

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

SMITH COUNTY
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SMITH COUNTY, MISSISSIPPI

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of Smith County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2006. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Accounting principles generally accepted in the United States of America do not require comparative data in the financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

Smith County is located on Highway 35. The population, according to the 2000 census, is 16,182. The local economic base is driven by the timber industry and other agricultural activities.

FINANCIAL HIGHLIGHTS

Smith County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Smith County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has decreased by .54 mills over the last five years. The main reason for the small decrease is due to the addition of 6.2 mills for the construction of the new Chancery Building and Jail. This does not include the school taxes.

The County's ending cash balance at September 30, 2006 was \$9,511,411, which represents a 4.8% increase from the prior year.

The County's capital assets, net of accumulated depreciation, decreased by \$875,605 and long-term liabilities increased by \$468,228 from the prior year.

SMITH COUNTY, MISSISSIPPI

The County had \$9,750,725 in total revenues, which represents an increase of \$3,018,404 or 45% from the prior year. Tax revenues account for \$4,758,981 or 49% of total revenues. Operating grants and contributions account for \$2,644,952 or 27% of total revenues.

The County had \$10,542,657 in total expenses, which represents an increase of \$964,050 or 10% from the prior year. Expenses in the amount of \$3,516,391 were offset by grants, outside contributions or charges for services. The remainder of expenditures was offset by general revenues and accumulated cash of \$7,026,266.

Among major funds, the General Fund had \$3,885,507 in revenues and other financing sources and \$3,765,800 in expenditures with a increase in fund balance of \$119,707 from the prior year. The Countywide Road and Bridge Fund had \$1,217,438 in revenues and \$928,722 in expenditures and other financing uses with an increase in fund balance of \$288,716 from the prior year. The Chancery Building Fund had \$77,347 in revenues and \$325,533 in expenditures and other financing uses with an ending fund balance of \$3,199,652. The Jail Construction Fund had \$44,655 in revenues and \$65,861 in expenditures and other financing uses with an ending fund balance of \$1,935,650.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

SMITH COUNTY, MISSISSIPPI

Figure 1 – Required Components of the County's Annual Report

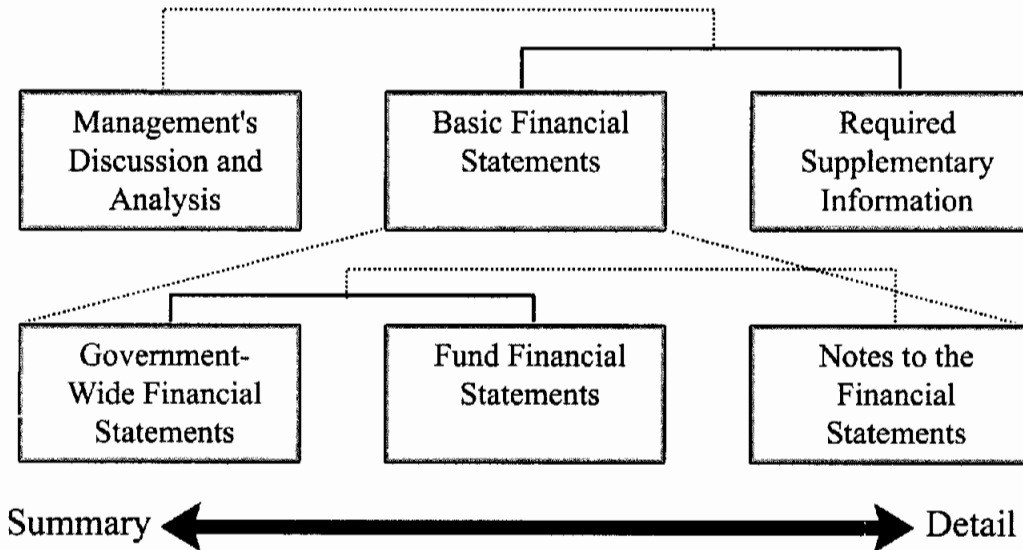


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

SMITH COUNTY, MISSISSIPPI

Figure 2 – Major Features of a County’s Government-Wide and Fund Financial Statements

	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire County government (except fiduciary funds) and component units	All activities of the County that are not business-type or fiduciary in nature	Activities of the County that operate similar to private businesses	The County is the trustee or agent for someone else’s resources
Required financial statements	<ul style="list-style-type: none"> ● Statement of net assets ● Statement of activities 	<ul style="list-style-type: none"> ● Balance sheet ● Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> ● Statement of net assets ● Statement of revenues, expenses and changes in net assets ● Statement of cash flows 	<ul style="list-style-type: none"> ● Statement of fiduciary net assets ● Statement of changes in net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term	All assets and liabilities, both short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

SMITH COUNTY, MISSISSIPPI

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **Statement of Net Assets** presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **Statement of Activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development and assistance; and interest on long-term debt. The business-type activities of the County include Smith County Garbage.

Component units are not included in our basic financial statements. They consist of legally separate entities for which the County is financially accountable and that have substantially the same board as the County or provide services entirely to the County. The component unit that is not included is Smith County Economic Development Authority.

The Government-wide Financial Statements can be found on pages and of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: Governmental Funds, Proprietary Funds and Fiduciary Funds.

Governmental Funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, Governmental Funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental Funds include the General, Special Revenue, Debt Service, and Capital Projects Funds.

SMITH COUNTY, MISSISSIPPI

Because the focus of Governmental Funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages and respectively.

The County maintains individual Governmental Funds in accordance with the *Mississippi County Financial Accounting Manual* issued by the Mississippi Office of the State Auditor. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as Other Governmental Funds.

The basic Governmental Funds financial statements can be found on pages and of this report.

Proprietary Funds. The County's only Proprietary Fund is an Enterprise Fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The County uses this Enterprise Fund to account for the Smith County Garbage Fund.

Fund financial statements for the Proprietary Funds provide the same type of information as the government-wide financial statements, only in more detail. Because the County has only one Proprietary Fund, it is considered to be a major fund. The Proprietary Funds financial statements can be found on pages of this report.

Fiduciary Funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for Fiduciary Funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes immediately follow the exhibits in this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process. The County adopts an annual operating budget for all Governmental Funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

SMITH COUNTY, MISSISSIPPI

GOVERNMENT-WIDE FINANCIAL

Net Assets – Net assets may serve over time as a useful indicator of government’s financial position. In the case of Smith County, assets exceeded liabilities by \$37,437,929 as of September 30, 2006.

By far, the largest portion of the County’s net assets (75%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County’s financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the County’s net assets for the fiscal year ended September 30, 2006, as compared to fiscal year ended September 30, 2005.

