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MARSHALL COUNTY
AUDITED PRIMARY GOVERNMENT FINANCIAL
STATEMENTS AND SPECIAL REPORTS
YEAR ENDED SEPTEMBER 30, 2004

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SEPTEMBER 30, 2004**

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FINANCIAL SECTION

J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors
Marshall County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marshall County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express an opinion 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 Marshall 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 Marshall County, Mississippi, as of September 30, 2004, and the respective changes in its financial position 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 financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of Marshall County, Mississippi, as of September 30, 2004, and the respective changes in financial position, 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 a report dated December 12, 2005, on our consideration of Marshall County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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.

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

The Budgetary Comparison Schedule and corresponding notes on pages 39 through 44 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Tupelo, Mississippi
December 12, 2005

A handwritten signature in black ink that reads "J. E. Vance & Company". The signature is written in a cursive, flowing style with a large, stylized initial "J" and "E".

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

Marshall County
Statement of Net Assets
September 30, 2004

Exhibit 1

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 6,869,628
Accrued interest receivable	9,210
Property tax receivable	10,586,105
Fines receivable, (net of allowance for uncollectibles of \$393,467)	188,670
Loans receivable	3,555,501
Intergovernmental receivables	901,421
Other receivables, net	57,328
Capital assets, net	50,483,003
Total Assets	<u>72,650,866</u>
LIABILITIES	
Claims payable	152,244
Intergovernmental payables	312,555
Accrued interest payable	28,256
Deferred revenue	10,658,809
Other payables	62,378
Long-term liabilities	
Due within one year:	
Capital related debt	819,607
Non-capital debt	461,049
Due in more than one year:	
Capital related debt	3,855,360
Non-capital debt	3,225,591
Total Liabilities	<u>19,575,849</u>
NET ASSETS	
Invested in capital assets, net of related debt	45,808,036
Restricted net assets:	
Expendable:	
General government	7,567
Debt service	115,507
Public safety	131,622
Public works	4,494,742
Culture and recreation	3,183
Economic development	68,955
Capital projects	2,553
Other purposes	3,482,797
Unrestricted	(1,039,945)
Total Net Assets	<u>\$ 53,075,017</u>

The accompanying notes and auditors' reports are integral parts of the statements.

Marshall County
Statement of Activities
For the Year Ended September 30, 2004

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 3,636,070	856,482			(2,779,588)
Public safety	3,621,783	550,230	294,914	41,142	(2,735,497)
Public works	4,411,420	215,738	785,918	414,102	(2,995,662)
Health and welfare	757,208		90,570		(666,638)
Culture and recreation	278,937			78,583	(200,354)
Education	50,000				(50,000)
Conversation of natural resources	73,904				(73,904)
Economic development and assistance	210,261				(210,261)
Interest on long-term debt	263,184				(263,184)
Total Governmental Activities	\$ <u>13,302,767</u>	<u>1,622,450</u>	<u>1,171,402</u>	<u>533,827</u>	<u>(9,975,088)</u>
General revenues:					
Taxes:					
Property taxes				\$	9,412,485
Road & bridge privilege taxes					382,329
Unrestricted investment income					116,235
Miscellaneous					990,590
Special Item (TVA withdrawal)					(92,803)
Total General Revenues, Special Item, Extraordinary Item and Transfers					<u>10,808,836</u>
Changes in Net Assets					<u>833,748</u>
Net Assets - Beginning					47,734,430
Prior period adjustment					<u>4,506,839</u>
Net Assets - Beginning, as restated					<u>52,241,269</u>
Net Assets - Ending				\$	<u>53,075,017</u>

The accompanying notes and auditors' reports are integral parts of the statements.

