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PANOLA COUNTY, MISSISSIPPI

**Audited Financial Statements and Special Reports
For the Year Ended September 30, 2007**

PANOLA COUNTY

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PANOLA COUNTY

FINANCIAL SECTION

Windham and Lacey, PLLC

Certified Public Accountants

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Mississippi Society of CPAs

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

Members of the Board of Supervisors
Panola County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Panola County, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements do not include financial data for the county's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenue and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Panola County, Mississippi, as of September 30, 2007, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of Panola County, Mississippi, as of September 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2009, on our consideration of Panola County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Windham and Lacey, PLLC
February 17, 2009

PANOLA COUNTY

FINANCIAL STATEMENTS

PANOLA COUNTY
Statement of Net Assets
September 30, 2007

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 9,683,600	362,018	10,045,618
Property tax receivable	6,689,000		6,689,000
Accounts receivable, net of allowance for uncollectible of \$2,329,502		603,931	603,931
Fines receivable, net of allowance for uncollectible of \$1,770,322	77,501		77,501
Intergovernmental receivables	222,115		222,115
Loans receivable			
Other receivables	941,146		941,146
Internal balances	499,659	(499,659)	
Inventories and prepaid items	182,334		182,334
Restricted assets	4,112,370		4,112,370
Capital assets, net	13,549,930	957,356	14,507,286
Total Assets	<u>35,957,655</u>	<u>1,423,646</u>	<u>37,381,300</u>
LIABILITIES			
Claims payable	728,214	81,539	809,753
Intergovernmental payables	584,566		584,566
Deferred revenue	6,689,101		6,689,101
Other payables	210,954		210,954
Accrued interest payable	39,464		39,464
Short-term debt			
Long-term debt:			
Due within one year:			
Capital related debt	772,474	247,954	1,020,428
Non-capital debt	945,000		945,000
Due in more than one year:			
Capital related debt	7,109,003	827,413	7,936,416
Non-capital debt	3,480,000		3,480,000
Accrued vacation	121,960	4,455	126,415
Total Liabilities	<u>20,680,736</u>	<u>1,161,361</u>	<u>21,842,097</u>
NET ASSETS			
Invested in capital assets, net of related debt	10,348,453	(118,011)	10,230,442
Restricted net assets:			
Debt service	662,747		662,747
Public safety	624,904		624,904
Public works	(695,952)	380,295	(315,657)
Economic development	564,976		564,976
Capital projects	534		534
Other purposes	1,014,035		1,014,035
Unrestricted	2,757,222		2,757,222
Total Net Assets	<u>\$ 15,276,919</u>	<u>262,284</u>	<u>15,539,203</u>

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

PANOLA COUNTY
Statement of Activities
For the Year Ended September 30, 2007

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Fines, Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 4,468,222	868,155			(3,600,068)		(3,600,068)
Public safety	4,944,449	397,407	544,154		(4,002,887)		(4,002,887)
Public works	5,300,110		6,683	120,763	(5,172,665)		(5,172,665)
Health and welfare	1,509,289		1,488,202		(21,087)		(21,087)
Culture and recreation	85,522	9,381			(76,140)		(76,140)
Conservation of natural resources	77,509				(77,509)		(77,509)
Economic development and assistance	112,163				(112,163)		(112,163)
Interest on long-term debt	251,873				(251,873)		(251,873)
Total Governmental Activities	<u>16,749,136</u>	<u>1,274,943</u>	<u>2,039,039</u>	<u>120,763</u>	<u>(13,314,391)</u>	<u>0</u>	<u>(13,314,391)</u>
Business-type activities:							
Solid waste	1,494,375	1,480,199			(14,176)		(14,176)
Interest on long-term debt	18,360				(18,360)		(18,360)
Total Primary Government	<u>\$ 18,261,871</u>	<u>2,755,142</u>	<u>2,039,039</u>	<u>120,763</u>	<u>(13,314,391)</u>	<u>(32,536)</u>	<u>(13,346,927)</u>
General revenues:							
Taxes:							
Property taxes					\$ 8,869,247		8,869,247
Road & bridge privilege taxes					375,975		375,975
Grants and contributions not restricted to specific programs					1,457,921		1,457,921
Unrestricted investment income					314,862		314,862
Miscellaneous					1,131,382	27,042	1,158,423
Gain from sale of assets					114,510		114,510
Transfers					(122,452)	122,452	
Total General Revenues and Transfers					<u>12,141,444</u>	<u>149,494</u>	<u>12,290,938</u>
Changes in Net Assets					<u>(1,172,947)</u>	<u>116,958</u>	<u>(1,055,989)</u>
Net Assets - Beginning					<u>16,978,905</u>	<u>145,326</u>	<u>17,124,231</u>
Prior period adjustment					<u>(529,039)</u>		<u>(529,039)</u>
Net Assets - Beginning, as restated					<u>16,449,866</u>	<u>145,326</u>	<u>16,595,192</u>
Net Assets - Ending					<u>\$ 15,276,919</u>	<u>262,284</u>	<u>15,539,203</u>