	Governmental Activities		Business-Type Activities	
	2006	2005	2006	2005
Assets:				
Current Assets	\$ 14,296,501	\$ 12,535,001	\$ 120,136	\$ 10,148
Capital Assets, Net	35,792,278	36,714,027	133,580	87,436
Total Assets	\$ 50,088,779	\$ 49,249,028	\$ 253,716	\$ 97,584
Liabilities:				
Current Liabilities	\$ 5,092,371	\$ 3,770,528	\$ 17,168	\$ 19,424
Long-Term Debt Outstanding	7,715,629	7,326,300	79,398	499
Total Liabilities	\$ 12,808,000	\$ 11,096,828	\$ 96,566	\$ 19,923
Net Assets:				
Invested in Capital Assets, Net of Related Debt	\$ 28,097,759	\$ 29,411,813	\$ 54,575	\$ 87,436
Restricted	7,675,829	7,147,627	102,575	(9,775)
Unrestricted	1,507,191	1,592,760		
Total Net Assets	\$ 37,280,779	\$ 38,152,200	\$ 157,150	\$ 77,661

SMITH COUNTY, MISSISSIPPI

Changes in Net Assets—Smith County’s total revenues for the fiscal year ended September 30, 2006 was \$9,750,725. The total cost for all services provided was \$10,542,657. The decrease in net assets was \$791,932.

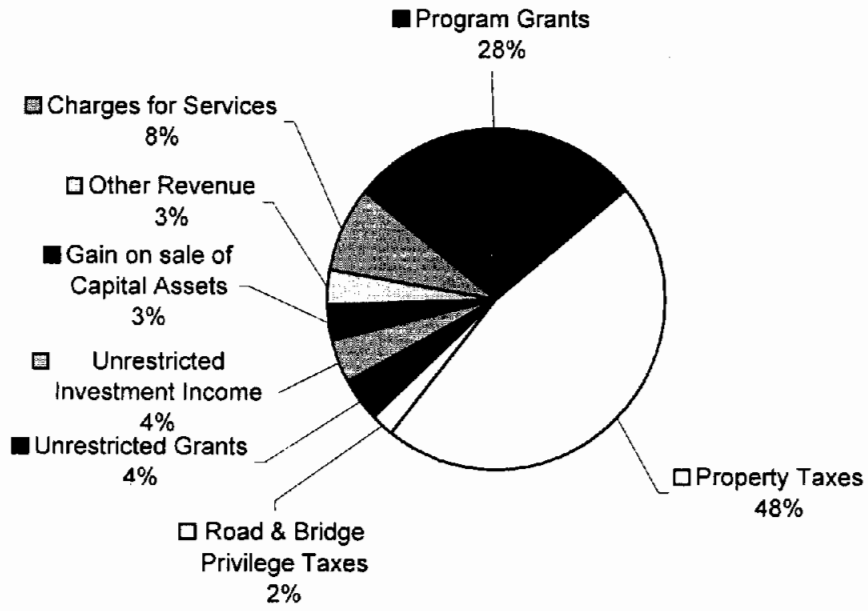
The following table presents a summary of the changes in net assets for the fiscal years ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Program Revenues:		
Charges for Services	\$ 792,754	\$ 728,968
Grants	2,723,637	1,471,448
General Revenues:		
Property Taxes	4,557,636	3,500,863
Road & Bridge Privilege Taxes	201,345	195,135
Unrestricted Grants	408,078	575,209
Unrestricted Investment Income	404,180	81,508
Gain (Loss) on sale of Capital Assets	338,532	(5,444)
Other Revenue	324,563	184,634
Total Revenue	<u>9,750,725</u>	<u>6,732,321</u>
Governmental Activities:		
General Government	2,072,543	2,007,464
Public Safety	1,957,356	1,587,659
Public Works	5,066,123	4,921,547
Health and Welfare	104,757	167,973
Culture and Recreation	181,760	136,431
Conservation of Natural Resources	51,110	47,192
Economic Development	68,276	220,122
Interest on Long-term Debt	550,182	83,522
Business-Type Activities:		
Solid Waste	490,550	406,697
Total Functions/Programs	<u>10,542,657</u>	<u>9,578,607</u>
Increase (Decrease) in Net Assets	<u>\$ (791,932)</u>	<u>\$ (2,846,286)</u>

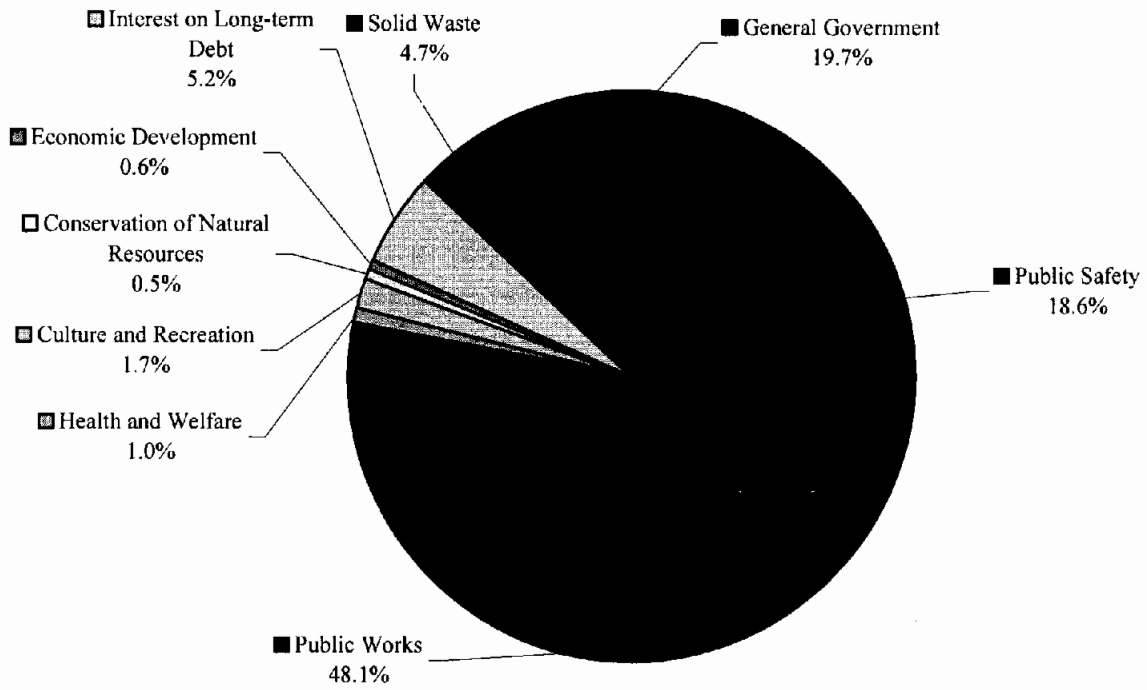
The following is a summary of the sources and uses of the County’s revenues for the fiscal year ended September 30, 2006.

SMITH COUNTY, MISSISSIPPI

Where the County Gets Its Revenues



How County Revenues Are Used



SMITH COUNTY, MISSISSIPPI

Governmental Activities – The following table presents the cost of five major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, and Culture & Recreation.

