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PONTOTOC COUNTY, MISSISSIPPI
AUDITED PRIMARY GOVERNMENT
FINANCIAL STATEMENTS
AND SPECIAL REPORTS

For the Year Ended September 30, 2006

M. M. WINKLER & ASSOCIATES
Certified Public Accountants
Tupelo, Mississippi

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PONTOTOC COUNTY, MISSISSIPPI

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PONTOTOC COUNTY, MISSISSIPPI

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2007, on our consideration of Pontotoc County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

- Continued -

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

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Pontotoc County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

M. M. Winkler & Associates

October 1, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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**PONTOTOC COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTMEBER 30, 2006**

INTRODUCTION

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

This discussion and analysis is a new element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

Pontotoc County is located in northeast Mississippi on Highway 6 and 15. The population, according to the 2000 census, is 26,230. The local economic base is driven mainly by furniture manufacturing and farming.

FINANCIAL HIGHLIGHTS

Pontotoc County is financially stable having a relative low tax levy and no current bonded indebtedness. The County has been committed to financial excellence for many years, using sound financial planning, careful budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Pontotoc County continues to grow annually both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase. The County government tax rate has increased an average of less than 1% per year over the last 10 years, including school tax increases.

Total net assets decreased from \$ 75,307,048 in FY 2005 to \$ 75,047,147, which represents a decrease of 0.35%. The county's cash balance increased from \$ 3,324,839 in FY 2005 to \$ 4,735,422, which represents an increase of 42.43%.

The county had \$ 12,107,781 in total revenues. General revenues account for \$8,115,261 or 67.03% of total revenues. Program specific revenues in the form of charges for services and grants accounted for \$ 3,992,520 or 32.97% of total revenues.

The county had \$ 12,367,682 in total expenses. Expenses in the amount of \$ 3,992,520 were offset by program specific revenues in the form of charges for services and grants.

FINANCIAL HIGHLIGHTS - Continued

With general revenues in the amount of \$ 8,115,261 a net decrease in net assets occurred of \$ 259,901.

Among major funds, the General Fund had \$ 6,423,609 in revenues and \$ 6,252,115 in expenditures. The General Fund’s fund balance increased \$ 264,548 over the prior year.

Among major funds, the County Wide Road Maintenance Fund had \$ 2,701,844 in revenues and \$ 1,180,309 in expenditures. The County Wide Road Maintenance Fund balance decreased \$ 38,812 over the prior year.

Capital assets, net of accumulated depreciation, increased by \$ 1,961,811.

Total long-term debt increased by \$ 3,990,626.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

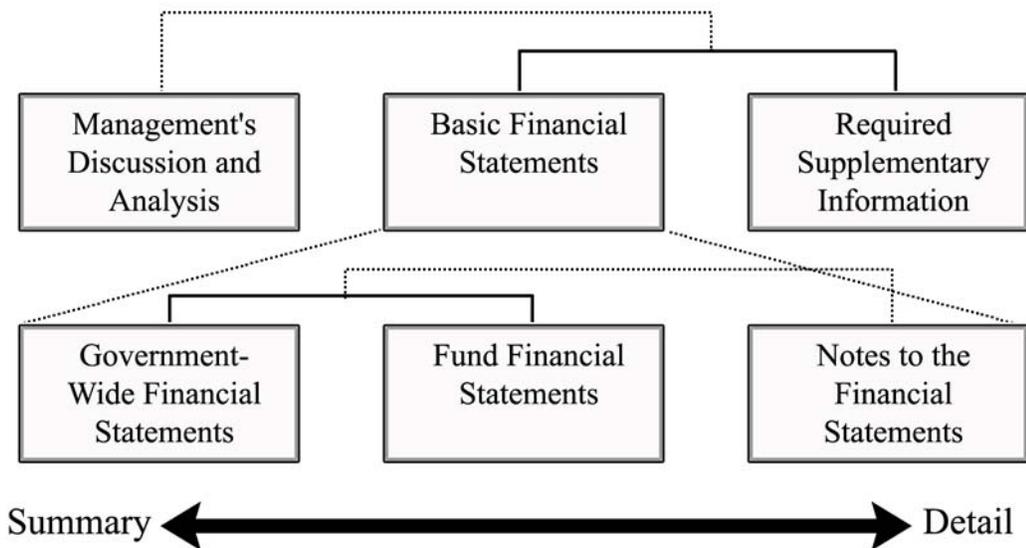


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS – Continued

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

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

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

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

The Government-wide Financial Statements can be found on pages 23 and 24 of this report.

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 26 and 29, respectively.

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

The basic governmental funds financial statements can be found on pages 25 and 27 of this report.

Proprietary fund Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The County uses an enterprise fund to account for the Solid Waste Fund.

Fund financial statements for the proprietary fund provides the same type of information as the government-wide financial statements, only in more detail. The Solid Waste Fund is considered to be a major fund of the County. The proprietary fund financial statements can be found on pages 30 through 32 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 33 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 35 through 51 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

OVERVIEW OF THE FINANCIAL STATEMENTS – Continued

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 55 through 58 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on page 61 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of government’s financial position. In the case of Pontotoc County, assets exceeded liabilities by \$ 75,288,266 as of September 30, 2006.

By far, the largest portion of the County’s net assets, 93.82%, reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

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

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

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current assets	\$ 12,755,866	\$ 10,288,249	\$ 315,130	\$ 315,606	\$ 13,070,996	\$ 10,603,855
Capital assets, net	<u>78,345,792</u>	<u>76,383,981</u>	<u>168,840</u>	<u>155,189</u>	<u>78,514,632</u>	<u>76,539,170</u>
Total assets	\$ <u>91,101,658</u>	\$ <u>86,672,230</u>	\$ <u>483,970</u>	\$ <u>470,795</u>	\$ <u>91,585,628</u>	\$ <u>87,143,025</u>
Current liabilities	\$ 8,293,987	\$ 8,257,580	\$ 120,731	\$ 173,242	\$ 8,414,718	\$ 8,430,822
Long-term debt	<u>7,760,524</u>	<u>3,107,602</u>	<u>122,120</u>	<u>35,059</u>	<u>7,882,644</u>	<u>3,142,661</u>
Total liabilities	\$ <u>16,054,511</u>	\$ <u>11,365,182</u>	\$ <u>242,851</u>	\$ <u>208,301</u>	\$ <u>16,297,362</u>	\$ <u>11,573,483</u>
Net assets:						
Invested in capital assets, net of related debt	\$ 70,585,268	\$ 72,614,083	\$ 46,720	\$ 72,677	\$ 70,631,988	\$ 72,686,760
Restricted	2,963,017	1,527,545	-0-	-0-	2,963,017	1,527,545
Unrestricted	<u>1,498,862</u>	<u>1,165,420</u>	<u>194,399</u>	<u>189,817</u>	<u>1,693,261</u>	<u>1,355,237</u>
Total net assets	\$ <u>75,047,147</u>	\$ <u>75,307,048</u>	\$ <u>241,119</u>	\$ <u>262,494</u>	\$ <u>75,288,266</u>	\$ <u>75,569,542</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

Note: The business-type activities consist of the collection and disposal of household garbage financed by a monthly fee of \$ 7.00 per household. This business-type activity also furnishes various size dumpsters, varying collection schedules, and disposal of garbage at varying rates. This business-type activity generated \$ 926,228 of the total revenues in this proprietary fund as of September 30, 2006.