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

PANOLA COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2007

Exhibit 3

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Funds	Road Maintenance Fund	Paving Fund		
ASSETS					
Cash	\$ 7,014,608	144,482	505	2,524,004	9,683,599
Loans receivable					
Property tax receivable	4,045,000	1,100,000		1,544,000	6,689,000
Fines receivable, net of allowance for uncollectible of \$1,770,322	77,501				77,501
Intergovernmental receivables	175,869			46,245	222,114
Other receivables	47,309				47,309
Advances to other funds	1,084,297	14,010		452,736	1,551,043
Due from other funds	373,499	70,496		118,572	562,567
Restricted assets	4,112,370				4,112,370
Total Assets	<u>\$ 16,930,453</u>	<u>1,328,988</u>	<u>505</u>	<u>4,685,557</u>	<u>22,945,503</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 272,323	100,432	305,886	49,571	728,213
Intergovernmental payables	386,430			198,136	584,566
Advances from other funds	42,706	681,688		162,867	887,261
Due to other funds	189,068	167,000		296,255	652,323
Deferred revenue	4,122,501	1,100,000		1,544,100	6,766,601
Other payables	153,583	50		57,321	210,954
Total Liabilities	<u>5,166,611</u>	<u>2,049,170</u>	<u>305,886</u>	<u>2,308,250</u>	<u>9,829,918</u>
Fund balances:					
Reserved for:					
Debt service				662,747	662,747
Advances	1,084,297	14,010		452,736	1,551,043
Unreserved, reported in:					
General fund	10,679,545				10,679,545
Special revenue funds		(734,192)	(305,381)	1,261,290	221,717
Capital project funds				534	534
Total Fund Balances	<u>11,763,842</u>	<u>(720,182)</u>	<u>(305,381)</u>	<u>2,377,307</u>	<u>13,115,586</u>
Total Liabilities and Fund Balances	<u>\$ 16,930,453</u>	<u>1,328,988</u>	<u>505</u>	<u>4,685,557</u>	<u>22,945,504</u>

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

PANOLA COUNTY
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 September 30, 2007

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 13,115,586
Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation.	13,549,930
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fines receivable	77,501
Other receivables	819,500
Inventories and prepaid items	182,334
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Long-term liabilities	(12,306,477)
Compensated absences	(121,960)
Accrued interest on debt	(39,464)
Other	<u>(31)</u>
Total net assets - governmental activities (Exhibit 1)	\$ <u>15,276,919</u>

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

PANOLA COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2007

Exhibit 4

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Road Maintenance Fund	Paving Fund		
REVENUES					
Property taxes	\$ 5,423,637	1,416,962		2,028,627	8,869,226
Road and bridge privilege taxes	(972)	376,946			375,974
Licenses, commissions and other revenue	475,978			9,381	485,360
Fines and forfeitures	464,994			2,617	467,611
Intergovernmental revenues	1,236,416	733,308		1,642,382	3,612,106
Charges for services				479,442	479,442
Interest income	179,017	4,347		132,424	315,789
Miscellaneous revenues	785,357	98,096	22,985	56,989	963,428
Total Revenues	<u>8,564,429</u>	<u>2,629,660</u>	<u>22,985</u>	<u>4,351,862</u>	<u>15,568,936</u>
EXPENDITURES					
Current:					
General government	5,013,338				5,013,338
Public safety	4,696,784			592,019	5,288,803
Public works	94,936	4,115,428	2,175,505	599,294	6,985,163
Health and welfare	293,441			2,027,993	2,321,434
Culture and recreation	75,585			9,937	85,522
Conservation of natural resources	77,509				77,509
Economic development and assistance	110,250			9,189	119,439
Debt service:					
Principal	155,043	1,373,881		880,629	2,409,553
Interest	26,014	34,251		194,735	255,000
Total Expenditures	<u>10,542,899</u>	<u>5,523,559</u>	<u>2,175,505</u>	<u>4,313,797</u>	<u>22,555,760</u>
Excess of Revenues over (under) Expenditures	<u>(1,978,470)</u>	<u>(2,893,899)</u>	<u>(2,152,520)</u>	<u>38,065</u>	<u>(6,986,825)</u>
OTHER FINANCING SOURCES (USES)					
Long-term non-capital debt issued			800,000		800,000
Long-term capital debt issued	4,773,058	1,324,766			6,097,824
Proceeds from sale of capital assets	4,260	938,313			942,573
Transfers in	600,000	2,097,635	2,123,673	922,092	5,743,400
Transfers out	(2,339,635)	(2,601,217)		(925,000)	(5,865,852)
Payment to bond refunding escrow agent	(182,334)				(182,334)
Total Other Financing Sources and Uses	<u>2,855,349</u>	<u>1,759,497</u>	<u>2,923,673</u>	<u>(2,908)</u>	<u>7,535,611</u>
Net Changes in Fund Balances	876,879	(1,134,402)	771,153	35,157	548,786
Fund Balances - Beginning	<u>10,886,963</u>	<u>414,220</u>	<u>(1,076,534)</u>	<u>2,342,150</u>	<u>12,566,799</u>
Fund Balances - Ending	\$ <u>11,763,842</u>	<u>(720,182)</u>	<u>(305,381)</u>	<u>2,377,307</u>	<u>13,115,585</u>

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

PANOLA COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2007

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ 548,786
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$3,011,567 exceeded depreciation of \$811,574 in the current period.	2,199,993
Donating or disposing of capital assets decreases net assets in the Statement of Activities but does not impact the governmental funds because they are not financial resources.	(135,527)
In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the gain of \$114,510 and the proceeds from the sale in the current period of \$942,573.	(828,063)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. Thus, the change in net assets differs from the change in fund balance by the increase (decrease) in fines receivable.	4,261
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$2,409,554 exceeded debt proceeds \$6,897,824.	(4,488,270)
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Change in inventories and prepaid items	182,334
Change in loan receivable	819,500
Change in accrued interest payable	3,128
Change in compensated absences	(8,128)
Prior period adjustments	<u>529,039</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ (1,172,947)</u>