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Smith County's taxpayers by each of these functions.

	Total Costs	Net Costs
General Government	\$ 2,072,543	\$ 1,708,732
Public Safety	1,957,356	1,519,443
Public Works	5,066,123	2,952,743
Health & Welfare	104,757	104,757
Culture & Recreation	181,760	177,713

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental funds – At the close of the fiscal year, Smith County's governmental funds reported a combined fund balance of \$9,191,121, an increase of \$563,527 from the prior year. The primary reasons for the increase are an increase in property taxes and intergovernmental revenues. In addition, other factors that affected ending fund balance are as follows:

- Long-term liabilities and obligations had a net increase of \$389,329.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year was \$119,707. This increase was primarily due to an increase in property taxes.

The Countywide Road and Bridge Fund had an increase in the fund balance of \$288,716. This increase was primarily due to a decrease in transfers to other funds and in expenditures.

Other major governmental funds include the Chancery Building and Jail Construction Funds. Ending fund balances for these funds were \$3,199,652 and \$1,935,650, respectively.

Business-type funds- Operating revenue from the County's Solid Waste Fund increased by 43% to \$164,832 and operating expenses increased by 2% to \$82,487.

SMITH COUNTY, MISSISSIPPI

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Smith County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning cash balances made in the original budget to actual beginning cash balances on October 1.
- Budgeted revenues were increased as better estimates became available.
- The largest increase in amendments was to the general government department. Budgeted expenditures were increased (decreased) as better estimates became available.

A schedule showing the original and final budget amounts compared to the County's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2006, Smith County's total capital assets was \$73,873,227. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress.

Total accumulated depreciation as of September 30, 2006 was \$37,947,369, including \$2,923,580 of depreciation expense for the year. The balance in total net capital assets was \$35,925,858 at year-end.

Additional information on Smith County's capital assets can be found in note 5 on page of this report.

Debt Administration – At September 30, 2006, Smith County had \$7,795,027 in long-term debt outstanding. This includes general obligation bonds, obligations under capital leases, and compensated absences. Of this debt, \$1,395,403 is due within one year.

In the past year, the County obtained \$1,881,522 in capital leases which was for various machinery and equipment used for repairs and maintenance to county roads and a new garbage truck for the county.

The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. As of September 30, 2006, Smith County's outstanding debt was equal to 8.89% of the latest property assessments.

SMITH COUNTY, MISSISSIPPI

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

	Balance			Amount Due	
	Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006	Within One Year
<i>Governmental Activities</i>					
Compensated Absences	\$ 24,086	\$ 26,448	\$ 29,424	\$ 21,110	\$ -
General obligation bonds	5,975,000	-	205,000	5,770,000	220,000
Capital leases	1,327,214	1,794,025	1,196,720	1,924,519	1,154,452
Total	<u>\$ 7,326,300</u>	<u>\$ 1,820,473</u>	<u>\$ 1,431,144</u>	<u>\$ 7,715,629</u>	<u>\$ 1,374,452</u>
<i>Business-Type Activities</i>					
Compensated absences	\$ 499	\$ 3,260	\$ 3,366	\$ 393	\$ -
Capital Leases	-	87,497	8,492	79,005	20,951
Total	<u>\$ 499</u>	<u>\$ 90,757</u>	<u>\$ 11,858</u>	<u>\$ 79,398</u>	<u>\$ 20,951</u>

Additional information on Smith County's long-term debt can be found in note 8 on page and of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

The County is currently still in the process of building a new facility for the County's jail and Chancery Clerk's office, this project is being financed by the \$5,500,000 bond issue. The County purchased the property for the County Jail and Chancery Clerk's office during the 2005-2006 year. The County plans to begin the bidding process during the 2007-2008 year in order to be able to get the construction process underway.

The only major purchases will be cars for the Sheriff's Department and road equipment to be able to continue with the upkeep of Smith County's roads. They will continue with the operations of the County and continue with their efforts to increase productivity and stability within Smith County, Mississippi.

Smith County has an unemployment rate of 5.2% versus 6.8% a year ago. This compares favorably with the state average rate of 6.4%.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Smith County Comptroller's/Chancery Clerk's office at 123 Main Street, Raleigh, Mississippi 39153.

SMITH COUNTY

FINANCIAL SECTION

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

Members of the Board of Supervisors
Smith County, Mississippi

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

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.


The financial statements referred to above include only the primary government of Smith 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 Smith 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 my 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 Smith 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*, I have also issued a report dated November 30, 2007, on my consideration of Smith County, Mississippi's internal control over financial reporting and on my 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 my 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 my audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Smith 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 my opinion, is fairly stated, in relation to the basic financial statements taken as a whole.


MARCUS J. MARTIN
Certified Public Accountant
November 30, 2007

SMITH COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

**Smith County
Statement of Net Assets
September 30, 2006**

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 9,407,098	104,313	9,511,411
Property tax receivable	4,549,736		4,549,736
Accounts receivable		117,540	117,540
Fines receivable (net of allowance for uncollectibles of \$346,162)	13,009		13,009
Intergovernmental receivables	224,941		224,941
Internal balances	101,717	(101,717)	-
Capital assets, net	35,792,278	133,580	35,925,858
Total Assets	50,088,779	253,716	50,342,495
LIABILITIES			
Claims payable	351,406	17,168	368,574
Intergovernmental payables	191,229		191,229
Deferred revenue	4,549,736		4,549,736
Long-term liabilities			
Due within one year:			
Capital debt	1,374,452	20,951	1,395,403
Due in more than one year:			
Capital debt	6,320,067	58,054	6,378,121
Non-capital debt	21,110	393	21,503
Total Liabilities	12,808,000	96,566	12,904,566
NET ASSETS			
Invested in capital assets, net of related debt	28,097,759	54,575	28,152,334
Restricted:			
Expendable:			
General government	400,214		400,214
Debt service	522,646		522,646
Public safety	167,882		167,882
Public works	1,257,251	102,575	1,359,826
Culture and recreation	4,595		4,595
Economic development	125,294		125,294
Capital projects	5,197,947		5,197,947
Unrestricted	1,507,191		1,507,191
Total Net Assets	\$ 37,280,779	157,150	37,437,929