The following are significant current year transactions that have had an impact on the Statement of Net Assets:

- The completion of a \$ 1,150,000 renovation of the Courtroom and second floor of the Courthouse, the beginning of the construction of a new Adult Detention Facility at a cost of \$4,500,000, new Chancery Building, and, work continues on the Pontotoc Sportsplex.
- Current year depreciation was \$ 3,113,059.

Changes in Net Assets – Pontotoc County’s total revenues for the fiscal year ended September 30, 2006 was \$ 13,028,040. The total cost for all services provided was \$13,309,316. The decrease in net assets was \$ 281,276. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2006.

Revenues:	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
Program revenues			
Charges for services	\$ 2,355,381	\$ 2,205,334	6.80%
State and federal grants	1,104,751	1,240,543	(10.95%)
Capital grants and contributions	1,458,616	1,625,572	(10.27%)
General revenues			
Property taxes	6,734,571	5,970,183	12.80%
Road and bridge privilege taxes	339,945	359,889	(5.54%)
Grants and contributions not restricted to specific programs	536,018	469,797	14.10%
Interest	201,135	36,548	450.33%
Other	297,623	197,491	50.07%
Total revenues	<u>\$ 13,028,040</u>	<u>\$ 12,105,357</u>	<u>7.62%</u>
Expenses:			
General government	\$ 3,094,999	\$ 3,022,748	2.39%
Public safety	2,613,080	2,433,138	7.40%
Public works	5,632,815	5,502,983	2.36%
Health and welfare	255,389	249,374	2.41%
Culture and recreation	318,228	333,516	(4.58%)
Conservation of natural resources	111,027	98,754	12.43%
Economic development	30,711	37,108	(17.24%)
Interest on long-term debt	311,433	93,188	234.20%
Solid waste	941,634	933,654	0.85%
Total expenses	<u>\$ 13,309,316</u>	<u>\$ 12,704,463</u>	<u>4.76%</u>
Decrease in net assets	<u>\$ 281,276</u>	<u>\$ 599,106</u>	<u>53.05%</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

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

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

	2006 Total <u>Expenses</u>	2006 Net (Expense) <u>Revenue</u>	2005 Total <u>Expenses</u>	2005 Net (Expense) <u>Revenue</u>
General government	\$ 3,094,999	\$ (1,491,553)	\$ 3,022,748	\$ (1,978,186)
Public safety	2,613,080	(1,864,792)	2,433,138	(1,588,141)
Public works	5,632,815	(4,029,871)	5,502,983	(2,982,991)
Health and welfare	255,389	(217,547)	249,374	(205,101)
Culture and recreation	318,228	(318,228)	333,516	(333,516)
Conservation of natural resources	111,027	(111,027)	98,754	(98,754)
Economic development	30,711	(30,711)	37,108	(37,108)
Interest on long- term debt	311,433	(311,433)	93,188	(93,188)
Solid waste	<u>941,634</u>	<u>(15,406)</u>	<u>933,654</u>	<u>14,104</u>
Totals	<u>\$ 13,309,316</u>	<u>\$ (8,390,568)</u>	<u>\$ 12,704,463</u>	<u>\$ (7,302,881)</u>

FINANCIAL ANALYSIS OF THE COUNTY’S FUNDS

Governmental funds – At the close of the fiscal year, Pontotoc County’s governmental funds reported a combined fund balance of \$ 3,998,525, an increase of \$ 1,700,021. The primary reasons for this increase, is that bonds were issued for the construction of the Adult Detention Facility and not all proceeds were expended.

The General Fund is the principal operating fund of the County. The increase in the fund balance of the General Fund for the fiscal year was \$ 264,548. This increase was primarily due to an increase in tax revenue and intergovernmental revenues.

Business-type funds – Revenue from the County’s Garbage Collection Fund decreased by .79% to \$ 926,228 and expenses increased by .85% to \$ 941,634.

BUDGETARY HIGHLIGHTS

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

- Budgeted revenue from state sources was amended to account for additional grant funds made available.
- Budgeted expenditures for cash flow in some funds, additional expense incurred in law enforcement and housing prisoners.

Even with these adjustments, actual disbursements were over final budget amounts. See disclosure D. in the Notes to the Required Supplementary Information on page 56.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2006, Pontotoc County's total capital assets were \$94,284,297. This includes land, infrastructure, buildings, mobile equipment, furniture and equipment, leased property under capital lease, improvements other than buildings and construction in progress. This amount represents an increase from the previous year of \$ 4,678,630. The majority of this increase is due to the construction projects in progress and new leased property under capital leases.

Total accumulated depreciation as of September 30, 2006 was \$ 15,769,665, including \$3,154,271 of depreciation expense for the year. The balance in total net capital assets was \$78,514,632 at year-end.

Additional information on Pontotoc County's capital assets can be found in note 6 on pages 44 and 45 of this report.

Debt Administration – At September 30, 2006, Pontotoc County had \$ 7,882,644 in long-term debt outstanding. This is an increase over prior year of \$ 4,027,234 due to issuing bonds for Adult Detention Facility and new capital lease debt. Of this debt, \$855,561 is due within one year.

Additional information on Pontotoc County's long-term debt can be found in note 9 on pages 46 through 48 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

Pontotoc County is planning some major capital projects, such as, a new County Extension Office, and continued construction on County Jail, and some additional ball fields and other construction at the Pontotoc Sportsplex, as well as some major road and bridge projects. General Obligation Bonds have been issued to cover construction costs. The estimated costs of these projects is probably around \$5,000,000 and at the current assessed value of Pontotoc County would cause an increase of approximately 3.00 mils in Ad Valorem tax. This is the first General Obligation Bond indebtedness in several years for the County and we received a very favorable bond rating.

Pontotoc County has joined together with Lee and Union County to form the PUL Alliance. This alliance was formed to combine regional forces in an attempt to impact our areas industrial growth. The alliance is to induce an automotive plant or other major industry/manufacturer to locate in our region. Some 1,500 acres have been optioned by the PUL Alliance to purchase as an industrial site. Should this develop all three counties would share equally in all costs and would share equally in all revenue. This has come to fruition with the announcement in February 2007, that Toyota will build an automobile manufacturing plant on PUL Alliance property to be operational by 2010. With this announcement comes the obligation of Pontotoc County to put up its share of \$10,000,000 for land and infrastructure for the Wellspring Project. Therefore, the County will soon be issuing those bonds with anticipated revenues from in lieu tax from Toyota to pay those bonds.

There are currently plenty of jobs available in the manufacturing area with several employers expanding and planning future expansions, however, we have experienced some plant closures with the furniture markets competing with China and other over seas markets. Pontotoc County historically grants ten-year tax exemptions to new industries and expansions to encourage industrial development and growth. The county also has a policy for granting Freeport Warehouse tax exemptions to encourage manufacturers to choose Pontotoc County as a major distribution point. All industrial growth provides new jobs and an increase in the assessed value of the county and despite any kind of tax exemptions granted to industries none are exempt from paying school tax.