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

PANOLA COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2007

Exhibit 5

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 362,018
Accounts receivable (net of allowance for uncollectibles of \$2,329,502)	603,931
Due from other funds	167,000
Total Current Assets	<u>1,132,949</u>
Noncurrent assets:	
Capital assets, net	<u>957,356</u>
Total Noncurrent Assets	<u>957,356</u>
Total Assets	<u>2,090,305</u>
LIABILITIES	
Current liabilities:	
Claims payable	81,539
Capital debt:	
Capital leases payable	247,954
Due to other funds	2,877
Total Current Liabilities	<u>332,370</u>
Noncurrent liabilities:	
Advances from other funds	663,782
Capital leases payable	827,413
Compensated absences payable	4,455
Total Noncurrent Liabilities	<u>1,495,650</u>
NET ASSETS	
Invested in capital assets, net of related debt	(118,011)
Restricted for:	
Public works	<u>380,295</u>
Total Net Assets	<u>\$ 262,284</u>

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

PANOLA COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Assets -
Proprietary Fund
For the Year Ended September 30, 2007

Exhibit 6

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
Operating Revenues	
Charges for services	\$ 1,480,199
Total Operating Revenues	<u>1,480,199</u>
Operating Expenses	
Personal services	433,577
Contractual services	460,979
Materials and supplies	405,169
Depreciation expense	194,649
Total Operating Expenses	<u>1,494,375</u>
Operating Income (Loss)	<u>(14,176)</u>
Nonoperating Revenues (Expenses)	
Miscellaneous revenue	27,042
Interest expense	(18,360)
Net Nonoperating Revenue (Expenses)	<u>8,682</u>
Net Income (Loss) before Transfers	(5,494)
Transfers in	<u>122,452</u>
Changes in Net Assets	<u>116,958</u>
Net Assets - Beginning	<u>145,326</u>
Net Assets - Ending	<u>\$ 262,284</u>

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

PANOLA COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2007

Exhibit 7

	Business-type Activities - Enterprise Fund
	<u>Solid Waste Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,480,199
Payments to suppliers	(457,757)
Payments to employees	(434,268)
Net Cash Provided (Used) by Operating Activities	<u>588,174</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash received from other funds:	
Operating Transfer in	122,452
Other nonoperating receipts	27,042
Net Cash Provided (Used) by Noncapital Financing Activities	<u>149,494</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	(24,800)
Principal paid on long-term debt	(410,831)
Interest paid on debt	(18,360)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(453,991)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	283,677
Cash and Cash Equivalents - Beginning of Year	<u>78,341</u>
Cash and Cash Equivalents - End of Year	<u>\$ 362,018</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income (loss)	\$ (14,176)
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:	
Depreciation expense	194,649
Change in assets and liabilities:	
Increase (decrease) in fixed assets	46,328
Increase (decrease) in amounts payable related to equipment purchases	496,774
Increase (decrease) in claims payable	32,290
Increase (decrease) in interfund payables	(167,000)
Increase (decrease) in other payables	(691)
Total adjustments	<u>602,350</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 588,174</u>

Noncash Capital Financing Activity:

Panola County lease purchased equipment for \$907,605 for 5 years at 3.98%. Principal payments of \$63,685 were made on the leases.

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

PANOLA COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2007

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 272,728
Intergovernmental receivables	721,800
Total Assets	<u>\$ 994,528</u>
LIABILITIES	
Claims payable and other accrued liabilities	\$ 12,167
Intergovernmental payables	907,995
Due to other funds	74,367
Total Liabilities	<u>\$ 994,528</u>

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

PANOLA COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Panola County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Panola County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

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

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

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

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

B. Blended Component Units.

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

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

PANOLA COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

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

C. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

D. Measurement Focus and Basis of Accounting.

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

PANOLA COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

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

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

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

The county reports the following major Governmental Funds:

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

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

Paving Fund - This fund is used to account for monies from specific revenue sources that are restricted for paving of county roads.

The county reports the following major Proprietary Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

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

PROPRIETARY FUND TYPE

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

FIDUCIARY FUND TYPE

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

E. Account Classifications.

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

F. Deposits.

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

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

G. Receivables.

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

H. Interfund Transactions and Balances.

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

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

I. Inventories and Prepaid Items.

Inventories in the Proprietary Funds are valued at cost, which approximates market, using the first-in/first-out method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for Governmental Fund Types since the costs of such items are accounted for as expenditures in the period of acquisition.

J. Capital Assets.

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

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Funds. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	<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 and estimated useful life will correspond with the amounts for the asset classification, as listed above.

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

K. 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 governmental activities, business-type activities or Proprietary Fund Statement of Net Assets.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

L. 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 with unreserved classified as designated and undesignated.

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

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

M. Property Tax Revenues.

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

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

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

N. 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.

O. Compensated Absences.

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

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments are as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct error in fines receivable. The prior year revenue accrual was understated.	\$ 15,280
To correct error in reclassifying capital asset expenditures. Prior year expenditures were understated as certain costs were capitalized inappropriately.	<u>(544,319)</u>
Total prior period adjustments	<u>\$ (529,039)</u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2007, was \$14,430,715, and the bank balance was \$13,799,077. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2007:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 2,877 *
General Fund	Agency Funds	74,367
General Fund	Nonmajor Governmental Funds	296,255
Road Maintenance Fund	General Fund	70,496
Nonmajor Governmental Funds	General Fund	118,572
Solid Waste Fund	Road Maintenance Fund	<u>167,000</u>
Total		<u>\$ 729,567</u>

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

* Amount due from Solid Waste represents indirect administrative costs. Other amounts listed are the tax revenues or court fees collected but not settled until October, 2007 as well as funds paid to respective funds to alleviate funding shortages. All interfund balances are expected to be repaid within one year from the date of the financial statements.