Marshall County
Balance Sheet - Governmental Funds
September 30, 2004

Exhibit 3

	Major Funds					
	General Fund	Countywide Road Fund	Gas Tax Sinking Fund	Thomas & Betts Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 2,402,020	1,490,218	2,520,582		456,808	6,869,628
Accrued interest receivable	3,604	294	4,177		1,135	9,210
Property tax receivable	6,492,209	3,456,881			637,015	10,586,105
Fines receivable	188,670					188,670
Loans receivable				2,913,944	641,557	3,555,501
Intergovernmental receivables	205,106	22,242			150,802	378,150
Other receivables	40,455				16,873	57,328
Due from other funds	459,759	323,488		51,441	10,620	845,308
Total Assets	<u>\$ 9,791,823</u>	<u>5,293,123</u>	<u>2,524,759</u>	<u>2,965,385</u>	<u>1,914,810</u>	<u>22,489,900</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 64,995	60,443			26,806	152,244
Intergovernmental payables	312,555					312,555
Due to other funds	212,991				109,046	322,037
Deferred revenue	6,680,879	3,456,881			709,719	10,847,479
Other payables	62,378					62,378
Total Liabilities	<u>7,333,798</u>	<u>3,517,324</u>	<u>-0-</u>	<u>-0-</u>	<u>845,571</u>	<u>11,696,693</u>
Fund balances:						
Reserved for:						
Debt service				51,441	92,321	143,762
Loans receivable				2,913,944	568,853	3,482,797
Unreserved, reported in:						
General fund	2,458,025					2,458,025
Special revenue funds		1,775,799	2,524,759		405,512	4,706,070
Capital project funds					2,553	2,553
Total Fund Balances	<u>2,458,025</u>	<u>1,775,799</u>	<u>2,524,759</u>	<u>2,965,385</u>	<u>1,069,239</u>	<u>10,793,207</u>
Total Liabilities and Fund Balances	<u>\$ 9,791,823</u>	<u>5,293,123</u>	<u>2,524,759</u>	<u>2,965,385</u>	<u>1,914,810</u>	<u>22,489,900</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Marshall County
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2004

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 10,793,207
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and therefore, are not reported in the funds, net of accumulated depreciation of \$65,296,091	50,483,003
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	188,670
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	
Long-term liabilities	(8,361,607)
Accrued interest on bonds	(28,256)
Total net assets - governmental activities (Exhibit 1)	\$ <u><u>53,075,017</u></u>

The accompanying notes and auditors' reports are integral parts of these statements.

Marshall County

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2004

	Major Funds				Other	Total
	General	Countywide	Gas Tax	Thomas	Governmental	Governmental
	Fund	Road	Sinking	& Betts	Funds	Funds
	Fund	Fund	Fund	Fund		
REVENUES						
Property taxes	\$ 5,427,636	3,635,496			349,353	9,412,485
Road and bridge privilege taxes		382,329				382,329
Licenses, commissions and other revenue	552,999					552,999
Fines and forfeitures	267,016				35,035	302,051
Special assessments					65,212	65,212
Intergovernmental revenues	922,880	621,481	161,594		696,184	2,402,139
Charges for services	396,085				304,682	700,767
Interest income	46,143	11,836	27,375	5,716	25,164	116,234
Miscellaneous revenues	204,777	4,646			8,925	218,348
Total Revenues	<u>7,817,536</u>	<u>4,655,788</u>	<u>188,969</u>	<u>5,716</u>	<u>1,484,555</u>	<u>14,152,564</u>
EXPENDITURES						
Current:						
General government	3,478,305				2,375	3,480,680
Public safety	2,733,513				794,620	3,528,133
Public works	559,319	4,096,687			277,739	4,933,745
Health and welfare	754,335					754,335
Culture and recreation	134,991				157,048	292,039
Education	50,000					50,000
Conservation of natural resources	73,904					73,904
Economic development and assistance	210,052				70,475	280,527
Debt service:						
Principal	98,841	396,674		400,000	475,377	1,370,892
Interest	10,654	35,615			218,132	264,401
Total Expenditures	<u>8,103,914</u>	<u>4,528,976</u>	<u>-0-</u>	<u>400,000</u>	<u>1,995,766</u>	<u>15,028,656</u>
Excess of Revenues over (under) Expenditures	<u>(286,378)</u>	<u>126,812</u>	<u>188,969</u>	<u>(394,284)</u>	<u>(511,211)</u>	<u>(876,092)</u>
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued	67,501	197,845				265,346
Proceeds from sale of capital assets		91,337				91,337
Compensation for loss of capital assets	8,361					8,361
Transfers in	72,780				270,769	343,549
Transfers out	(209,791)		(3,865)		(129,893)	(343,549)
Total Other Financing Sources and Uses	<u>(61,149)</u>	<u>289,182</u>	<u>(3,865)</u>	<u>-0-</u>	<u>140,876</u>	<u>365,044</u>
SPECIAL ITEM (TVA withdrawal)					(92,803)	(92,803)
Net Changes in Fund Balances	<u>(347,527)</u>	<u>415,994</u>	<u>185,104</u>	<u>(394,284)</u>	<u>(463,138)</u>	<u>(603,851)</u>
Fund Balances - Beginning	2,805,552	1,359,805	2,339,655		4,892,046	11,397,058
Prior period adjustment				3,359,669	(3,359,669)	-0-
Fund Balance - Beginning restated	<u>2,805,552</u>	<u>1,359,805</u>	<u>2,339,655</u>	<u>3,359,669</u>	<u>1,532,377</u>	<u>11,397,058</u>
Fund Balances - Ending	<u>\$ 2,458,025</u>	<u>1,775,799</u>	<u>2,524,759</u>	<u>2,965,385</u>	<u>1,069,239</u>	<u>10,793,207</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Marshall CountyExhibit 4-1**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2004**