There are currently several ten-year tax exemptions in place for different manufacturers and each year some of these mature and they begin paying tax, which brings in more revenue for the county.

Pontotoc County has a low unemployment rate, which compares very favorably with the state average rate.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact Reggie Collums Pontotoc County Chancery Clerk office at P. O. Box 209, Pontotoc, Mississippi, 38863, Phone 662-489-3900.

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PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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Pontotoc County, Mississippi
Statement of Net Assets
September 30, 2006

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 4,626,317	\$ 109,105	\$ 4,735,422
Property tax receivable	6,860,500	-0-	6,860,500
Accrued interest receivable	80,819	-0-	80,819
Accounts receivable, (net of allowance for uncollectibles of \$ 295,595)	-0-	185,403	185,403
Fines receivable, (net of allowance for uncollectibles of \$ 1,190,409)	356,973	-0-	356,973
Intergovernmental receivables	636,205	2,833	639,038
Other receivables	79,327	69,471	148,798
Internal balances	51,682	(51,682)	-0-
Deferred charge issuance cost	64,043	-0-	64,043
Capital assets:			
Land and construction in progress	5,953,045	-0-	5,953,045
Other capital assets, net	72,392,747	168,840	72,561,587
Total Assets	\$ 91,101,658	\$ 483,970	\$ 91,585,628
LIABILITIES			
Claims payable	\$ 927,816	\$ 44,429	\$ 972,245
Retainage payable	194,524	-0-	194,524
Intergovernmental payables	233,372	-0-	233,372
Accrued interest payable	28,073	-0-	28,073
Deferred revenue	6,860,500	76,302	6,936,802
Other payables	49,702	-0-	49,702
Long-term liabilities			
Due within one year:			
Capital related debt	805,629	49,932	855,561
Due in more than one year:			
Capital related debt	6,954,895	72,188	7,027,083
Total Liabilities	\$ 16,054,511	\$ 242,851	\$ 16,297,362
NET ASSETS			
Invested in capital assets, net of related debt	\$ 70,585,268	\$ 46,720	\$ 70,631,988
Restricted net assets:			
Expendable:			
Debt service	(51,426)	-0-	(51,426)
Public safety	229,978	-0-	229,978
Public works	1,321,550	194,399	1,515,949
Culture and recreation	44,894	-0-	44,894
Economic development	86,270	-0-	86,270
Capital projects	1,331,751	-0-	1,331,751
Unrestricted	1,498,862	-0-	1,498,862
Total Net Assets	\$ 75,047,147	\$ 241,119	\$ 75,288,266

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

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

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 3,094,999	\$ 774,193	\$ -0-	\$ 829,253	\$ (1,491,553)	\$ -0-	\$ (1,491,553)
Public safety	2,613,080	516,222	232,066	-0-	(1,864,792)	-0-	(1,864,792)
Public works	5,632,815	138,738	834,843	629,363	(4,029,871)	-0-	(4,029,871)
Health and welfare	255,389	-0-	37,842	-0-	(217,547)	-0-	(217,547)
Culture and recreation	318,228	-0-	-0-	-0-	(318,228)	-0-	(318,228)
Conservation of natural resources	111,027	-0-	-0-	-0-	(111,027)	-0-	(111,027)
Economic development and assistance	30,711	-0-	-0-	-0-	(30,711)	-0-	(30,711)
Interest on long-term debt	311,433	-0-	-0-	-0-	(311,433)	-0-	(311,433)
Total Governmental Activities	\$ 12,367,682	\$ 1,429,153	\$ 1,104,751	\$ 1,458,616	\$ (8,375,162)	\$ -0-	\$ (8,375,162)
Business-type activities:							
Solid waste	\$ 941,634	\$ 926,228	\$ -0-	\$ -0-	\$ -0-	\$ (15,406)	\$ (15,406)
Total Business-type Activities	\$ 941,634	\$ 926,228	\$ -0-	\$ -0-	\$ -0-	\$ (15,406)	\$ (15,406)
Total Primary Government	\$ 13,309,316	\$ 2,355,381	\$ 1,104,751	\$ 1,458,616	\$ (8,375,162)	\$ (15,406)	\$ (8,390,568)
General revenues:							
Taxes:							
Property taxes				\$ 6,734,571	\$ -0-	\$ 6,734,571	
Road & bridge privilege taxes				339,945	-0-	339,945	
Grants and contributions not restricted to specific programs				536,018	-0-	536,018	
Unrestricted investment income				199,566	1,569	201,135	
Miscellaneous				305,161	(7,538)	297,623	
Total General Revenues				\$ 8,115,261	\$ (5,969)	\$ 8,109,292	
Changes in Net Assets				\$ (259,901)	\$ (21,375)	\$ (281,276)	
Net Assets - Beginning				\$ 75,307,048	\$ 262,494	\$ 75,569,542	
Net Assets - Ending				\$ 75,047,147	\$ 241,119	\$ 75,288,266	

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

Pontotoc County, Mississippi
Balance Sheet - Governmental Funds
September 30, 2006

Exhibit 3

Major Funds

	General Fund	County Wide Rd Maintenance Fund	County Jail Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 1,014,493	\$ 121,791	\$ 1,650,065	\$ 1,839,968	\$ 4,626,317
Accrued interest receivable	-0-	-0-	80,819	-0-	80,819
Property tax receivable	4,117,500	1,470,000	-0-	1,273,000	6,860,500
Fines receivable	356,973	-0-	-0-	-0-	356,973
Intergovernmental receivables	535,366	24,620	-0-	5,808	565,794
Other receivables	12,422	4,702	-0-	62,203	79,327
Due from other funds	16,373	30,350	-0-	111,024	157,747
Advances to other funds	35,309	-0-	-0-	-0-	35,309
Total Assets	\$ 6,088,436	\$ 1,651,463	\$ 1,730,884	\$ 3,292,003	\$ 12,762,786

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LIABILITIES AND FUND BALANCES

Liabilities:					
Claims payable	\$ 214,007	\$ 22,921	\$ 270,537	\$ 420,351	\$ 927,816
Retainage payable	-0-	-0-	141,567	52,957	194,524
Intergovernmental payables	220,341	-0-	-0-	-0-	220,341
Due to other funds	94,405	-0-	-0-	60,000	154,405
Deferred revenue	4,474,473	1,470,000	-0-	1,273,000	7,217,473
Other payables	49,702	-0-	-0-	-0-	49,702
Total Liabilities	\$ 5,052,928	\$ 1,492,921	\$ 412,104	\$ 1,806,308	\$ 8,764,261

Fund balances:

Reserved for:					
Advances	\$ 35,309	\$ -0-	\$ -0-	\$ -0-	\$ 35,309
Unreserved, reported in:					
General fund	1,000,199	-0-	-0-	-0-	1,000,199
Special revenue funds	-0-	158,542	-0-	1,472,724	1,631,266
Capital project funds	-0-	-0-	1,318,780	12,971	1,331,751
Total Fund Balances	\$ 1,035,508	\$ 158,542	\$ 1,318,780	\$ 1,485,695	\$ 3,998,525
Total Liabilities and Fund Balances	\$ 6,088,436	\$ 1,651,463	\$ 1,730,884	\$ 3,292,003	\$ 12,762,786

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

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

Exhibit 3-1

	Amount
Total fund balance - governmental funds (Exhibit 3)	\$ 3,998,525
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 15,343,842.	78,345,792
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Fine receivables	356,973
Deferred charge issuance cost	64,043
Accrued receivables that are not available to pay for current expenditures and therefore are not recorded in the funds.	
	70,411
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	
Long-term liabilities	(7,760,524)
Accrued interest	(28,073)
Total net assets - governmental activities (Exhibit 1)	\$ 75,047,147

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

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

Exhibit 4

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	County Wide Rd Maintenance Fund	County Jail Construction Fund		
REVENUES					
Property taxes	\$ 4,132,663	\$ 1,443,412	\$ -0-	\$ 1,158,496	\$ 6,734,571
Road and bridge privilege taxes	2,748	-0-	-0-	337,197	339,945
Licenses, commissions and other revenue	354,981	-0-	-0-	7,461	362,442
Fines and forfeitures	375,716	-0-	-0-	-0-	375,716
Intergovernmental revenues	1,151,477	1,249,552	-0-	691,814	3,092,843
Charges for services	225,215	-0-	-0-	395,506	620,721
Interest income	21,752	2,751	151,849	23,214	199,566
Miscellaneous revenues	159,057	6,129	-0-	10,577	175,763
Total Revenues	\$ 6,423,609	\$ 2,701,844	\$ 151,849	\$ 2,624,265	\$ 11,901,567
EXPENDITURES					
Current:					
General government	\$ 2,798,574	\$ -0-	\$ 6,994	\$ 3,895	\$ 2,809,463
Public safety	1,988,805	-0-	-0-	660,780	2,649,585
Public works	4,065	532,370	-0-	2,950,401	3,486,836
Health and welfare	255,388	-0-	-0-	-0-	255,388
Culture and recreation	141,839	-0-	-0-	161,109	302,948
Conservation of natural resources	111,027	-0-	-0-	-0-	111,027
Economic development and assistance	28,740	-0-	-0-	1,971	30,711
Debt service:					
Principal	469,216	95,499	-0-	468,541	1,033,256
Interest	92,216	9,304	-0-	205,364	306,884
Capital outlay	362,245	543,136	3,033,230	623,633	4,562,244
Total Expenditures	\$ 6,252,115	\$ 1,180,309	\$ 3,040,224	\$ 5,075,694	\$ 15,548,342
Excess of Revenues over (under) Expenditures	\$ 171,494	\$ 1,521,535	\$ (2,888,375)	\$ (2,451,429)	\$ (3,646,775)

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

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

Exhibit 4

	<u>Major Funds</u>			Other Governmental Funds	Total Governmental Funds
	General Fund	County Wide Rd Maintenance Fund	County Jail Construction Fund		
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	\$ 63,120	\$ 84,270	\$ 4,500,000	\$ 376,492	\$ 5,023,882
Proceeds from sale of capital assets	8,543	80,033	-0-	204,821	293,397
Compensation for loss of capital assets	21,391	-0-	-0-	8,126	29,517
Transfers in	-0-	350	-0-	2,285,104	2,285,454
Transfers out	-0-	(1,725,000)	-0-	(560,454)	(2,285,454)
Total Other Financing Sources and Uses	<u>\$ 93,054</u>	<u>\$ (1,560,347)</u>	<u>\$ 4,500,000</u>	<u>\$ 2,314,089</u>	<u>\$ 5,346,796</u>
Net Changes in Fund Balances	\$ 264,548	\$ (38,812)	\$ 1,611,625	\$ (137,340)	\$ 1,700,021
Fund Balances - Beginning	<u>770,960</u>	<u>197,354</u>	<u>(292,845)</u>	<u>1,623,035</u>	<u>2,298,504</u>
Fund Balances - Ending	<u><u>\$ 1,035,508</u></u>	<u><u>\$ 158,542</u></u>	<u><u>\$ 1,318,780</u></u>	<u><u>\$ 1,485,695</u></u>	<u><u>\$ 3,998,525</u></u>

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

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

Exhibit 4-1

Net changes in fund balances - total governmental funds (Exhibit 4)	\$ 1,700,021
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 \$ 5,240,197 exceeded depreciation \$ 3,084,870 in the current period.	2,155,327
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 \$ 129,398 and the proceeds from the sale of \$ 322,914.	(193,516)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	76,813
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. Also, governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Thus the change in net assets differs from the change in fund balances by the amount that debt repayments \$ 1,033,256 and bond amortization cost \$ 3,371 exceeded debt proceeds \$ 5,023,882.	(3,993,997)
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:	
Accrued interest	(4,549)
Change in net assets of governmental activities (Exhibit 2)	\$ <u><u>(259,901)</u></u>

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

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

Exhibit 5

	Business - Type Activities Enterprise Fund
	<u>Solid Waste Fund</u>
ASSETS	
Current assets:	
Cash	\$ 109,105
Intergovernmental receivables	2,833
Accounts receivable, (net of allowance for uncollectibles of \$ 295,595)	185,403
Other receivables	69,471
Total Current Assets	<u>\$ 366,812</u>
Noncurrent assets:	
Capital assets, net	\$ 168,840
Total Noncurrent Assets	<u>\$ 168,840</u>
Total Assets	<u>\$ 535,652</u>
 LIABILITIES	
Current liabilities:	
Claims payable	\$ 44,429
Due to other funds	16,373
Advances from other funds	35,309
Deferred revenue	76,302
Current portions of long-term capital-related debt:	
Capital leases payable	49,932
Total Current Liabilities	<u>\$ 222,345</u>
Noncurrent liabilities:	
Capital related debt:	
Capital leases payable	72,188
Total Noncurrent Liabilities	<u>\$ 72,188</u>
 NET ASSETS	
Invested in capital assets, net of related debt	\$ 46,720
Restricted for public works	194,399
Total Net Assets	<u>\$ 241,119</u>

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

Pontotoc County, Mississippi Exhibit 6
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2006

	<u>Business-type Activities</u> <u>Enterprise Fund</u>
	<u>Solid Waste</u> <u>Fund</u>
Operating Revenues	
Charges for services	\$ <u>926,228</u>
Total Operating Revenues	\$ <u>926,228</u>
Operating Expenses	
Personal services	\$ 429,641
Contractual services	262,855
Materials and supplies	159,309
Depreciation expense	69,401
Indirect administrative cost	16,373
Total Operating Expenses	\$ <u>937,579</u>
Operating Income (Loss)	\$ <u>(11,351)</u>
Nonoperating Revenues (Expenses)	
Interest income	\$ 1,569
Loss on sale of capital assets	(7,538)
Interest expense	(4,055)
Net Nonoperating Revenue (Expenses)	\$ <u>(10,024)</u>
Changes in Net Assets	\$ (21,375)
Net Assets - Beginning	<u>262,494</u>
Net Assets - Ending	<u><u>\$ 241,119</u></u>