Advances:

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

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

Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Major Funds:	Major Funds:	
General Fund	Other Governmental Funds	\$ 600,000
Road Maintenance Fund	General Fund	1,772,635
Road Maintenance Fund	Other Governmental Funds	325,000
Paving Fund	General Fund	107,000
Paving Fund	Road Maintenance Fund	2,016,673
Other Governmental Funds	General Fund	460,000
Other Governmental Funds	Road Maintenance Fund	462,092
Solid Waste Fund	Road Maintenance Fund	<u>122,452</u>
Total		<u>\$ 5,865,852</u>

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

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2007, consisted of the following:

Description	Amount
Legislative tag credit	\$ 156,984
Other	65,131
Total Governmental Activities	\$ 222,115

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2007:

Governmental activities:

	Balance Oct. 1, 2006	Additions	Deletions	Adjustments	Balance Sept. 30, 2007
Non-depreciable capital assets:					
Land	\$ 1,287,231				1,287,231
Construction in progress		1,101,620			1,101,620
Total non-depreciable capital assets	1,287,231	1,101,620	0	0	2,388,851
Depreciable capital assets:					
Buildings	8,712,975		(304,260)		8,408,715
Improvements other than buildings	1,076,017				1,076,017
Mobile equipment	1,981,348	370,538			2,351,886
Furniture and equipment	741,405	78,909	(12,000)		808,314
Leased property under capital leases	6,074,371	1,420,550	(1,048,870)		6,446,051
Infrastructure	429,965	39,950			469,915
Total depreciable capital assets	19,016,081	1,909,947	(1,365,130)	0	19,560,898
Less accumulated depreciation for:					
Buildings	2,838,500	148,178	(211,200)		2,775,478
Improvements other than buildings	220,771	43,041			263,812
Mobile equipment	1,995,947	342,516			2,338,463
Furniture and equipment	555,299	38,006	(1,543)		591,762
Leased property under capital leases	2,319,073	224,784	(188,797)		2,355,060
Infrastructure	60,196	15,049			75,245
Total accumulated depreciation	7,989,786	811,574	(401,540)	0	8,399,820
Total depreciable capital assets, net	11,026,295	1,098,373	(963,590)	0	11,161,078
Governmental activities capital assets, net	\$ 12,313,526	2,199,993	(963,590)	0	13,549,929

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

Business-type activities:

	Balance Oct. 1, 2006	Additions	Deletions	Adjustments	Balance Sept. 30, 2007
<u>Non-depreciable capital assets:</u>					
Land	\$				
Total non-depreciable capital assets	0	0	0	0	0
<u>Depreciable capital assets:</u>					
Buildings	201,428				201,428
Improvements other than buildings	38,069				38,069
Mobile equipment	263,186	24,800	(240,904)		47,082
Furniture and equipment	92,496				92,496
Leased property under capital leases	1,178,447	953,863	(543,694)		1,588,616
Total depreciable capital assets	1,773,626	978,663	(784,598)	0	1,967,691
<u>Less accumulated depreciation for:</u>					
Buildings	20,145	4,029			24,174
Improvements other than buildings	7,615	1,523			9,138
Mobile equipment	117,112	8,602	(86,724)		38,990
Furniture and equipment	77,711	4,363			82,074
Leased property under capital leases	788,341	176,132	(108,514)		855,959
Total accumulated depreciation	1,010,924	194,649	(195,238)	0	1,010,335
Total depreciable capital assets, net	762,702	784,014	(589,360)	0	957,356
Business-type activities capital assets, net	\$ 762,702	784,014	(589,360)	0	957,356

Depreciation expense was charged to the following functions:

Governmental activities:

General government	\$	157,482
Public safety		269,754
Public works		376,983
Health and welfare		7,355

Total depreciation expense - governmental activities \$ 811,574

Business-type activities:

Solid Waste	\$	194,649
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Commitments with respect to unfinished capital projects at September 30, 2007, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Panola County Jail Project	\$ 3,489,939	12/31/2008

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(7) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 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, 2007, to January 1, 2008. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(8) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2007:

Classes of Property	Governmental Activities	Business-type Activities
Machinery and equipment	\$ 6,446,051	1,588,616
Less: Accumulated depreciation	(2,355,060)	(855,959)
Leased Property Under Capital Leases	\$ 4,090,991	732,657

The following is a schedule by years of the total payments due as of September 30, 2007:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 772,474	118,269	247,954	39,245
2009	784,596	87,354	231,917	29,459
2010	726,592	56,502	218,512	20,676
2011	632,689	27,783	241,942	11,403
2012	285,126	7,658	135,040	3,292
Total	\$ 3,201,477	297,566	1,075,365	104,075

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(9) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2007:

Description of Debt	Balance Oct. 1, 2006	Additions	Reductions	Adjustments	Balance Sept. 30, 2007
Tax Anticipation Notes	\$ 325,000		325,000		
Total	\$ 325,000	0	325,000	0	0

(10) Long-term Debt.