Net changes in fund balances - total governmental funds (Exhibit 4) \$ (603,851)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$1,852,246 exceeded depreciation of \$1,524,171 in the current period. 328,075

In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the gain of \$5,235 and the proceeds from the sale and compensation from loss of \$94,811 in the current period. (89,576)

Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the statement of activities using the full-accrual basis of accounting. 66,633

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$1,370,892 exceeded debt proceeds \$265,346. 1,105,546

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:

The amount of decrease in compensated absences.	25,705
The amount of decrease in accrued interest payable.	1,216

Change in net assets of governmental activities (Exhibit 2) \$ 833,748

The accompanying notes and auditors' reports are integral parts of these statements.

Marshall County
Statement of Fiduciary Assets and Liabilities
September 30, 2004

Exhibit 5

		<u>Agency Funds</u>
ASSETS		
Cash	\$	788,745
Due from other funds		<u>87,850</u>
Total Assets	\$	<u><u>876,595</u></u>
LIABILITIES		
Claims payable and other accrued liabilities		8,719
Intergovernmental payables		256,755
Due to other funds		<u>611,121</u>
Total Liabilities	\$	<u><u>876,595</u></u>

The accompanying notes and auditors' reports are integral parts of these statements.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

- Marshall County Industrial Development Authority
- Marshall County Library
- Northwest Mississippi Consolidated District of Marshall, Tate and DeSoto Counties
- Oaklimiter Drainage District
- Tippah River Tri-County Drainage District

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

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

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

B. Basis of Presentation (Continued)

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 are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental 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. 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 programs 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. Funds are organized into governmental and fiduciary. Major individual governmental 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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

C. Measurement Focus and Basis of Accounting

The government-wide and fiduciary fund 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 assets used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

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 estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgements, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major governmental funds:

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

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

Gas Tax Sinking Fund – Accounts for monies from specific revenue that is restricted for road construction.

Thomas & Betts Fund – Accounts for resources accumulated and used for the payment of long-term debt principal, interest and related costs of borrowing used for Thomas & Betts industrial construction.

Additionally, the county reports the following fund types:

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

C. Measurement Focus and Basis of Accounting (Continued)

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 other, certain federal grant programs, taxes levied with statutorily defined distributions and other resources restricted as to purpose.

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

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

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.

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 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

E. Deposits and Investments (Continued)

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." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

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 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.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

H. Capital Assets (Continued)

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

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

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

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

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, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

J. Equity Classifications

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

K. Property Tax Revenues

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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

Therefore, the county's full liability in the amount of \$292,787 for accumulated unpaid personal leave up to a maximum of 20 days per employee payable from the Governmental Funds is reported as a liability in the Statement of Net Assets.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(2) Fund Reclassification

Thomas & Betts fund's beginning fund balance of \$3,359,669 was reclassified from the Special Revenue Funds to a beginning fund balance in the Debt Service Fund to separately account for the Loans Receivable and Long-term Debt associated only with Thomas & Betts.