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

Smith 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	Primary Government	
					Governmental Activities	Business-type Activities
Primary government activities:						
General government	\$ 2,072,543	53,953	309,858		(1,708,732)	(1,708,732)
Public safety	1,957,356	172,908	186,320	78,685	(1,519,443)	(1,519,443)
Public works	5,066,123	10,000	2,103,380		(2,952,743)	(2,952,743)
Health and welfare	104,757				(104,757)	(104,757)
Culture and recreation	181,760	4,047			(177,713)	(177,713)
Conservation of natural resources	51,110				(51,110)	(51,110)
Economic development and assistance	68,276		27,970		(40,306)	(40,306)
Interest on long-term debt	550,182				(550,182)	(550,182)
Total Governmental Activities	10,052,107	240,908	2,627,528	78,685	(7,104,986)	(7,104,986)
Business-type activities:						
Solid waste	490,550	551,846	17,424		78,720	78,720
Total Business-type Activities	490,550	551,846	17,424	-	78,720	78,720
Total Primary Government	\$ 10,542,657	792,754	2,644,952	78,685	(7,104,986)	(7,026,266)
General revenues:						
Property taxes					\$ 4,557,636	4,557,636
Road & bridge privilege taxes					201,345	201,345
Grants and contributions not restricted to specific programs					408,078	408,078
Unrestricted investment income					403,689	403,689
Miscellaneous					324,285	324,285
Gain (loss) on sale of capital assets					338,532	338,532
Total General Revenues and Gains (Losses)					6,233,565	6,233,565
Changes in Net Assets					79,489	(791,932)
Net Assets - Beginning					38,152,200	38,229,861
Net Assets - Ending					37,280,779	37,437,929

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

**Smith County
Balance Sheet – Governmental Funds
September 30, 2006**

Exhibit 3

	Major Funds						Total Governmental Funds
	General Fund	Countywide Road & Bridge Fund	Chancery Building Fund	Jail Construction Fund	GO Bonds I&S Fund	Other Governmental Funds	
ASSETS							
Cash	\$ 1,428,460	239,794	3,205,652	1,935,650	272,644	2,324,898	9,407,098
Property tax receivable	2,448,993	1,228,000			64,000	808,743	4,549,736
Fines receivable (net of allowance for uncollectibles of \$81,312)	13,009						13,009
Intergovernmental receivables	174,854					50,087	224,941
Due from other funds	209,161	507,580			1,397	35,542	753,680
Advances to other funds	101,717						101,717
Total Assets	\$ 4,376,194	1,975,374	3,205,652	1,935,650	338,041	3,219,270	15,050,181
LIABILITIES AND FUND BALANCES							
Liabilities:							
Claims payable	\$ 124,255	15,312	6,000			205,839	351,406
Intergovernmental payables	119,856						119,856
Due to other funds	64,243					689,437	753,680
Advances from other funds		71,373					71,373
Deferred revenue	2,462,002	1,228,000			64,000	808,743	4,562,745
Total Liabilities	2,770,356	1,314,685	6,000		64,000	1,704,019	5,859,060
Fund balances:							
Reserved for:							
Debt service					274,041	248,605	522,646
Capital Projects			3,199,652	1,935,650		62,645	5,197,947
Advances	101,717						101,717
Unreserved, reported in							
General Fund	1,504,121					1,204,001	1,504,121
Special Revenue Funds		660,689					1,864,690
Total Fund Balances	1,605,838	660,689	3,199,652	1,935,650	274,041	1,515,251	9,191,121
Total Liabilities and Fund Balances	\$ 4,376,194	1,975,374	3,205,652	1,935,650	338,041	3,219,270	15,050,181

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

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

Exhibit 3-1

Total Fund Balance - Governmental Funds	\$	9,191,121
<p>Amounts reported for governmental services in the Statement of Net Assets are different because:</p>		
Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$37,764,322.		35,792,278
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		13,009
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.		(7,715,629)
Total Net Assets - Governmental Activities	\$	37,280,779

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

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

Exhibit 4

Major Funds

	General Fund	Countywide Road & Bridge Fund	Chancery Building Fund	Jail Construction Fund	GO Bonds I&S Fund	Other Governmental Funds	Total Governmental Funds
REVENUES							
Property taxes	\$ 2,458,965	1,202,446			61,502	834,723	4,557,636
Road and bridge privilege taxes						201,345	201,345
Licenses, commissions and other revenue	94,597					4,047	98,644
Fines and forfeitures	117,316	10,000					127,316
Intergovernmental revenues	782,296					2,331,995	3,114,291
Charges for services	24,086					114,732	138,818
Interest income	123,109	4,992	77,347	44,655	15,194	138,392	403,689
Miscellaneous revenues	255,119					68,166	323,285
Total Revenues	<u>3,855,488</u>	<u>1,217,438</u>	<u>77,347</u>	<u>44,655</u>	<u>76,696</u>	<u>3,693,400</u>	<u>8,965,024</u>
EXPENDITURES							
Current:							
General government	2,090,316		272,418			21,600	2,384,334
Public safety	1,265,462			35,273		533,062	1,833,797
Public works		235,971				4,350,814	4,586,785
Health and welfare	104,757					3,865	104,757
Culture and recreation	177,895						177,895
Conservation of natural resources	51,110						51,110
Economic development and assistance	40,306					27,970	68,276
Debt service:							
Principal	35,094	79,273			30,000	1,257,353	1,401,720
Interest	860	5,478			27,054	516,790	550,182
Total Expenditures	<u>3,765,800</u>	<u>320,722</u>	<u>272,418</u>	<u>35,273</u>	<u>57,054</u>	<u>6,711,454</u>	<u>11,162,721</u>
Excess Revenues over (under) expenditures	<u>89,688</u>	<u>896,716</u>	<u>(195,071)</u>	<u>9,382</u>	<u>19,642</u>	<u>(3,018,054)</u>	<u>(2,197,697)</u>
OTHER FINANCING SOURCES (USES)							
Long-term capital debt issued	40,784					1,753,241	1,794,025
Proceeds from sale of capital assets						966,199	966,199
Compensation for loss of capital assets						1,000	1,000
Transfers in	76,801					779,269	856,070
Transfers out	(87,566)	(608,000)	(53,115)	(30,588)		(76,801)	(856,070)
Total Other Financing Sources and Uses	<u>30,019</u>	<u>(608,000)</u>	<u>(53,115)</u>	<u>(30,588)</u>		<u>3,422,908</u>	<u>2,761,224</u>
Net Changes in Fund Balances	<u>119,707</u>	<u>288,716</u>	<u>(248,186)</u>	<u>(21,206)</u>	<u>19,642</u>	<u>404,854</u>	<u>563,527</u>
Fund Balances - Beginning	<u>1,486,131</u>	<u>371,973</u>	<u>3,447,838</u>	<u>1,956,856</u>	<u>254,399</u>	<u>1,110,397</u>	<u>8,627,594</u>
Fund Balances - Ending	<u>\$ 1,605,838</u>	<u>660,689</u>	<u>3,199,652</u>	<u>1,935,650</u>	<u>274,041</u>	<u>1,515,251</u>	<u>9,191,121</u>

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

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

Exhibit 4-1

Net Changes in Fund Balances - Governmental Funds	\$	563,527
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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 of the difference between capital outlays of \$2,588,145 and depreciation of \$2,882,227 in the current period.		(294,082)
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In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$338,532 and the proceeds from the sale of \$966,199 in the current period.		(627,667)
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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		(123,870)
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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 proceeds of \$1,794,025 exceeded debt repayments of \$1,401,720.		(392,305)
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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. Thus, the change in net assets differs from the change in fund balances by the following:

Decrease in compensated absences liability		2,976
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Change in Net Assets of Governmental Activities	\$	<u>(871,421)</u>
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The notes to the financial statements are an integral part of this statement.