Debt outstanding as of September 30, 2007, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
1998 Series A Refunding Bonds	\$ 1,860,000	4.35%	11/14
Road and Bridge Bonds	675,000	4.80%	07/12
Total General Obligation Bonds	2,535,000		
B. Limited Obligation Bonds:			
Certificates of Participation - Jail	4,680,000	4.65%	08/12
Total Limited Obligation Bonds:	4,680,000		
C. Capital Leases:			
Asphalt spreader	33,134	3.94%	04/11
4000 gallon Dura tank	14,620	3.28%	02/09
2007 GMC pickup/air conditioning system	452,300	4.07%	08/11
10 Mack trucks, 3 trailers, excavator, etc.	444,340	3.73%	06/11
6 motor graders, 1 FEL	395,174	3.39%	06/10
7 fire trucks	485,436	4.67%	08/12
John Deere tractor	9,470	3.11%	10/08
M3000 Pro Touch-N-Go	3,544	13.32%	10/08
Canon 6080 duplex scanner and Intel server	43,968	3.01%	08/09
IBM computer system	81,089	5.71%	05/10
10 Mack trucks	905,143	3.98%	05/12
E-911 system, stripper, chipper, truck	333,259	3.84%	04/12
Total Capital Leases	3,201,477		

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
D. Other Loan:			
2004 General Obligation note	640,000		
2005 General Obligation note	450,000		
2007 General Obligation note	<u>800,000</u>		
Total Other Loans	<u>1,890,000</u>		
Total Governmental Activities	<u>\$ 12,306,477</u>		

Business-type Activities:

Capital Leases:			
7 dumpsters and trailer	\$ 37,703	3.88%	04/09
2006 International truck and body	30,331	3.28%	02/09
Trash cans	104,247	4.07%	08/11
2 Mack trucks; GMC pickup	59,163	3.73%	06/11
2 Mack trucks	161,176	3.98%	05/12
4 trucks, equipment, dumpsters	<u>682,747</u>	3.98%	08/12
Total Capital Leases	<u>\$ 1,075,367</u>		

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

Governmental Activities:

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 325,000	97,404		189,366
2009	340,000	84,918	165,000	205,958
2010	350,000	71,855	170,000	199,358
2011	370,000	58,102	180,000	192,558
2012	380,000	43,652	185,000	185,358
2013-2017	770,000	50,579	1,055,000	807,168
2018-2022			1,300,000	560,618
2023-2027			<u>1,625,000</u>	<u>237,448</u>
Total	<u>\$ 2,535,000</u>	<u>406,510</u>	<u>4,680,000</u>	<u>2,577,832</u>

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 620,000	61,026
2009	625,000	42,538
2010	310,000	23,859
2011	165,000	12,797
2012	170,000	6,494
Total	\$ <u>1,890,000</u>	<u>146,714</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2007, the amount of outstanding debt was equal to 3.6 % of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2007:

	<u>Balance</u> <u>Oct. 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance</u> <u>Sept. 30, 2007</u>	<u>Amount due</u> <u>within one</u> <u>year</u>
Governmental Activities:						
Compensated absences	\$ 113,833	8,127			121,960	
General obligation bonds	2,840,000		305,000		2,535,000	325,000
Limited obligation bonds		4,680,000			4,680,000	
Capital leases	3,418,207	1,417,824	1,634,554		3,201,477	772,474
Other loans	1,560,000	800,000	470,000		1,890,000	620,000
Total	\$ <u>7,932,040</u>	<u>6,905,951</u>	<u>2,409,554</u>	<u>0</u>	<u>12,428,437</u>	<u>1,717,474</u>
Business-type Activities:						
Compensated absences	\$ 5,146		691		4,455	
Capital leases	578,594	907,605	410,832		1,075,367	247,954
Total	\$ <u>583,740</u>	<u>907,605</u>	<u>411,523</u>	<u>0</u>	<u>1,079,822</u>	<u>247,954</u>

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(11) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2007:

<u>Fund</u>	<u>Deficit Amount</u>
Other Governmental Funds:	
Seasonal Law Enforcement	\$ (1,743)
Mentoring	(11,119)
Families First	(37,531)
Juvenile Work Program	(9,118)
South Panola Comm Coalition	(10,795)
Underage Drinking	(2,620)
Panola County Prevention	(5,811)
Paving	(305,381)
Countywide Road	<u>(720,182)</u>
 Total	 \$ <u>(1,104,300)</u>

(12) Contingencies.

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

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

(13) Joint Venture.

The county participates in the following joint venture:

Panola County is a participant with the counties of DeSoto, Lafayette, Tate and Tunica in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the First Regional Library. This joint venture was created to provide library services and is governed by a five-member board, with each county appointing one member. The county did not appropriate any funds for support of the library in fiscal year 2007. Complete financial statements for the First Regional Library can be obtained from P. O. Box 386, Hernando, Mississippi 38632.

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(14) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

North Delta Planning and Development District is composed of the counties of Coahoma, DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The Panola County Board of Supervisors appoints four of the 30 members of the board of directors. The county appropriated and made a payment of \$20,000 for support of the district in fiscal year 2007.

The Yazoo-Mississippi Water Management District operates in a district composed of the counties of Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, Leflore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Washington and Yazoo. The Panola County Board of Supervisors appoints one of the 21 members of the board of commissioners. The county levied a .61 mill tax which resulted in \$2,812 to help support the district in fiscal year 2007.

Northwest Mississippi Community College operates in a district composed of the counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The Panola County Board of Supervisors appoints two of the 23 members of the college board of trustees. The county appropriated \$431,276 for maintenance and support of the college in fiscal year 2007.

Mid-State Opportunity, Inc. operates in a district composed of the counties of DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The Panola County Board of Supervisors appoints two of the 30 board members, with ten members coming from the business sector and ten members coming from the minority disadvantaged. The county did not appropriate any funds for support of the agency in fiscal year 2007.