(3) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

Exhibit 2 – Statement of Activities

Explanation	Amount
Capital assets	\$ 4,506,839
Total prior period adjustment	\$ 4,506,839

Adjustment to capital assets required to increase beginning balances of capital assets by a net amount of \$4,506,839 due to errors in prior year ending balances.

(4) Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2004, was \$7,658,373 and the bank balance was \$9,218,762. 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 a 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 Deposit Insurance Corporation.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(5) Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 106,430
General Fund	Agency Funds	353,329
Countywide Road	General Fund	117,456
Countywide Road	Agency Funds	206,032
Thomas & Betts	Agency Funds	51,441
Other Governmental Funds	General Fund	7,685
Other Governmental Funds	Other Governmental Funds	2,616
Other Governmental Funds	Agency Funds	319
Agency Funds	General Fund	87,850
Total		<u>\$ 933,158</u>

The payables from the General Fund represent the tax revenue collected but not settled until October 2004. The payables from Nonmajor Governmental funds represent reimbursement for supplies purchased for the walking track capital project and a temporary loan for the Homeland Security grant. The payable from the Agency Funds is for monies held in the Treasurer Fund for miscellaneous settlements not disbursed to the proper funds including tax collector revenues, redemption collections and various state revenues. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 72,780
Other Governmental Funds	General Fund	209,791
Other Governmental Funds	Gas Tax Sinking Fund	3,865
Other Governmental Funds	Other Governmental Funds	57,113
Total		<u>\$ 343,549</u>

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(5) Interfund Transactions and Balances (Continued)

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

(6) Intergovernmental Receivables

Intergovernmental receivables at September 30, 2004 consisted of the following:

Governmental Activities:

Description	Amount
Legislative tag credit	\$ 144,469
Community development block grant	56,330
Homeland Security grant	81,803
Reimbursement for Victim's Assistance	34,236
Reimbursement for housing prisoners	26,240
State aid road	11,513
Motor vehicle fuel tax	23,122
Other	437
Total Governmental Activities	<u>378,150</u>

(7) Loans Receivable

Loans receivable balances at September 30, 2004, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Balance Payable
Thomas & Betts MBIA loan	12/95	0	12/10	\$ 2,800,000
Thomas & Betts infrastructure loan	12/96	5.25	3/06	113,944
Lighthouse Plastics, LLC loan	10/02	3.00	12/17	568,853
MC 28 subdivision special assessment	1/95	5.90	1/05	29,598
MC 29 subdivision special assessment	7/95	5.65	7/05	8,363
MC 34 subdivision special assessment	9/98	5.00	9/08	13,043
MC Hillview subdivision special assessment	11/97	5.00	11/07	21,700
Total				<u>3,555,501</u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(8) Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2004:

Governmental activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments	Balance Sept. 30, 2004
<u>Non-depreciable capital assets</u>					
Land	\$ 681,338				681,338
Construction in progress	234,411	70,475		(202,819)	102,067
Total non-depreciable capital assets	<u>915,749</u>	<u>70,475</u>	<u>-0-</u>	<u>(202,819)</u>	<u>783,405</u>
<u>Depreciable capital assets</u>					
Infrastructure	94,353,442	1,311,721		4,740,244	100,405,407
Buildings	7,723,651				7,723,651
Mobile equipment	3,760,801	316,808	(614,464)	232,867	3,696,012
Furniture and equipment	336,850	85,741		119,099	541,690
Leased property under capital leases	2,953,000	67,501		(391,572)	2,628,929
Total depreciable assets	<u>109,127,744</u>	<u>1,781,771</u>	<u>(614,464)</u>	<u>4,700,638</u>	<u>114,995,689</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	58,289,312	714,760			59,004,072
Buildings	2,054,942	151,361			2,206,303
Mobile equipment	2,778,318	302,931	(524,888)	110,652	2,667,013
Furniture and equipment	262,795	29,592		129,042	421,429
Leased property under capital leases	920,461	325,527		(248,714)	997,274
Total accumulated depreciation	<u>64,305,828</u>	<u>1,524,171</u>	<u>(524,888)</u>	<u>(9,020)</u>	<u>65,296,091</u>
Total depreciable capital assets, net	<u>44,821,916</u>	<u>257,600</u>	<u>(89,576)</u>	<u>4,709,658</u>	<u>49,699,598</u>
Governmental activities capital assets, net	<u>\$ 45,737,665</u>	<u>328,075</u>	<u>(89,576)</u>	<u>4,506,839</u>	<u>50,483,003</u>