Smith County
Statement of Net Assets - Proprietary Fund
September 30, 2006

Exhibit 5

	Business-type Activities
	Enterprise Fund
	Solid Waste Fund
ASSETS	
Current assets:	
Cash	\$ 104,313
Accounts receivable	117,540
Total Current Assets	221,853
Noncurrent assets:	
Capital assets, net	133,580
Total Noncurrent Assets	133,580
Total Assets	355,433
LIABILITIES	
Current liabilities:	
Claims payable	17,168
Advances from other funds	101,717
Capital debt:	
Capital leases payable	20,951
Total Current Liabilities	139,836
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	58,054
Non-capital debt:	
Compensated absences payable	393
Total Noncurrent Liabilities	58,447
NET ASSETS	
Invested in capital assets, net of related debt	54,575
Restricted for public works	102,575
Total Net Assets	\$ 157,150

Smith 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	\$ 551,846
Total Operating Revenues	551,846
Operating Expenses	
Personal services	255,394
Contractual services	109,936
Materials and supplies	69,791
Depreciation expense	41,353
Indirect administrative cost	12,710
Total Operating Expenses	489,184
Operating Income (Loss)	62,662
Nonoperating Revenues (Expenses)	
Interest income	491
Operating grant	17,424
Interest expense	(1,366)
Other income (Expenses)	278
Net Nonoperating Revenues (Expenses)	16,827
Changes in Net Assets	79,489
Net Assets - Beginning	77,661
Net Assets - Ending	\$ 157,150

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

Smith 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	\$	434,306
Payments to suppliers		(181,983)
Payments to employees		(255,500)
Net Cash Provided (Used) by Operating Activities		<u>(3,177)</u>
Cash Flows From Capital and Related Financing Activities		
Proceeds of long-term debt		87,497
Acquisition of capital assets		(87,497)
Principal paid on long-term debt		(8,492)
Interest paid on debt		(1,366)
Net Cash Provided (Used) by Capital and Related Financing Activities		<u>(9,858)</u>
Cash Flows From Noncapital Financing Activities		
Operating grants received		17,424
Other receipts (payments)		769
Net Cash Provided (Used) by Noncapital Financing Activities		<u>18,193</u>
Net Increase (Decrease) in Cash and Cash Equivalents		5,158
Cash and Cash Equivalents at Beginning of Year		99,155
Cash and Cash Equivalents at End of Year	\$	<u><u>104,313</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$	62,662
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		41,353
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable		(117,540)
Increase (decrease) in claims payable		(2,256)
Increase (decrease) in compensated absences liability		(106)
Increase (decrease) in interfund payable		12,710
Total Adjustments		<u>(65,839)</u>
Net Cash Provided (Used) by Operating Activities	\$	<u><u>(3,177)</u></u>

Noncash Capital Financing Activity:

Smith County lease purchased mobile equipment for \$87,497 for 4 years at 3.9% interest.
Principal payments of \$8,492 were made on the lease during the year.

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

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

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 113,862
Intergovernmental receivables	4,712
Advances to other funds	71,373
Total Assets	<u>\$ 189,947</u>
LIABILITIES	
Amounts held in custody for others and other accrued liabilities	\$ 95,978
Intergovernmental payables	93,969
Total Liabilities	<u>\$ 189,947</u>

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

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

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity.

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

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

◆ Smith County Economic Development Authority

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities 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 governmental function is self-financing or draws from the general revenues of the county.

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

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 Fund 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.

The county's Proprietary Fund applies 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 judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

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

Countywide Road and Bridge Fund – This fund is used to account for resources designated and used for maintenance of the county's infrastructure system.

Chancery Building Construction Fund – This fund is used to account for bond proceeds designated to be used for the construction of a new Chancery Building.

Jail Construction Fund – This fund is used to account for bond proceeds designated to be used for construction of a new jail.

GO Bond I&S \$700,000 – This fund is used to account for the retirement of bonded debt.

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

The county has only one Proprietary Fund, the Solid Waste Fund, and it is therefore considered to be a major fund.

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 TYPES

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

FIDUCIARY FUND TYPES

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

D. Account Classifications.

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

E. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen 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 certificates of deposits or governmental securities during the fiscal year.

F. Receivables.

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

G. Interfund Transactions and Balances.

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

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial 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.

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.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements 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.

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

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

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

I. Long-term Liabilities.

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

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

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

K. Property Tax Revenues.

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

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

on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

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

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and the Proprietary Fund 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 \$21,111 for accumulated unpaid personal leave up to a maximum of 20 days per employee is reported as a liability in the Statement of Net Assets. In the Proprietary Fund, compensated absences in the amount of \$393 are reported as a liability of the fund.

(2) Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$9,625,273, and the bank balance was \$9,783,379. 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.

SMITH 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:

A. Due from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$ 209,161
Countywide Road & Bridge Fund	General Fund	27,304
Countywide Road & Bridge Fund	Nonmajor Governmental Fund	480,276
GO Bonds I&S \$700,000	General Fund	1,397
Nonmajor Governmental Fund	General Fund	35,542
Total		<u>\$ 753,680</u>

The receivables represent the tax revenue collected but not settled until October 2006 and temporary loans to pay off capital leases. 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>
General Fund	Solid Waste Fund	\$ 101,717
Agency Fund	Countywide Road & Bridge Fund	71,373
Total		<u>\$ 173,090</u>

The advances represent indirect costs associated with solid waste operations and an interfund loan resulting from errors in the settlement of tax revenues. These advances are not expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 76,801
Nonmajor Governmental Funds	General Fund	87,566
Nonmajor Governmental Funds	Chancery Building Construction	53,115
Nonmajor Governmental Funds	Jail Construction Fund	30,588
Nonmajor Governmental Funds	Countywide Road & Bridge Fund	608,000
Total		<u>\$ 856,070</u>

The principal purpose of interfund transfers was to allocate amounts to the individual road maintenance funds, to transfer specified funds for accounting purposes, or to transfer funds for operating purposes. All other 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>
Governmental Activities:	
Legislative Tag Credit	\$ 92,593
Grants	132,348
Total Governmental Activities	<u>\$ 224,941</u>