Communicare operates in a district composed of the counties of Calhoun, DeSoto, Lafayette, Marshall, Panola, Tate and Yalobusha. The Panola County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$39,000 for support of the agency in fiscal year 2007.

(15) Defined Benefit Pension Plan.

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

PANOLA COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2007 was 11.85% 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, 2007, 2006 and 2005 were \$622,170, \$568,043 and \$501,084, respectively, equal to the required contributions for each year.

(16) Subsequent Events.

Subsequent to September 30, 2007, the county issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
10/08/07	3.97%	\$ 361,557	Lease purchase agreement	Hancock Bank
10/15/07	4.17%	325,000	Tax anticipation note	BancorpSouth
06/02/08	2.89%	1,271,373	Lease purchase agreement	BancorpSouth
08/04/08	3.14%	825,460	Lease purchase agreement	Hancock Bank
10/15/08	3.48%	325,000	Tax anticipation note	BancorpSouth

(17) Restricted Assets.

Restricted assets reflect proceeds received from the Panola County Jail Project Certificates of Participation less amounts paid on construction commitments. Cash in the amount of \$4,112,370 is held in trust with a fiscal agent and is restricted for the purpose of completing this project.

PANOLA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

PANOLA COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 5,185,900	5,467,518	5,467,518	
Licenses, commissions and other revenue	467,200	480,328	480,328	
Fines and forfeitures	413,600	464,994	464,994	
Intergovernmental revenues	1,694,760	1,236,416	1,236,416	
Interest income	120,000	212,647	212,647	
Miscellaneous revenues	697,150	790,453	790,453	
Total Revenues	<u>8,578,610</u>	<u>8,652,356</u>	<u>8,652,356</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	4,651,487	4,878,293	4,878,293	
Public safety	3,777,764	4,317,174	4,317,174	
Public works	70,250	98,566	98,566	
Health and welfare	249,514	296,386	296,386	
Culture and recreation	82,000	74,585	74,585	
Conservation of natural resources	102,879	76,402	76,402	
Economic development and assistance	258,736	110,000	110,000	
Debt service:				
Principal		155,043	155,043	
Interest		26,014	26,014	
Total Expenditures	<u>9,192,630</u>	<u>10,032,462</u>	<u>10,032,462</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(614,020)</u>	<u>(1,380,106)</u>	<u>(1,380,106)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets		149	149	
Transfers in	150,000	1,031,167	1,031,167	
Transfers out	(150,000)	(2,770,801)	(2,770,801)	
Total Other Financing Sources and Uses	<u>0</u>	<u>(1,739,486)</u>	<u>(1,739,486)</u>	<u>0</u>
Net Change in Fund Balance	(614,020)	(3,119,591)	(3,119,591)	0
Fund Balances - Beginning	<u>9,847,096</u>	<u>9,847,096</u>	<u>9,847,096</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 9,233,076</u>	<u>6,727,505</u>	<u>6,727,505</u>	<u>0</u>

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

PANOLA COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Road Maintenance Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,355,000	1,423,559	1,423,559	
Road and bridge privilege taxes	360,000	379,741	379,741	
Intergovernmental revenues	800,000	733,308	733,308	
Interest income	15,000	4,347	4,347	
Miscellaneous revenues	40,000	222,431	222,431	
Total Revenues	<u>2,570,000</u>	<u>2,763,387</u>	<u>2,763,387</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	2,366,034	2,761,818	2,761,818	
Debt service:				
Principal	418,800	1,373,881	1,373,881	
Interest		34,251	34,251	
Total Expenditures	<u>2,784,834</u>	<u>4,169,950</u>	<u>4,169,950</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(214,834)</u>	<u>(1,406,563)</u>	<u>(1,406,563)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued	325,000			
Proceeds from sale of assets	(12,338)	938,313	938,313	
Transfers in		1,772,635	1,772,635	
Transfers out		(2,601,216)	(2,601,216)	
Total Other Financing Sources and Uses	<u>312,662</u>	<u>109,732</u>	<u>109,732</u>	<u>0</u>
Net Change in Fund Balance	97,828	(1,296,831)	(1,296,831)	0
Fund Balances - Beginning	<u>1,274,313</u>	<u>1,274,313</u>	<u>1,274,313</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,372,141</u>	<u>(22,518)</u>	<u>(22,518)</u>	<u>0</u>

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

PANOLA COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Paving Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Miscellaneous revenues	\$	22,985	22,985	
Total Revenues	<u>0</u>	<u>22,985</u>	<u>22,985</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	971,000	2,060,480	2,060,480	
Total Expenditures	<u>971,000</u>	<u>2,060,480</u>	<u>2,060,480</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(971,000)</u>	<u>(2,037,495)</u>	<u>(2,037,495)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term debt issued		800,000	800,000	
Transfers in	1,000,000	2,123,673	2,123,673	
Total Other Financing Sources and Uses	<u>1,000,000</u>	<u>2,923,673</u>	<u>2,923,673</u>	<u>0</u>
Net Change in Fund Balance	29,000	886,178	886,178	0
Fund Balances - Beginning	<u>(885,673)</u>	<u>(885,673)</u>	<u>(885,673)</u>	<u>0</u>
Fund Balances - Ending	<u>\$ (856,673)</u>	<u>505</u>	<u>505</u>	<u>0</u>