Adjustments were required to increase capital assets due to misstatements of beginning account balances, payoff of capital leases and completed construction.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(8) Capital Assets (Continued)

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 179,026
Public safety	335,099
Public works	1,005,154
Health and welfare	2,108
Culture and recreation	<u>2,784</u>
Total governmental activities depreciation expense	<u>\$ 1,524,171</u>

As of September 30, 2004, the county had the following commitments with respect to unfinished capital projects:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Walking Tracks	\$ 72,020	June, 2006
Old MS Brick Access Road	288,190	March, 2006

(9) Claims and Judgements

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 \$500,000 for law enforcement personnel, fire fighters and road construction personnel and \$400,000 for all other employees for each accident and completely covers statutory limits set by 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, 2004, to January 1, 2005. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(10) Capital Leases

As Lessee:

The county is obligated for the following assets acquired through capital leases as of September 30, 2004:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Building	\$ 190,000
Mobile equipment	2,532,969
Other furniture and equipment	<u>103,805</u>
Total	2,826,774
Less: Accumulated Depreciation	<u>1,015,080</u>
Leased Property Under Capital Lease	<u><u>\$ 1,811,694</u></u>

The following is a schedule by years of the total payments due as of September 30, 2004:

Year Ending September 30,	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 551,101	35,488
2006	318,412	16,691
2007	138,919	8,184
2008	72,543	7,449
2009	15,490	3,148
2010-2014	<u>47,075</u>	<u>3,648</u>
Total	<u><u>\$ 1,143,540</u></u>	<u><u>74,608</u></u>

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(11) Long-term Debt

Debt outstanding as of September 30, 2004, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Building bonds	\$ 25,000	10.0	4/05
Justice complex	<u>3,255,000</u>	4.5-6.0	9/17
Total General Obligation Bonds	<u>\$ 3,280,000</u>		
B. Special Assessment Debt with Governmental Commitment:			
Marshall County 28 subdivision paving debt service	\$ 36,500	5.90	1/05
Marshall County 29 subdivision paving	10,422	5.65	7/05
Marshall County 34 Pine Hill subdivision	17,000	4.5-5.0	9/08
Marshall County Hill View subdivision	<u>25,200</u>	5.0	11/07
Total Special Assessment Debt	<u>\$ 89,122</u>		
C. Capital Leases:			
4 Caterpillar backhoes	\$ 20,111	5.26	3/05
4 Caterpillar 12H motor graders	164,551	5.69	12/05
Caterpillar backhoe loader	22,533	5.09	6/06
Enhanced 911 system	42,724	4.75	9/06
Fire Truck - Victoria	67,734	3.74	12/06
2002 Chevrolet Blazer	2,366	3.89	1/05
Fire Truck - Mt. Pleasant/Slayden	70,135	3.74	1/07
Fire Truck - Red Banks	70,135	3.74	1/07
Fire Truck - Waterford	72,529	3.74	1/07
2002 Dodge pickup	3,616	3.89	2/05
2002 Ford Crown Victoria	5,146	3.92	1/07
Excavator/Vib Roller/Pneumatic Roller	72,916	3.75	8/05
Tax Collector Building	116,676	5.5	7/12
2003 Ford Crown Victoria	12,959	2.985	9/06
2003 Ford Crown Victoria	12,959	2.985	9/06
2003 Ford Crown Victoria	8,678	3.64	11/05
2003 Ford Crown Victoria	8,495	3.56	12/05
John Deere tractor/New Holland tractor	54,153	3.75	2/06
Volvo tractor	57,328	3.07	6/08

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(11) Long-term Debt (Continued)