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

(5) Capital Assets

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

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	Balance Sept. 30, 2006
Governmental Activities:					
<i>Non-depreciable capital assets:</i>					
Land	\$ 107,890	\$ 200,000			\$ 307,890
Construction in progress	71,050	101,691			172,741
Total non-depreciable capital assets	178,940	301,691	-	-	480,631
<i>Depreciable capital assets:</i>					
Infrastructure	64,180,637				64,180,637
Buildings	2,454,868				2,454,868
Mobile equipment	2,894,262	469,047	(335,583)	428,705	3,456,431
Furniture and equipment	326,119	23,382	(6,898)		342,603
Leased property under capital leases	2,026,508	1,794,025	(750,398)	(428,705)	2,641,430
Total depreciable capital assets	71,882,394	2,286,454	(1,092,879)	-	73,075,969
<i>Less accumulated depreciation for:</i>					
Infrastructure	(31,704,376)	(2,093,533)			(33,797,909)
Buildings	(694,429)	(31,694)			(726,123)
Mobile equipment	(2,089,373)	(245,956)	292,456	(170,384)	(2,213,257)
Furniture and equipment	(267,844)	(37,999)	3,732		(302,111)
Leased property under capital leases	(591,285)	(473,045)	169,024	170,384	(724,922)
Total accumulated depreciation	(35,347,307)	(2,882,227)	465,212	-	(37,764,322)
Total depreciable capital assets, net	36,535,087	(595,773)	(627,667)	-	35,311,647
Governmental activities capital assets, net	\$ 36,714,027	\$ (294,082)	\$ (627,667)	\$ -	\$ 35,792,278

The adjustment to capital assets consists of lease purchases which were paid off during the year and transferred to other appropriate categories. Construction in progress consists of construction of a new Chancery Building and Jail. Due to increased costs of materials after Hurricane Katrina, these projects are currently still in the planning phase.

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	Balance Sept. 30, 2006
Business-type Activities:					
<i>Depreciable capital assets:</i>					
Mobile equipment	229,130				229,130
Leased property under capital leases		87,497			87,497
Total depreciable capital assets	229,130	87,497	-	-	316,627
<i>Less accumulated depreciation for:</i>					
Mobile equipment	(141,694)	(25,603)			(167,297)
Leased property under capital leases		(15,750)			(15,750)
Total accumulated depreciation	(141,694)	(41,353)	-	-	(183,047)
Total depreciable capital assets, net	87,436	46,144	-	-	133,580
Business-type activities capital assets, net	\$ 87,436	\$ 46,144	\$ -	\$ -	\$ 133,580

Depreciation expense was charged to the following functions:

Governmental Activities:	
General government	\$ 20,281
Public safety	160,320
Public works	2,701,626
Total	<u>\$ 2,882,227</u>

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

Business-type Activities:
Solid waste

\$ 41,353

(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:

Classes of Property	Governmental Activities	Business Type Activities
Mobile equipment	\$ 2,457,080	87,497
Other furniture and equipment	<u>184,350</u>	<u> </u>
 Total	 2,641,430	 87,497
Less: Accumulated Depreciation	<u>(724,922)</u>	<u>(15,750)</u>
 Leased Property Under Capital Leases	 <u>\$ 1,916,508</u>	 <u>71,747</u>

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

Year Ending September 30	Principal	Interest	Principal	Interest
2007	\$1,154,452	\$65,478	\$20,951	\$2,709
2008	206,197	23,935	21,783	1,877
2009	350,212	12,125	22,648	1,013
2010	211,141	1,939	13,623	178
2011	2,517	21	-	-
2012-2016	<u>\$ 1,924,519</u>	<u>\$ 103,498</u>	<u>\$ 79,005</u>	<u>\$ 5,777</u>

(8) 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 Obligations Bonds:			
Chancery Building and Jail	\$ 5,325,000	5.00	03-25
Agricultural Complex	<u>445,000</u>	4.70	03-16
Total General Obligation Bonds	<u>\$ 5,770,000</u>		

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
B. Capital Leases:			
Two 2006 Crown Victorians Cat Tractor	\$ 32,546	3.88	04-08
International Loader	36,056	3.04	11-07
2004 Freightliner & Durapatcher	40,779	2.99	04-08
2002 Cat 320CL Excavator	70,799	2.79	06-09
2002 New Holland Tractor	80,999	3.98	07-07
Massey Ferguson Tractor	19,492	3.84	01-08
2004 Cat 140H Motor Grader	13,516	2.99	09-08
2007 Mack Truck	141,220	3.09	10-08
2004 Cat 140H Motor Grader	94,990	3.99	09-07
New Holland TS115A Tractor	141,220	3.09	10-08
2002 Case Extend-a-hoe	11,919	2.75	03-08
Kubota Tractor	29,192	3.69	12-06
Fuel Tank and Engine for case 580 Backhoe	34,295	3.92	05-10
Two 2007 Mack Trucks	11,717	4.49	08-08
John Deere Tractor w/mower	189,980	3.99	09-07
2004 Chev Ext. Cab	34,495	2.82	04-09
Used Massey Ferguson Tractor	10,970	2.89	05-09
Case 590 Super M Backhoe	12,920	3.75	01-10
Two 2007 Mack Trucks	76,994	3.88	04-09
2002 New Holland Tractor	189,980	3.99	09-07
2004 Ford F150	19,492	3.84	01-08
Caterpillar 315 CL Excavator and Shovel	5,490	2.82	05-07
2007 Mack Truck	106,377	3.94	01-10
2002 International 4700 w/Dump	94,990	3.99	09-07
2004 Ford F150	1,628	3.91	11-06
2007 Mack Truck	5,751	2.78	03-08
2007 Mack Truck	94,990	3.45	04-07
2007 Mack Truck	94,990	3.99	09-07
Komatsu Motor Grader	169,540	3.99	10-09
Radio Tower	52,510	7.91	12-10
Computer & Software (Tax Assessor)	4,682	4.49	12-06
Total Capital Leases	<u>\$ 1,924,519</u>		

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Business-type Activities:			
Capital Leases			
Garbage Truck	<u>79,005</u>	3.90	04-10

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

Governmental Activities:

Year Ending September 30	<u>General Obligation Bonds</u>	
	Principal	Interest
2007	\$ 220,000	\$ 232,171
2008	225,000	222,904
2009	240,000	213,171
2010	250,000	202,871
2011	265,000	191,996
2012-2016	1,500,000	781,411
2017-2021	1,555,000	478,959
2022-2026	1,515,000	131,301
	<u>\$ 5,770,000</u>	<u>\$ 2,454,784</u>

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

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2006, the amount of outstanding debt was equal to 8.89% 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:

	Balance			Amount Due	
	Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006	Within One Year
Governmental Activities:					
Compensated absences	\$ 24,086	\$ 26,448	\$ 29,424	\$ 21,110	\$ -
General obligation bonds	5,975,000	-	205,000	5,770,000	220,000
Capital leases	1,327,214	1,794,025	1,196,720	1,924,519	1,154,452
Total	<u>\$ 7,326,300</u>	<u>\$ 1,820,473</u>	<u>\$ 1,431,144</u>	<u>\$ 7,715,629</u>	<u>\$ 1,374,452</u>
Business-type Activities:					
Compensated absences	\$ 499	\$ 3,260	\$ 3,366	\$ 393	\$ -
Capital leases	-	87,497	8,492	79,005	20,951
Total	<u>\$ 499</u>	<u>\$ 90,757</u>	<u>\$ 11,858</u>	<u>\$ 79,398</u>	<u>\$ 20,951</u>

(9) 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.