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

PANOLA COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2007

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	<u>Governmental Fund Types</u>		
	<u>General Fund</u>	<u>Road Maintenance Fund</u>	<u>Paving Fund</u>
Net Change in Fund Balance - Budget (Cash Basis)	\$ (3,119,591)	(1,296,831)	886,178
Increase (decrease):			
Net adjustments for revenue accruals	4,596,182	191,273	
Net adjustments for expenditure accruals	<u>(599,713)</u>	<u>(28,844)</u>	<u>(115,025)</u>
Net Change in Fund Balance GAAP Basis	<u>\$ 876,879</u>	<u>(1,134,402)</u>	<u>771,153</u>

PANOLA COUNTY

SUPPLEMENTAL INFORMATION

PANOLA COUNTY
 Schedule of Expenditures of Federal Awards
 September 30, 2007

<u>Federal Grantor/Pass-through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Identification Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Disbursements/ Expenditures</u>
MAJOR FEDERAL AWARDS:				
U.S. Department of Housing and Urban Development/Mississippi Development Authority/ HOME Investments Partnerships Program	14.239	HOME 2002 HOME 2003 HOME 2004	M02-SG-280-209 M03-SG-280-209 M04-SG-280-209	\$ 267,500 552,000 <u>349,528</u>
Total Expenditures of Major Federal Awards				<u>1,169,028</u>
OTHER FEDERAL AWARDS:				
U.S. Department of Agriculture Rural Development Community Facility Grant	10.766			27,420
U.S. Army Corps of Engineers/Payments to States in Lieu of Real Estate Tax	12.112			6,682
U.S. Department of Justice/Mississippi Department of Public Safety/Juvenile Justice & Delinquency Edward Byrne Memorial Formula Grant	16.579	N/A	5NM1541 6NM1541	14,996 97,657
U.S. Department of Justice/Pregnancy Prevention	16.738	2006-DJ-BX-0251	N/A	14,584
U.S. Department of Transportation/Federal Aviation Administration/ Airport Improvement Program	20.106	3-28-0003-006-2006	N/A	30,550
U.S. Department of Transportation/Mississippi Department of Transportation/ Highway Planning and Construction Bridge Inspection	20.205	N/A	BR NBIS 067 B (54)	5,850
U.S. Department of Education/ Mentoring Program Grants	84.184	QB184B041341	N/A	101,330
U.S. Department of Health & Human Services/ Mississippi Department of Mental Health/ Consolidated Knowledge Development and Application Program	93.230	N/A	SG017D04	12,500
U.S. Department of Health and Human Services/ Mississippi Department of Human Services/ Temporary Assistance for Needy Families	93.558	TANF 2007	103WC71A	135,000

PANOLA COUNTY
 Schedule of Expenditures of Federal Awards
 September 30, 2007

(Continued)

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identification Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
Department of Homeland Security/Mississippi Emergency Management Agency/ Emergency Management Assistance Program	97.036	FEMA-1604-DR-MS	N/A	26,256
Department of Homeland Security/Mississippi Department of Public Safety/State Domestic Preparedness Equipment Support Program	97.067	N/A	05LE054 06LE054 05HS054 04CC054	28,419 40,361 70,019 <u>5,658</u>
Total Expenditures of Other Federal Awards				<u>617,282</u>
Total Expenditures of Federal Awards				\$ <u>1,786,310</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. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

PANOLA COUNTY

SPECIAL REPORTS

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

Members of the Board of Supervisors
Panola County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Panola County, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the county's basic financial statements and have issued our report thereon dated February 17, 2009. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the reporting entity that include the financial data for its component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Panola County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Panola County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. However, of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs, we consider items 07-1 and 07-2 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-2 to be material weaknesses.

Compliance and Other Matters

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

Panola County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Panola County's responses and, accordingly, we express no opinion on them.

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



Windham and Lacey, PLLC
February 19, 2009

Windham and Lacey, PLLC

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

Members of the Board of Supervisors
Panola County, Mississippi

Compliance

We have audited the compliance of Panola County, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2007. Panola 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 Panola County, Mississippi's management. Our responsibility is to express an opinion on Panola County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Panola County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Panola County, Mississippi's compliance with those requirements.

In our opinion, Panola County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Panola County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Panola County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the county's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in a county's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 07-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider item 07-3 to be a material weakness.

Panola County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Panola County's responses and, accordingly, we express no opinion on them.

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



Windham and Lacey, PLLC
February 17, 2009

Windham and Lacey, PLLC

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American Institute of CPAs
Mississippi Society of CPAs

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

Members of the Board of Supervisors
Panola County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Panola County, Mississippi, as of and for the year ended September 30, 2007. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

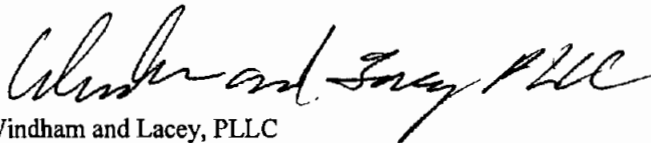
The Board of Supervisors of Panola County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Panola County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

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

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

This report is intended for use in evaluating the central purchasing system and inventory control system of Panola County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.



Windham and Lacey, PLLC
February 17, 2009

PANOLA COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2007

Schedule 1

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

PANOLA COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2007

Schedule 2

Our test results did not identify any emergency purchases.

PANOLA COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2007

Schedule 3

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

Windham and Lacey, PLLC

Certified Public Accountants

2708 Old Brandon Road
Pearl, MS 39208
(601)939-8676

Members:
American Institute of CPAs
Mississippi Society of CPAs

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Panola County Mississippi

In planning and performing our audit of the financial statements of Panola County, Mississippi for the year ended September 30, 2007, we considered Panola County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Panola County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures and tests were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated February 17, 2009, on the financial statements of Panola County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses.