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
Governmental Activities:			
C. Capital Leases:			
4 John Deere tractors	197,138	3.07	7/08
2004 3/4 ton Dodge	23,286	2.985	4/07
2004 Dodge Ram	18,241	3.03	5/07
2004 Ford Crown Victoria	19,131	3.03	7/07
	<u>\$ 1,143,540</u>		
D. Other Loans:			
Thomas & Betts debt	\$ 2,800,000	0	12/10
MS Development Authority-CAP loan	568,853	3.00	12/17
New CAT dozer	187,305	3.02	6/09
	<u>\$ 3,556,158</u>		

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

Governmental Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2005	\$ 205,000	161,265	467,933	21,790
2006	185,000	150,665	470,006	19,718
2007	200,000	142,155	472,142	17,581
2008	210,000	132,955	474,343	15,380
2009	220,000	123,085	494,431	12,943
2010-2014	1,295,000	441,780	1,022,508	40,602
2015-2019	965,000	98,250	154,795	7,463
Total	<u>\$ 3,280,000</u>	<u>1,250,155</u>	<u>3,556,158</u>	<u>135,477</u>

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(11) Long-term Debt (Continued)

Year Ending September 30,	Special Assessment	
	Principal	Interest
2005	56,622	4,852
2006	9,700	1,625
2007	9,700	1,140
2008	13,100	825
Total	89,122	8,442

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, 2004, the amount of outstanding debt was equal to 4.24% of the latest property assessments.

Special Assessment Debt with Commitments - The county issued special assessment bond issues totaling \$602,000. The debt was issued to provide funds for the paving of subdivision roads. The bonds are secured by the full faith and credit of the county. The county levied a special assessment tax upon all taxable property in the benefited areas. The tax is adequate and sufficient to provide for the payment of the principal and interest on the bonds.

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(11) Long-term Debt (Continued)

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Reductions	Adjustments	Balance Sept. 30, 2004	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 318,492		25,705		292,787	
General obligation bonds	3,475,000		195,000		3,280,000	205,000
Special assessment debt with governmental commitment	143,557		54,435		89,122	56,622
Capital leases	1,701,971	67,501	625,932		1,143,540	551,101
Other loans	3,853,838	197,845	495,525		3,556,158	467,933
Totals	<u>9,492,858</u>	<u>265,346</u>	<u>1,396,597</u>	<u>-0-</u>	<u>8,361,607</u>	<u>1,280,656</u>

(12) Contingencies

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

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

**MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

(13) Joint Ventures

The county participates in the following joint venture:

Marshall County is a participant with the City of Holly Springs in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Marshall County-Holly Springs Airport Authority. The joint venture was created to provide a governing authority for the airport facilities in Marshall County and is governed by a five-member board of commissioners. The board of commissioners is appointed as follows: Marshall County, two; City of Holly Springs, two; joint, one. The county did not appropriate any funds to the joint venture in fiscal year 2004.

(14) Jointly Governed Organizations

The county participates in the following jointly governed organizations:

Communicare operates in a district composed of the Counties of Calhoun, DeSoto, Lafayette, Marshall, Panola, Tate and Yalobusha. The Marshall County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$40,517 for support of the district in fiscal year 2004.

Northwest Mississippi Community College operates in a district composed of the Counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The Marshall County Board of Supervisors appoints two of the 23 members of the college board of trustees. The county appropriated \$669,304 for maintenance and support of the college in fiscal year 2004.

Northeast Mississippi Planning and Development District is composed of the Counties of Alcorn, Benton, Marshall, Prentiss, Tippah and Tishomingo. The Marshall County Board of Supervisors appoints four of the 24 members of the board of directors. The county appropriated \$15,000 for support of the district in fiscal year 2004.

(15) Defined Benefit Pension Plan

Plan Description. Marshall 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.

MARSHALL COUNTY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(15) Defined Benefit Pension Plan (Continued)

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the county is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2004, 2003, and 2002, were \$442,670, \$437,236, and \$404,413, respectively, equal to the required contributions for each year.

(16) Subsequent Events

Subsequent to September 30, 2004, Marshall County issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
9/22/2005	3.33	23,503	Lease purchase	General Fund
9/22/2005	3.33	23,503	Lease purchase	General Fund

(17) Special Item

The county closed out the TVA fund by transferring the remaining cash balance directly to TVA by wire transfer of funds.