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

Pontotoc County, Mississippi
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2006

Exhibit 7

	<u>Business-type Activities</u> <u>Enterprise Funds</u>
	<u>Solid Waste</u> <u>Fund</u>
Cash Flows From Operating Activities	
Receipts from customers	\$ 907,477
Payments to suppliers	(429,176)
Payments to employees	(429,641)
Net Cash Provided (Used) by Operating Activities	<u>\$ 48,660</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from sale of capital assets	\$ 7,000
Principal paid on long-term debt	(57,982)
Interest paid on debt	(4,055)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>\$ (55,037)</u>
Cash Flows From Investing Activities	
Interest and dividends on investments	\$ 1,569
Net Cash Provided (Used) by Investing Activities	<u>\$ 1,569</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (4,808)
Cash and Cash Equivalents at Beginning of Year	113,913
Cash and Cash Equivalents at End of Year	<u>\$ 109,105</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (11,351)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	\$ 69,401
Provision for uncollectible accounts	11,407
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(31,388)
(Increase) decrease in other receivables	(724)
Increase (decrease) in claims payable	(7,012)
Increase (decrease) in deferred revenue	1,954
Increase (decrease) in interfund payables	16,373
Total Adjustments	<u>\$ 60,011</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 48,660</u>

Noncash Capital Financing Activity:

Pontotoc County lease purchased mobile equipment for \$ 97,590 for 5 years at 3.49% interest. Principal payments of \$ 10,529 were made on the lease during the year.

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

Pontotoc County, Mississippi
Statement of Fiduciary Assets and Liabilities
September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 16,198
Intergovernmental receivables	1,881
Due from other funds	13,031
Total Assets	<u>\$ 31,110</u>
LIABILITIES	
Claims payable and other accrued liabilities	\$ 16,198
Intergovernmental payables	14,912
Total Liabilities	<u>\$ 31,110</u>

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

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PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Pontotoc 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 Pontotoc County to present these financial statements on the primary government and its component unit which has a significant operational or financial relationships with the county.

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

- Pontotoc Airport Commission

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

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

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

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

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies – Continued.

B. Basis of Presentation – Continued.

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Fund and Fiduciary Fund (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 are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

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

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

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies – Continued.

C. Measurement Focus and Basis of Accounting – Continued.

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

The county reports the following major Governmental Funds:

General Fund - Accounts for all activities of the general government for which a separate fund has not been established.

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

County Jail Construction Fund – Accounts for construction activities of the jail.

The county reports the following major Proprietary Fund:

Solid Waste – Accounts 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 Fund – This fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

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

PROPRIETARY FUND TYPE

Enterprise Fund - This fund is 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.

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies – Continued.

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

H. Capital Assets.

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

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies – Continued.

H. Capital Assets - Continued.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Pontotoc County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are reported in 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 acquired before and subsequent to October 1, 2002.

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary Fund. 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 will correspond with the amounts for the asset classification, as listed above.

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies – Continued.

I. Long-term liabilities.

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

In the Government-wide financial statements and in the Proprietary Fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Fund Statement of Net Assets. 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 discount on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved 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 appropriable or are legally segregated for a specific purpose.

K. Property Tax Revenues.

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

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(1) Summary of Significant Accounting Policies – Continued.

K. Property Tax Revenues – Continued.

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

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

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

The County has not adopted a written policy of compensation for accumulated unpaid employee benefits. Therefore, no liability for compensated absences is recorded in the accompanying financial statements as required by accounting principles generally accepted in the United States of America. We believe the effects of the unrecorded liability, if any on the financial statements are immaterial.

(2) Change in Accounting Standards.

For the fiscal year ended September 30, 2006, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to report the effects of capital asset impairment in their financial statements when impairment occurs. The provisions of this new statement have been incorporated into the financial statements and accompanying notes.

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$4,751,620, and the bank balance was \$5,028,164. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

(4) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	1 Solid Waste	\$ 16,373
County Wide Rd. Maintenance Fund	3 General Fund	30,350
Other Governmental Funds	3 General Fund	51,024
Other Governmental Funds	2 Other Governmental Funds	60,000
Agency Funds	3 General Fund	13,031
Total		<u>\$ 170,778</u>

1. This receivable represents indirect cost the county incurred for the Solid Waste Fund.
2. This receivable represents loans to capital project fund for construction project.
3. These receivables represent the tax revenue collected but not settled until October 2006.

All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Solid Waste	\$ 35,309

This advance represents fiscal year 2004 and 2005 indirect cost the county incurred for the Solid Waste Fund.

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(4) Interfund Transactions and Balances – Continued.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
County Wide District Rd. Fund	Other Governmental Funds	\$ 350
Other Governmental Funds	County Wide District Rd. Fund	1,725,000
Other Governmental Funds	Other Governmental Funds	559,754
Total		<u>\$ 2,285,104</u>

All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

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

Governmental Activities:

Description	Amount
Economic Development Initiative Grant	\$ 318,429
State Legislative Credit	127,193
Motor Vehicle Fuel Tax	19,777
Motor Vehicle License Tax	12,860
Housing Prisoners	66,230
Other	21,305
Total Governmental Activities – Exhibit 3	<u>\$ 565,794</u>
T.V.A. In Lieu of Tax	\$ 68,359
Other	2,052
Total Governmental Activities – Exhibit 1	<u>\$ 636,205</u>
Business-type Activities:	
Garbage Collection Fees	\$ 2,833
Total Business-type Activities	<u>\$ 2,833</u>

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(6) Capital Assets.

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

Governmental activities:

	Balance				Balance
	<u>Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments*</u>	<u>Sept. 30, 2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 963,449	\$ -0-	\$ -0-	\$ -0-	\$ 963,449
Construction in progress	<u>789,598</u>	<u>4,199,998</u>	<u>-0-</u>	<u>-0-</u>	<u>4,989,596</u>
Total non-depreciable capital assets	<u>\$ 1,753,047</u>	<u>\$ 4,199,998</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,953,045</u>
<u>Depreciable capital assets:</u>					
Infrastructure	\$ 69,936,420	\$ 44,609	\$ -0-	\$ -0-	\$ 69,981,029
Buildings	8,465,813	112,500	-0-	-0-	8,578,313
Improvements other than buildings	1,505,207	205,136	-0-	-0-	1,710,343
Mobile equipment	5,372,466	71,848	161,027	50,957	5,334,244
Furniture and equipment	773,681	87,212	96,182	-0-	764,711
Leased property under capital leases	<u>1,156,574</u>	<u>518,894</u>	<u>256,562</u>	<u>(50,957)</u>	<u>1,367,949</u>
Total depreciable capital assets	<u>\$ 87,210,161</u>	<u>\$ 1,040,199</u>	<u>\$ 513,771</u>	<u>\$ -0-</u>	<u>\$ 87,736,589</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	\$ 4,600,038	\$ 2,336,038	\$ -0-	\$ -0-	\$ 6,936,076
Buildings	2,669,211	165,800	-0-	-0-	2,835,011
Improvements other than buildings	218,333	68,421	-0-	-0-	286,754
Mobile equipment	4,236,844	203,816	142,769	27,519	4,325,410
Furniture and equipment	545,579	91,254	85,118		551,715
Leased property under capital leases	<u>309,222</u>	<u>219,541</u>	<u>92,368</u>	<u>(27,519)</u>	<u>408,876</u>
Total accumulated depreciation	<u>\$ 12,579,227</u>	<u>\$ 3,084,870</u>	<u>\$ 320,255</u>	<u>\$ -0-</u>	<u>\$ 15,343,842</u>
Total depreciable capital assets, net	<u>\$ 74,630,934</u>	<u>\$ (2,044,671)</u>	<u>\$ 193,516</u>	<u>\$ -0-</u>	<u>\$ 72,392,747</u>
Governmental activities capital assets, net	<u>\$ 76,383,981</u>	<u>\$ 2,155,327</u>	<u>\$ 193,516</u>	<u>\$ -0-</u>	<u>\$ 78,345,792</u>