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

Board of Supervisors:

Finding

The county has some interfund loans outstanding from prior years. Per prior auditors, these loans were made when the county experienced negative cash flows in some funds. However, the loans were not repaid as of September 30, 2007.

Recommendation

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

Board of Supervisors' Response

The Board is working to repay these loans.

Sheriff:

Finding

The Sheriff is not always remitting all fees, commissions and charges collected during the preceding month to the clerk of the county board of supervisors before the fifteenth of each month for deposit into the general fund of the county. (Section 25-7-19(2), Miss. Code Ann (1972)).

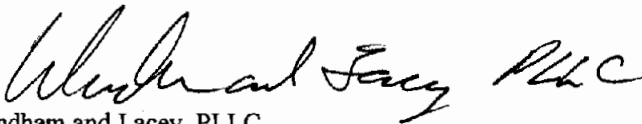
Recommendation

The Sheriff should remit all fees, commissions and charges collected during the preceding month to the clerk of the county board of supervisors before the fifteenth of each month for deposit into the general fund of the county.

Sheriff's Response

The Sheriff became aware of the delays in the making the remittances to the county and corrected the problem.

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



Windham and Lacey, PLLC
February 17, 2009

PANOLA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PANOLA COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the primary government financial statements: | |
| | Governmental Activities | Unqualified |
| | General Fund | Unqualified |
| | Capital Projects State Aid Road Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies 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? | Yes |
| 7. | Federal program identified as a major program: | |
| | Home Investments Partnership Program, CFDA #14.239 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

PANOLA COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Section 2: Financial Statement Findings

07-1. Finding

Significant Deficiency – Material Weakness

In 2007, the county received cash from the South Panola Hospital Board that was proceeds from the sale of the hospital. This cash was not booked on the county's books. In addition, in prior years the county failed to record similar amounts received from the sale of the North Panola Hospital. In both instances, these funds were invested in certificates of deposit by the Chancery Clerk. The county is required by statute to account for funds from the sale of hospitals in its General Fund. (Section 41-13-15, Miss. Code Ann. (1972)).

Recommendation

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

07-2. Finding

Significant Deficiency – Material Weakness

Generally accepted accounting principles require the financial data for the county's component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for inclusion in the county's financial statements.

PANOLA COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2007

Section 3: Federal Award Findings and Questioned Costs

07-3. Finding

14.239 Home Investments Partnership Program
Grant numbers M02-SG-280-209, M03-SG-250-209,
and M04-SG-280-209, U.S. Department of Housing and Urban
Development/Passed-through the Mississippi Development Authority

Significant Deficiency – Material Weakness

Compliance Requirement: Davis Bacon Act – Controls to Provide Reasonable Assurance That Laborers and Mechanics Employed by Contractors and Subcontractors Are Paid Prevailing Wage Rates Should Be Strengthened.

The Panola County Board of Supervisors should maintain records to document monitoring of compliance with Davis-Bacon Act requirements. Neither the Board of Supervisors nor the project administrator could provide records of monitoring activities. However, we performed substantive tests of the contractor's records and determined that the county was in compliance with Davis Bacon requirements.

Recommendation

The Panola County Board of Supervisors should keep records of their monitoring activities to document compliance with Davis Bacon Act requirements.

BOARD OF SUPERVISORS

PANOLA COUNTY, MISSISSIPPI

SUPERVISORS

District 1 - James Birge, Vice President
District 2 - Vernice Avant
District 3 - Gary Thompson, President
District 4 - Kelly Morris
District 5 - William J. Waldrup
William H. McKenzie III, Attorney
Kelley Magee, County Administrator

BOARD MEETS
1st Monday at Sardis
2nd Monday at Batesville

CORRECTIVE ACTION PLAN

Windham and Lacey LLP
2708 Old Brandon Road
Pearl, Mississippi 39208

Gentlemen:

Panola County respectfully submits the following corrective action plan for the year ended September 30, 2007.

The findings from the Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 3: Federal Award Findings and Questioned Cost, does not include findings and is not addressed.

SECTION 2: FINANCIAL STATEMENT FINDINGS

07-1 Corrective Action Planned: The Board of Supervisors are working with the Chancery Clerk to get these funds properly accounted for in the county's accounting system

Anticipated Completion Date: July 2009

Name of Contact Person Responsible for Corrective Action: Kelley Magee, County Administrator

07-2 Corrective Action Planned: The Board of Supervisors feels this is not a material weakness. It would be cost prohibitive to require these small component units to have an audited financial statement prepared.

Anticipated Completion Date:

Name of Contact Person Responsible for Corrective Action:

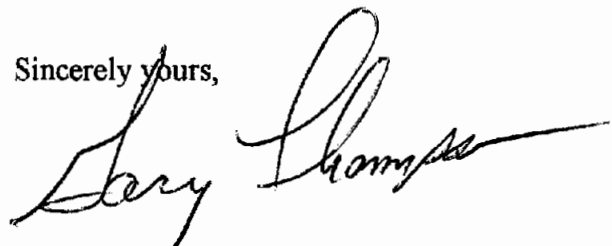
SECTION 3: FEDERAL AWARD FINDINGS

07-3 Corrective Action Planned: The Board of Supervisors hired an administrator for this project that had experience with federal grants. We will require the documentation for our files in the future.

Anticipated Completion Date:

Name of Contact Person Responsible for Corrective Action: Kelley Magee, County Administrator

Sincerely yours,

A handwritten signature in black ink that reads "Gary Thompson". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Gary Thompson
President
662-934-4830