Potential Fraudulent Conduct - The county is aware of two instances of potential fraudulent conduct by two former employees of Smith County involving the solid waste department and the accounting department. While these matters are not considered material to the financial statements, they have been disclosed to the Office of the State Auditor for further investigation and/or legal action.

(10) Joint Ventures

The county participates in the following joint ventures:

Smith County is a participant with Rankin, Scott and Simpson Counties in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Central Mississippi Regional Library System. The joint venture was created to provide free library service to the public and is governed by a five-member board of which two members are appointed by Rankin County and one member each from the other three counties. By contractual agreement, the county's appropriation to the joint venture was \$110,926 in fiscal year 2006. Complete financial statements for the Central Mississippi Regional Library System can be obtained from 3470 Highway 80 East, Pearl, MS 39208.

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

(11) Jointly Governed Organizations

The county participates in the following jointly governed organizations:

East Central Community Action Agency, Inc. operates in a district composed of the Counties of Leake, Neshoba, Rankin, Scott and Smith. The Smith County Board of Supervisors appoints two of the 30 board members. The county appropriated \$9,500 for support of the agency in fiscal year 2006.

Central Mississippi Emergency Medical Services District operates in a district composed of the Counties of Attala, Clarke, Copiah, Holmes, Lauderdale, Leake, Madison, Neshoba, Rankin, Scott, Smith, Warren, and Yazoo. The Smith County Board of Supervisors appoints two of the 26 board members of the board. The county provided no financial support for 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 Smith County Board of Supervisors appoints one of the nine members of the board of commissioners. The county provided \$20,840 for support of the commission in fiscal year 2006.

Jones County Junior College operates in a district composed of the Counties of Clarke, Covington, Greene, Jasper, Jones, Perry, Smith and Wayne. The Smith County Board of Supervisors appoints two of the 20 members of the college board of trustees. The county appropriated \$206,554 for maintenance and support of the college 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 Smith County Board of Supervisors appoints one of the 15 members of the board of directors. The county appropriated \$9,616 for support of the district in fiscal year 2006.

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 \$21,750 for support of the district in the fiscal year 2006.

(12) Defined Benefit Pension Plan

Plan Description. Smith 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 10.75% 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 \$237,243, \$207,659, and \$190,296, respectively, equal to the required contributions for each year.

(13) Subsequent Events

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

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

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
12/4/2006	4.14	\$ 96,451	Lease Purchase	Tax Revenue
12/4/2006	4.14	96,451	Lease Purchase	Tax Revenue
12/4/2006	4.14	42,928	Lease Purchase	Tax Revenue
2/5/2007	4.41	65,467	Lease Purchase	Tax Revenue
2/5/2007	4.41	65,467	Lease Purchase	Tax Revenue
2/5/2007	4.17	106,645	Lease Purchase	Tax Revenue
2/5/2007	4.23	20,139	Lease Purchase	Tax Revenue
3/5/2007	4.22	97,667	Lease Purchase	Tax Revenue
4/16/2007	4.19	34,865	Lease Purchase	Tax Revenue
5/7/2007	4.97	118,550	Promissory Note	Tax Revenue
6/4/2007	4.28	173,395	Lease Purchase	Tax Revenue

SMITH COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Smith County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund (and each major Special Revenue fund)
For the Year Ended September 30, 2006

	General Fund					Countywide Road and Bridge Fund						
	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES												
Property taxes	2,297,894	2,451,704	2,464,420	12,716	1,148,560	1,207,000	1,207,597	597				
Licenses, commissions and other revenue	80,000	95,000	95,441	441								
Fines and forfeitures	110,000	106,000	106,458	458								
Intergovernmental revenues	1,277,000	1,225,000	1,294,454	69,454	17,000	10,000	10,000					
Charges for services	10,000	17,000	24,086	7,086								
Interest income	20,000	72,600	123,536	50,936		4,900	4,992	92				
Miscellaneous revenues	150,000	311,000	312,439	1,439								
Total Revenues	3,944,894	4,278,304	4,420,834	142,530	1,165,560	1,221,900	1,222,589	689				
EXPENDITURES												
Current:												
General government	2,679,477	2,755,865	2,784,643	(28,778)								
Public safety	1,377,461	1,305,650	1,363,270	(57,620)								
Public works					310,000	343,000	326,811	16,189				
Health and welfare	94,486	93,996	104,600	(10,614)								
Culture and recreation	178,926	178,926	177,895	1,031								
Education												
Conservation of natural resources	52,629	51,845	50,938	907								
Economic development and assistance	55,100	53,962	40,306	13,656								
Debt service principal, interest, and fees												
Total Expenditures	4,438,079	4,440,234	4,521,652	(81,418)	310,000	343,000	326,811	16,189				
Excess of Revenues over (under) Expenditures	(493,185)	(161,930)	(100,818)	61,112	855,560	878,900	895,778	16,878				
OTHER FINANCING SOURCES (USES)												
Other financing sources	175,000	566,680	417,469	(149,211)								
Other financing uses	(125,000)	(717,873)	(594,925)	122,748	(900,000)	(1,100,000)	(1,088,276)	11,724				
Total Other Financing Sources and Uses	50,000	(150,993)	(177,456)	(26,463)	(900,000)	(1,100,000)	(1,088,276)	11,724				
Net Change in Fund Balance	(443,185)	(312,923)	(278,274)	34,649	(44,440)	(221,100)	(192,498)	28,602				
Fund Balances - Beginning	1,276,565	1,504,908	1,486,131	(18,777)	305,488	432,293	371,973	(60,320)				
Fund Balances - Ending	833,380	1,191,985	1,207,857	15,872	261,048	211,193	179,475	(31,716)				

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

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).