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(6) Capital Assets – Continued.

Business-type activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments*	Balance Sept. 30, 2006
<u>Depreciable capital assets:</u>					
Mobile equipment	\$ 435,194	\$ -0-	\$ 145,386	\$ 77,772	\$ 367,580
Leased property under capital leases	207,265	97,590	-0-	(77,772)	227,083
Total depreciable capital assets	\$ 642,459	\$ 97,590	\$ 145,386	\$ -0-	\$ 594,663
<u>Less accumulated depreciation for:</u>					
Mobile equipment	\$ 361,939	\$ 10,957	\$ 130,848	\$ 55,401	\$ 297,449
Leased property under capital leases	125,331	58,444	-0-	(55,401)	128,374
Total accumulated depreciation	\$ 487,270	\$ 69,401	\$ 130,848	\$ -0-	\$ 425,823
Total depreciable capital assets, net	\$ 155,189	\$ 28,189	\$ 14,538	\$ -0-	\$ 168,840
Business-type activities capital assets, net	\$ 155,189	\$ 28,189	\$ 14,538	\$ -0-	\$ 168,840

*Adjustments are for reclassifications of paid off leased property.

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 290,927
Public safety	98,276
Public works	2,680,387
Culture and Recreation	15,280
Total governmental activities depreciation expense	\$ 3,084,870
<u>Business-type activities:</u>	
Solid waste	\$ 69,401
Total business-type activities depreciation expense	\$ 69,401

As of September 30, 2006, the county had the following commitments with respect to unfinished capital projects:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Detention Center	\$ 1,104,380	12/2006
Courtroom Renovation	\$ 5,289	11/2006

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(7) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$ 750,000 for each accident and completely covers statutory limits set by 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, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(8) Capital Leases.

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Mobile equipment	\$ 1,301,589	\$ 227,083
Other furniture and equipment	66,360	-0-
Total	\$ 1,367,949	\$ 227,083
Less: Accumulated depreciation	408,876	128,374
Leased Property Under Capital Leases	\$ 959,073	\$ 98,709

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 278,077	\$ 25,156	\$ 49,932	\$ 3,439
2008	217,406	17,072	22,894	2,124
2009	144,936	10,022	19,895	1,404
2010	109,184	5,091	20,600	699
2011	72,582	1,542	8,799	77
Total	\$ 822,185	\$ 58,883	\$ 122,120	\$ 7,743

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(9) Long-term Debt.

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Pontotoc County G.O. Bonds, Series 2005	\$ <u>4,355,000</u>	Various	09/2025
B. Capital Leases:			
04 Dodge/ 05 Van/ 05 Chevy for Sheriff	\$ 36,712	3.29	04-2008
John Deere Tractor for Agri Center	14,474	3.39	06-2008
John Deere 120C Excavator	51,379	3.11	10-2008
John Deere 310SG Backhoe	7,404	3.92	07-2007
Computer Lease	22,317	3.60	04-2008
2 2003 Crown Victorias	3,705	3.63	01-2007
John Deere 750BC Dozer	8,764	3.63	01-2007
Asphalt Zipper Machine	52,111	3.67	06-2010
2 2004 Crown Victorias	4,823	3.04	01-2007
2 2003 Dodge Durangos	4,601	3.04	02-2007
Backhoe	13,567	2.99	06-2008
John Deere Tractor	39,657	3.04	03-2008
Volvo EC160 BLC Excavator	56,214	3.42	06-2010
3 2006 Crown Victorias	56,462	3.87	05-2009
Pothole Patcher	50,986	3.99	06-2009
Tractor with Trim Cutter	78,105	3.98	08-2011
Pothole Patcher	52,844	4.12	06-2011
International Truck	34,514	4.12	06-2011
Pothole Patcher	54,285	4.12	08-2010
Mack Dump Truck	94,990	3.94	10-2011
Mack Semi Tractor Truck	84,271	3.94	10-2011
Total Capital Leases	\$ <u>822,185</u>		
C. Other Loans:			
Land Loan	\$ 120,000	0.00	03-2010
CAPS Loan for Industrial Park	174,839	3.00	05-2013
Computer Note	38,500	0.00	03-2007
Certificates of Participation	2,250,000	Various	08-2013
Total Other Loans	\$ <u>2,583,339</u>		
Business-type Activities:			
A. Capital Leases:			
2006 Freightliner Truck	\$ 87,062	3.49	02-2011
2003 GMC Truck with PAC MAC Body	14,459	3.63	01-2008
2004 Freightliner Truck with PAC MAC Body	20,599	3.11	09-2007
Total Capital Leases	\$ <u>122,120</u>		

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(9) Long-term Debt – Continued.

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

Governmental Activities:

Year Ending September	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2007	\$ 150,000	\$ 177,267	\$ 377,552	\$ 84,723
2008	155,000	169,768	349,783	73,868
2009	165,000	162,017	365,537	62,650
2010	170,000	153,768	376,314	50,870
2011	180,000	145,267	362,114	38,727
2012 - 2016	1,020,000	589,355	752,039	38,999
2017 - 2021	1,275,000	375,631	-0-	-0-
2022 - 2026	1,240,000	118,688	-0-	-0-
Total	\$ 4,355,000	\$ 1,891,761	\$ 2,583,339	\$ 349,837

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2006, the amount of outstanding debt was equal to 3.16% of the latest property assessments.

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

	Balance Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006	Amount due within one year
Governmental Activities:					
General obligation bonds	\$ -0-	\$ 4,500,000	\$ 145,000	\$ 4,355,000	\$ 150,000
Capital leases	786,217	523,882	487,914	822,185	278,077
Other loans	2,983,681	-0-	400,342	2,583,339	377,552
Total	\$ 3,769,898	\$ 5,023,882	\$ 1,033,256	\$ 7,760,524	\$ 805,629
Business-type Activities:					
Capital leases	\$ 82,512	\$ 97,590	\$ 57,982	\$ 122,120	\$ 49,932
Total	\$ 82,512	\$ 97,590	\$ 57,982	\$ 122,120	\$ 49,932

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(10) Deficit Fund Balances of Individual Funds

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

Fund	Deficit Amount
County Jail Bond Fund	\$ 51,426

(11) Contingencies.

