in Fund Balance	(1,956,184)	698,420	698,420	0
Fund Balances - Beginning	<u>325,893</u>	<u>325,893</u>	<u>325,893</u>	<u>0</u>
Fund Balances - Ending	\$ <u>(1,630,291)</u>	<u>1,024,313</u>	<u>1,024,313</u>	<u>0</u>

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

PANOLA COUNTY

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

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

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

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Road Maintenance Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$ 1,850,255	698,420
Increase (decrease):		
Net adjustments for revenue accruals	114,303	128,964
Net adjustments for expenditure accruals	(15,632)	56,841
Other reconciling items:		
Loss from loan receivable	<u>(1,193,323)</u>	<u> </u>
Net Change in Fund Balance GAAP Basis	<u>\$ 755,603</u>	<u>884,225</u>

PANOLA COUNTY

SUPPLEMENTAL INFORMATION

PANOLA COUNTY
Schedule of Expenditures of Federal Awards
September 30, 2006

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identification Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
MAJOR FEDERAL AWARDS:				
U.S. Department of Health and Human Services/ Mississippi Department of Human Services/ Temporary Assistance for Needy Families	93.558	TANF 2006 TANF 2006	103WC61 103WC62	\$ 38,062 <u>98,692</u>
Total U.S. Department of Health and Human Services				<u>136,754</u>
Federal Election Commission – Election Assistance Commission/ Mississippi Secretary of State/ Help America Vote Act Voting Machines	90.401			<u>190,198</u>
Total Expenditures of Major Federal Awards				<u>326,952</u>
OTHER FEDERAL AWARDS:				
U.S. Department of Justice/Mississippi Department of Public Safety/Juvenile Justice & Delinquency Juvenile Justice & Delinquency Prevention Edward Byrne Memorial Formula Grant	16.540 16.579		2JB1541 4NM1541 5NM1541	3,642 11,072 133,927
Edward Byrne Memorial Justice Assistance Enforcing Underage Drinking Laws Program	16.738 16.727	2005-DJ-BX-0251	3UA1541	21,177 <u>9,030</u>
Total U.S. Department of Justice				<u>178,848</u>
U.S. Department of Education/ Mentoring Program Grants	84.184	QB184B041341	N/A	<u>89,694</u>
U.S. Department of Health & Human Services/ Mississippi Department of Mental Health/ Consolidated Knowledge Development and Application Program	93.230		SG017C04 SG017D04	9,492 <u>47,067</u>
Total U.S. Department of Health & Human Services				<u>56,559</u>
Department of Homeland Security/Mississippi Emergency Management Agency/ Emergency Management Performance Grant	97.042			14,664
Department of Homeland Security/Mississippi Department of Public Safety/ State Domestic Preparedness Equipment Support Program	97.067		04HS054 04LE054 05LE054	78,700 35,267 19,145

PANOLA COUNTY
 Schedule of Expenditures of Federal Awards
 September 30, 2006

(Continued)

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identification Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
Department of Homeland Security/Mississippi Emergency Management Agency/ Hurricane Disaster Grants-Public Assistance	97.036	FEMA-1604-DR-MS		22,866
Total U.S. Department of Homeland Security				170,642
U.S. Department of Transportation/Mississippi Emergency Management Agency/ Hazardous Materials Emergency Preparedness Grant	20.703	37RG I300 LEPC2006	37RG 1300 LEPC2006	5,000
U.S. Department of Transportation/Federal Aviation Administration/ Airport Improvement Program	20.106	3-28-0003-006-2005		213,404
U.S. Department of Transportation/Mississippi Department of Transportation/ Highway Planning and Construction Bridge Inspection	20.205		BR NBIS 065 B (54)(F) BR NBIS 066 B (54)(F)	2,530 14,510
Total U.S. Department of Transportation				235,444
Office of National Drug Policy HIDTA Grant	None	ISPGCP586Z		16,663
Total Expenditures of Other Federal Awards				747,850
Total Expenditures of Federal Awards				\$ 1,074,802

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A – Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Help America Vote Act (CFDA # 90.401)

Of the federal expenditures presented in the schedule, federal awards totaling \$190,198 represent non-cash awards for computerized voting machines during the fiscal year ended September 30, 2006.

PANOLA COUNTY

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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Members:
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Mississippi Society of CPAs

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

Members of the Board of Supervisors
Panola County, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Panola County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated August 29, 2008. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Panola County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Panola County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 06-2.

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, of the reportable conditions described above, we consider item 06-2 to be a material weakness.

Compliance and Other Matters

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

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

A handwritten signature in black ink, appearing to read "Windham and Lacey PLLC". The signature is written in a cursive, flowing style.

Windham and Lacey, PLLC
August 29, 2008

Windham and Lacey, 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
Panola County, Mississippi

Compliance

We have audited the compliance of Panola County, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. Panola 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 each of its major federal programs is the responsibility of Panola County, Mississippi's management. Our responsibility is to express an opinion on Panola 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 Panola County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Panola County, Mississippi's compliance with those requirements.

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

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

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



Windham and Lacey, PLLC
August 29, 2008

Windham and Lacey, 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
Panola County, Mississippi

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

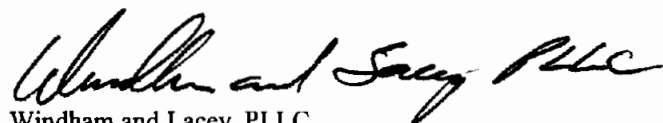
The Board of Supervisors of Panola County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Panola 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, Panola County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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

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


Windham and Lacey, PLLC
August 29, 2008

PANOLA 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.

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

Schedule 2

Our test results did not identify any emergency purchases.

PANOLA 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.

Windham and Lacey, PLLC

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Panola County Mississippi

In planning and performing our audit of the financial statements of Panola County, Mississippi for the year ended September 30, 2006, we considered Panola 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 Panola County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures and tests were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated August 29, 2008, on the financial statements of Panola County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the 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.

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.



Windham and Lacey, PLLC
August 29, 2008

PANOLA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PANOLA COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | U.S. Department of Health and Human Services/
Mississippi Department of Human Services/
Temporary Assistance for Needy Families, CFDA #93.558 | |
| | Federal Election Commission/Election Assistance Commission/
Help America Vote Act, CFDA #90.401 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? | No |

PANOLA COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 2: Financial Statement Findings

06-1. Finding

The county has some interfund loans outstanding from prior years. Per prior auditors, these loans were made when the county experienced negative cash flows in some funds. However, the loans were not repaid as of September 30, 2006.

Recommendation

Interfund loans should be approved and recorded in the Board of Supervisors' board minutes. These interfund loans should be repaid as soon as possible. Loans not repaid by fiscal year-end should be reauthorized by the Board of Supervisors.

Board of Supervisors' Response

The Board is working to repay these loans.

06-2. Finding

In 2006, the county received cash from the South Panola Hospital Board that was proceeds from the sale of the hospital. This cash was not booked on the county's books. In addition, in prior years the county failed to record similar amounts received from the sale of the North Panola Hospital. In both instances, these funds were invested in certificates of deposit by the Chancery Clerk. The county is required by statute to account for funds from the sale of hospitals in its General Fund. (Section 41-13-15, Miss. Code Ann. (1972)).

Recommendation

The Chancery Clerk should provide adequate records of accounts and transactions for these funds to the Board of Supervisors. The Board of Supervisors should insure that these funds are properly accounted for on the county's books.

Board of Supervisors' Response

The Board of Supervisors will work with the Chancery Clerk to get these funds properly accounted for in the county's accounting system.

Section 3: Federal Award Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.