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

	<u>Governmental Fund Types</u>	
	General Fund	Countywide Road & Bridge
Budget (Cash Basis)	\$ (278,274)	(192,498)
Increase (Decrease)		
Net adjustments for revenue accruals	(865,230)	(5,151)
Net adjustments for expenditure accruals	1,263,211	486,365
GAAP Basis	<u>\$ 119,707</u>	<u>288,716</u>

SMITH COUNTY

SUPPLEMENTAL INFORMATION

SMITH COUNTY
Schedule of Expenditures of Federal Awards
For the 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.S. Department of Homeland Security/			
Passed-through the Mississippi Emergency Management Agency			
Disaster grants - public assistance	97.036	1604-DR-MS	\$750,756
Total Expenditures of Major Federal Awards			<u>750,756</u>
OTHER FEDERAL AWARDS			
U.S. Department of Housing and Urban Development/			
Passed-through the Mississippi Development Authority			
Community Development Block Grants/States Program	14.228	M03-SG-280-978	<u>27,970</u>
U.S. Department of Justice/Office of Justice Programs/			
Passed-through the Mississippi Department of Public Safety			
Local Law Enforcement Block Grant Program	16.592	N/A	<u>8,144</u>
U.S. Department of Transportation-Federal Highway Administration/			
Passed-through the Mississippi Department Of Transportation			
Highway Planning and Construction	20.205	BR NBIS O65 B (65) (F)	2,300
Highway Planning and Construction	20.205	BR NBIS O65 B (65) (F)	13,810
Highway Planning and Construction	20.205	ER 0065 24 B	73,972
Total U.S. Department of Transportation			<u>90,082</u>
U.S. Department of Homeland Security/			
Passed-through the Mississippi Department of Public Safety			
Homeland Security Grant Program	97.067	05HS065	<u>133,113</u>
Total Expenditures of Other Federal Awards			<u>259,309</u>
Total Expenditures of Federal Awards			<u>\$1,010,065</u>

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.

SMITH COUNTY

SPECIAL REPORTS

**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
Smith County, Mississippi

I 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 Smith 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 my report thereon dated November 30, 2007. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. I conducted my 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 my audit, I considered Smith County, Mississippi's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I 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 reporting that, in my judgment, could affect Smith County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1, 06-2 and 06-3.

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 to the primary government financial statements being audited may occur and not be detected within timely period by employees in the normal course of performing their assigned functions. My 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, I believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Smith County, Mississippi's primary government financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, I noted immaterial instances of noncompliance which I have reported to the management of Smith County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated November 30, 2007, included within this document.

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.



MARCUS J. MARTIN
Certified Public Accountant
November 30, 2007

**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
Smith County, Mississippi

Compliance

I have audited the compliance of Smith 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. Smith County, Mississippi's major federal program is 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 program is the responsibility of Smith County, Mississippi's management. My responsibility is to express an opinion on Smith County, Mississippi's compliance based on my audit.

I conducted my 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 I 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 Smith County, Mississippi's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Smith County, Mississippi's compliance with those requirements.

In my opinion, Smith County, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Smith 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 my audit, I considered Smith 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 my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

My 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 its 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.

I noted no matters involving the internal control over compliance and its operation that I 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.



MARCUS J. MARTIN
Certified Public Accountant
November 30, 2007

**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
Smith County, Mississippi

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

The Board of Supervisors of Smith 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 Smith 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 of 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 my opinion, Smith 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 my aforementioned study and evaluation of the purchasing system and, in my 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 Smith 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.


MARCUS J. MARTIN
Certified Public Accountant
November 30, 2007

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

Schedule 1

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

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

Schedule 2

My test results did not identify any emergency purchases.

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

Schedule 3

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

SMITH COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | |
|---|-------------|
| 4. Internal control over major programs: | |
| a. Material weakness identified? | No |
| b. Reportable conditions identified that are not considered to be material weaknesses? | No |
| 5. Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. Any audit findings reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Disaster grants - public assistance CFDA # 97.036 | |
| 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 findings and questioned costs 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

Reportable Conditions Not Considered to be Material Weaknesses

06-1. Finding

EDP policy allows employee access to applications not necessary to their employment function. Such a policy may allow unauthorized individuals to initiate activities not in the best interest of the County.

Recommendation

Policy should be implemented limiting employee computer application access to necessary employment function. When an employee's duties change, access should change to reflect new responsibilities.

06-2 Finding

Section 27-105-5, Ms. Code Ann. (1972) gives responsibility to the State Treasurer's Office to monitor collateralization of public deposits for entities defined in Code including Smith County. The Treasurer's Office sends quarterly reports to entities for review and correction in the amount of collateralization necessary to secure public funds. Smith County does not reconcile this report to determine if County funds are adequately secured and could not locate the report in County offices. This could possibly lead to public funds being under collateralized

Recommendation.

Smith County should begin reviewing the collateralization reports from the State Treasurer's Office. During this process the amount of collateralization reported on the form should be verified as adequate to secure public funds in Smith County.

06-3 Finding

Some transactions involving mobile equipment purchases were not recorded in the accounting records. Checks were presented directly to the equipment vendor by the financing agent rather than to Smith County for subsequent payment to the vendor. This process could result in misstatements in the accounting records and subsequently the financial statements.

Recommendation

Smith County should run all transactions through the accounting records to insure that said records reflect complete County transactions.

Section 3: Federal Award Findings and Questioned Costs

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

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

Members of the Board of Supervisors
Smith County, Mississippi

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

In addition, for audit areas not considered material to Smith County, Mississippi's financial reporting, I 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. My 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, I do not express such an opinion. This report does not affect my report dated November 30, 2007, on the financial statements of Smith 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, my 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 my 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. My finding and recommendation and your response is disclosed below:

Board of Supervisors.

1. Finding

As reported in prior years' audit reports, the county has an interfund loan outstanding that is over a year old. This loan was created as a result of an error in settlements made by a former Tax Collector during the 1990 audit year. The amount remaining unpaid to date is \$71,373.

Also, indirect costs associated with solid waste operations have been accumulating for several years and are considered an interfund loan. The amount of these indirect costs to date is \$101,717.

The Mississippi Code is silent regarding the authority of the county to make these loans, and failure to repay these loans constitutes a diversion of legally restricted funds.

Recommendation

The Board of Supervisors should ensure that the old loans are repaid as soon as practical. The tax funds are owed by the Countywide Road and Bridge Fund to the School Tax Clearing Fund and are subsequently due the Smith County School District. Indirect costs are owed by the Solid Waste Fund to the General Fund.

Response

The Board of Supervisors in its response for fiscal year ending September 30, 2001, is obligated to make adjustments over a ten year period from the county road maintenance fund to the General Fund. This same plan is anticipated, so as not to disrupt planned maintenance programs.

Tax Collector, Circuit Clerk and Justice Court Clerk.

2. Finding

As stated in the prior year, the Tax Collector, Circuit Clerk and Justice Court Clerk must each prepare a report at September 30 of each year identifying the distribution of all funds held by the respective official in order to include these funds in the financial statements of the county. This report should specify the revenues that are due to the General Fund, other funds, state governments or others and should be submitted to the Chancery Clerk by October 31 of each year. Additionally, the Tax Collector's report should identify any amounts that are owed to or by the Tax Collector at September 30. These reports were not prepared for September 30, 2006.

Recommendation

In the future, the Tax Collector, Circuit Clerk and Justice Court Clerk should each prepare the report described above at September 30 of each year.

Response

The appropriate reports will be prepared in the future.

Auditor's Note

For September 30, 2006, I identified the distribution of all funds held by each official, and these funds have been included in the financial statements of the county.

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.


MARCUS J. MARTIN
Certified Public Accountant
November 30, 2007