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

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

Solid Waste Revenue Refunding Bonds

In 1998, solid waste revenue refunding bonds were issued by Three Rivers Solid Waste Management authority for \$8,210,000. As part of a solid waste disposal service agreement between Pontotoc County and Three Rivers Solid Waste Management Authority, the county has agreed to pay its pro rata share of any obligations of the authority that are not covered by fees generated from solid waste disposal services. The county's pro rata share of the \$4,820,000 refunding bonds balance at September 30, 2006 is \$ 814,580.

(12) Joint Venture.

The county participates in the following joint ventures:

Pontotoc County is a participant with Calhoun County and Chickasaw County in a joint venture, authorized by Section 39-3-11, Miss. Code Ann. (1972), to operate the Dixie Regional Library System. The regional library was created to provide free public library service for the respective counties. The regional library is governed by a five-member board appointed by the Boards of Supervisors: two from the library board of Pontotoc County, one from the library board of Chickasaw County, and two from the library board of Calhoun County. The county appropriated \$ 155,000 to the library in fiscal year 2006. Complete financial statements for the regional library can be obtained from the Dixie Regional Library System, 111 North Main Street, Pontotoc, Mississippi 38863.

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Three Rivers Planning and Development District operates in a district composed of the Counties of Pontotoc, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Calhoun and Union. The Pontotoc County Board of Supervisors appoints five of the 40 members of the board of directors. The county appropriated \$28,740 for support of the district in fiscal year 2006.

Northeast Mental Health Commission operates in a district composed of the Counties of Benton, Itawamba, Lee, Chickasaw, Pontotoc, Monroe and Union. The Pontotoc County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$ 29,380 for support of the commission in fiscal year 2006.

Itawamba Community College operates in a district composed of the Counties of Itawamba, Lee, Chickasaw, Pontotoc and Monroe. The Pontotoc County Board of Supervisors appoints six of the 30 members of the college board of trustees. The county provided approximately \$ 890,681 by tax levy as an appropriation for maintenance and support of the college in fiscal year 2006.

Three Rivers Solid Waste Management Authority operates in a district composed of the Counties of Pontotoc, Itawamba, Lafayette, Lee, Monroe, Calhoun and Union and the cities of Aberdeen, Amory, Fulton, New Albany, Oxford, Pontotoc and Tupelo. Each of these entities appoints one of the 14 board members. The entity is fiscally independent of all other entities as it can set its own budget, issue debt and set rates and charges. Members are billed based on the volume of solid waste received from each member.

Northeast Mississippi Emergency Medical Services serves the Counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Marshall, Pontotoc, Tishomingo and Union. The Pontotoc County Board of Supervisors appoints four of the 36 members of the board of directors. The county appropriated \$ 29,982 (or 55 cents per person per 1990 census) for support of the district in fiscal year 2006.

Pontotoc Union Lee Alliance (PUL) is an alliance to promote economic development in these three counties. The Pontotoc County Board of Supervisors appoints two of the board members and the Pontotoc County Chancery Clerk serves as Treasurer and/or disbursing officer of this alliance. The county appropriated \$ 5,000 for support of the alliance during fiscal year 2006.

(14) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005, and 2004 were \$320,313, \$294,719 and \$277,651, respectively, equal to the required contributions for each year.

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2006

(15) Subsequent Events.

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

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
10-19-2006	4.01	\$ 94,990	Lease purchase	Special Revenue Funds
04-18-2007	4.23	\$ 63,582	Lease purchase	General Fund
05-15-2007	4.36	\$ 105,247	Lease purchase	General Fund
05-15-2007	4.23	\$ 55,620	Lease purchase	Special Revenue Funds
06-12-2007	4.23	\$ 34,200	Lease purchase	Special Revenue Funds

Pontotoc County has approved a resolution to issue \$ 10,000.000 in General Obligation Bonds for the jointly governed organization Pontotoc Union Lee Alliance.

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REQUIRED SUPPLEMENTARY INFORMATION

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,942,289	\$ 3,942,289	\$ 4,141,512	\$ 199,223
Licenses, commissions and other revenue	740,000	740,000	695,457	(44,543)
Fines and forfeitures	43,000	43,000	32,765	(10,235)
Intergovernmental revenues	1,534,500	1,534,500	955,805	(578,695)
Charges for services	215,000	215,000	199,666	(15,334)
Interest income	76,000	76,000	21,443	(54,557)
Miscellaneous revenues	184,000	184,000	303,071	119,071
Total Revenues	<u>\$ 6,734,789</u>	<u>\$ 6,734,789</u>	<u>\$ 6,349,719</u>	<u>\$ (385,070)</u>
EXPENDITURES				
Current:				
General government	\$ 3,570,757	\$ 3,685,558	\$ 3,064,515	\$ 621,043
Public safety	1,939,232	1,913,431	1,911,416	2,015
Public works	5,000	5,000	4,015	985
Health and welfare	274,380	272,380	253,137	19,243
Culture and recreation	372,000	372,000	69,934	302,066
Conservation of natural resources	190,787	190,787	183,423	7,364
Economic development and assistance	31,740	31,740	28,740	3,000
Debt service:				
Principal	439,893	452,893	439,216	13,677
Interest			92,216	(92,216)
Capital Outlay	-0-	-0-	292,995	(292,995)
Total Expenditures	<u>\$ 6,823,789</u>	<u>\$ 6,923,789</u>	<u>\$ 6,339,607</u>	<u>\$ 584,182</u>
Excess of Revenues over (under) Expenditures	<u>\$ (89,000)</u>	<u>\$ (189,000)</u>	<u>\$ 10,112</u>	<u>\$ 199,112</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	\$ -0-	\$ -0-	\$ 8,543	\$ 8,543
Compensation for loss of capital assets	-0-	-0-	3,726	3,726
Transfers in	-0-	100,000	600,701	500,701
Transfers out	-0-	-0-	(350,701)	(350,701)
Total Other Financing Sources and Uses	<u>\$ -0-</u>	<u>\$ 100,000</u>	<u>\$ 262,269</u>	<u>\$ 162,269</u>
Net Change in Fund Balance	\$ (89,000)	\$ (89,000)	\$ 272,381	<u>\$ 361,381</u>
Fund Balances - Beginning	500,000	500,000	502,737	
Fund Balances - Ending	<u>\$ 411,000</u>	<u>\$ 411,000</u>	<u>\$ 775,118</u>	

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

Pontotoc County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
County Wide Road Maintenance Fund
For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,560,000	\$ 1,560,000	\$ 1,448,186	\$ (111,814)
Intergovernmental revenues	635,000	635,000	599,262	(35,738)
Interest income	2,000	2,000	2,751	751
Miscellaneous revenues	15,000	15,000	16,180	1,180
Total Revenues	<u>\$ 2,212,000</u>	<u>\$ 2,212,000</u>	<u>\$ 2,066,379</u>	<u>\$ (145,621)</u>
EXPENDITURES				
Current:				
Public works	\$ 300,000	\$ 540,000	\$ 332,818	\$ 207,182
Debt service:				
Principal	-0-	28,213	28,213	-0-
Interest	-0-	6,787	4,658	2,129
Total Expenditures	<u>\$ 300,000</u>	<u>\$ 540,000</u>	<u>\$ 365,689</u>	<u>\$ 174,311</u>
Excess of Revenues over (under) Expenditures	<u>\$ 1,912,000</u>	<u>\$ 1,672,000</u>	<u>\$ 1,700,690</u>	<u>\$ 174,311</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	\$ -0-	\$ -0-	\$ 4,426	\$ 4,426
Transfers in	13,000	13,000	350	(12,650)
Transfers out	<u>(2,000,000)</u>	<u>(1,725,000)</u>	<u>(1,725,000)</u>	<u>-0-</u>
Total Other Financing Sources and Uses	<u>\$ (1,987,000)</u>	<u>\$ (1,712,000)</u>	<u>\$ (1,720,224)</u>	<u>\$ (8,224)</u>
Net Change in Fund Balance	\$ (75,000)	\$ (40,000)	\$ (19,534)	<u>\$ 166,087</u>
Fund Balances - Beginning	75,000	75,000	200,600	
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 35,000</u>	<u>\$ 181,066</u>	

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

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2006

Notes to the Required Supplementary Information

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

PONTOTOC COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2006

Notes to the Required Supplementary Information – Continued.

C. Budget/GAAP Reconciliation – Continued.

	Governmental Fund Types	
	General Fund	County Wide District Rd. Fund
Budget (Cash Basis)	\$ 272,381	\$ (19,534)
Increase (Decrease)		
Net adjustments for revenue accruals	(345,324)	76,208
Net adjustments for expenditure accruals	337,491	(95,486)
GAAP Basis	\$ 264,548	\$ (38,812)

D. Excess of Actual Expenditures Over Budget in Individual Funds.

The following funds had an excess of actual expenditures over budget for the year ended September 30, 2006:

Fund	Excess
Special Revenue Funds:	
Hurricane Fire District	\$ 104
District 2 and 3 Road Maintenance	\$ 3,723
District 4 and 5 Road Maintenance	\$ 9,750

All the funds listed above, are in violation of, Section 9-11-17, Miss. Code Ann. (1972). However, the county has no liability associated with these violations.

SUPPLEMENTAL INFORMATION

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PONTOTOC COUNTY, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditure
MAJOR FEDERAL AWARDS			
U.S. Department of Labor:			
Passed-through Mississippi Development Authority			
Workforce Investment Act Cluster:			
WIA Adult Program	17.258	N/A	\$ 3,361,617
WIA Youth Activities	17.259	N/A	2,610,373
WIA Dislocated Workers	17.260	N/A	<u>6,014,866</u>
Total Expenditures Workforce Investment Act Cluster			<u>\$ 11,986,856</u>
Total Expenditures of Major Federal Awards			<u>\$ 11,986,856</u>
OTHER FEDERAL AWARDS			
Department of Housing and Urban Development			
Community Planning and Development:			
Economic Development Initiative – Special Project			
Neighborhood Initiative and Miscellaneous Grants	14.251	N/A	<u>\$ 318,429</u>
Department of Interior – National Park Service:			
Save America’s Treasures	15.929	N/A	<u>\$ 296,303</u>
Department of Health and Human Services -			
Administration for Children and Families:			
Passed-through Mississippi Secretary of State:			
Voting Access for Individuals with Disabilities			
Grants to States	93.617	N/A	<u>\$ 14,521</u>
Department of Homeland Security:			
Passed-through Mississippi Emergency Management Agency:			
State Domestic Preparedness Equipment Support Program	97.004	N/A	\$ 42,211
Hazardous Materials Training Program	97.020	N/A	5,735
Homeland Security Grant Program	97.067	N/A	<u>45,579</u>
Total Department of Homeland Security			<u>\$ 93,525</u>
Total Expenditures of Other Federal Awards			<u>\$ 722,778</u>
Total Expenditures of Federal Awards			<u>\$ 12,709,634</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.

Note B - Workforce Investment Act

Total expenditures of federal awards include \$ 11,868,856 passed-through an agency fund to the Three Rivers Planning and Development District during the year ended September 30, 2006.

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SPECIAL REPORTS

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

Members of the Board of Supervisors
Pontotoc County, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Pontotoc County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated October 1, 2007. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component unit. 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 Pontotoc County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontotoc 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*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of Pontotoc County, Mississippi, in a separate letter dated October 1, 2007, which is included in this report.

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

- Continued -

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.

M. M. Winkler & Associates

October 1, 2007

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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
Pontotoc County, Mississippi

Compliance

We have audited the compliance of Pontotoc County, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal program for the year ended September 30, 2006. Pontotoc County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Pontotoc County, Mississippi's management. Our responsibility is to express an opinion on Pontotoc 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 Pontotoc 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 Pontotoc County, Mississippi's compliance with those requirements.

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

Internal Control Over Compliance

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

**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**

- Continued -

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

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

M. M. Winkler & Associates

October 1, 2007

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

Members of the Board of Supervisors
Pontotoc County, Mississippi

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

The Board of Supervisors of Pontotoc 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 Pontotoc 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, Pontotoc 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 Pontotoc 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.

M. M. Winkler & Associates

October 1, 2007

PONTOTOC COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
For the Year Ended September 30, 2006

Schedule 1

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

PONTOTOC COUNTY, MISSISSIPPI
SCHEDULE OF EMERGENCY PURCHASES
For the Year Ended September 30, 2006

Schedule 2

Our test results did not identify any emergency purchases.

PONTOTOC COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE
SOURCE

For the Year Ended September 30, 2006

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
02-15-06	Rolling carrying cases for Diebold Voting machines	\$ 9,058	A. Rifkin Co.

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Pontotoc County, Mississippi

In planning and performing our audit of the financial statements of Pontotoc County, Mississippi for the year ended September 30, 2006, we considered Pontotoc 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 Pontotoc County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated October 1, 2007, on the financial statements of Pontotoc County, Mississippi.

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

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

Board of Supervisors

1. Finding

Section 19-11-17, Miss. Code Ann. (1972), prohibits the incurring of expenditures in excess of the final budget as approved by the Board of Supervisors. As reported in prior year actual expenditures exceeded budgeted amounts in some of the funds.

Recommendation

The Board of Supervisors should not make expenditures in excess of budgeted amounts.

Board of Supervisors' Response

We understand and will comply.

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.

M. M. Winkler & Associates

October 1, 2007

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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PONTOTOC COUNTY, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Internal control over major programs: | |
| a. | Material weakness(es) identified? | No |
| b. | Reportable condition(s) 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 finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Cluster: Workforce Investment Act | |
| | CFDA #: 17.258, 17.259, 17.260 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$381,289 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) 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 |

PONTOTOC COUNTY, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2006

-Continued-

Section 2: Financial Statement Findings

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

Section 3: Federal Award Findings and Questioned Costs

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