REQUIRED SUPPLEMENTARY INFORMATION

Marshall County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 5,588,270	5,588,270	5,449,091	(139,179)
Licenses, commissions and other revenue	419,000	431,000	377,045	(53,955)
Fines and forfeitures	192,000	192,000	261,210	69,210
Intergovernmental revenues	545,000	545,000	695,657	150,657
Charges for services	175,000	175,000	459,845	284,845
Interest income	103,500	103,500	27,036	(76,464)
Miscellaneous revenues	356,000	356,000	243,610	(112,390)
Total Revenues	7,378,770	7,390,770	7,513,494	122,724
EXPENDITURES				
Current:				
General government	4,136,700	4,007,833	3,499,994	507,839
Public safety	3,032,500	2,823,502	2,677,361	146,141
Public works	440,500	602,259	595,268	6,991
Health and welfare	784,517	772,010	757,371	14,639
Culture and recreation	106,000	142,807	134,972	7,835
Education	50,000	50,000	50,000	-0-
Conservation of natural resources	99,000	87,158	73,265	13,893
Economic development and assistance	238,100	216,140	210,052	6,088
Debt service:				
Principal			109,499	(109,499)
Interest				
Total Expenditures	8,887,317	8,701,709	8,107,782	593,927
Excess of Revenues over (under) Expenditures	(1,508,547)	(1,310,939)	(594,288)	716,651
OTHER FINANCING SOURCES (USES)				
Compensation for loss of capital assets			8,834	8,834
Transfers in			80,222	80,222
Transfers out		(225,000)	(209,791)	15,209
Total Other Financing Sources and Uses	-	(225,000)	(120,735)	104,265
Net Change in Fund Balance	(1,508,547)	(1,535,939)	(715,023)	820,916
Fund Balances - Beginning	1,366,034	2,756,435	2,756,435	-0-
Fund Balances - Ending	\$ (142,513)	1,220,496	2,041,412	820,916

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

Marshall County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Countywide Road Maintenance
For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 4,000,000	3,687,677	3,687,677	-0-
Road and bridge privilege taxes	315,000	315,000	147,932	(167,068)
Intergovernmental revenues	451,000	403,562	570,629	167,067
Interest income	20,000	11,740	11,739	(1)
Miscellaneous revenues		19,005	19,004	(1)
Total Revenues	<u>4,786,000</u>	<u>4,436,984</u>	<u>4,436,981</u>	<u>(3)</u>
EXPENDITURES				
Current:				
Public works	5,145,000	4,191,864	3,970,932	220,932
Debt service:				
Principal		457,000	432,289	24,711
Total Expenditures	<u>5,145,000</u>	<u>4,648,864</u>	<u>4,403,221</u>	<u>245,643</u>
Excess of Revenues over (under) Expenditures	<u>(359,000)</u>	<u>(211,880)</u>	<u>33,760</u>	<u>245,640</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets		91,337	91,337	-0-
Total Other Financing Sources and Uses	<u>-0-</u>	<u>91,337</u>	<u>91,337</u>	<u>-0-</u>
Net Change in Fund Balance	(359,000)	(120,543)	125,097	245,640
Fund Balances - Beginning	1,456,689	1,365,122	1,365,122	-0-
Fund Balances - Ending	<u>\$ 1,097,689</u>	<u>1,244,579</u>	<u>1,490,219</u>	<u>245,640</u>

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

Marshall County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Gas Tax Sinking Fund
For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenue	103,000	168,000	166,310	(1,690)
Interest income	30,000	18,000	15,812	(2,188)
Total Revenues	<u>133,000</u>	<u>186,000</u>	<u>182,122</u>	<u>(3,878)</u>
EXPENDITURES				
Current:				
Total Expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>133,000</u>	<u>186,000</u>	<u>182,122</u>	<u>(3,878)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out		(5,000)	(3,865)	1,135
Total Other Financing Sources and Uses	<u>-0-</u>	<u>(5,000)</u>	<u>(3,865)</u>	<u>1,135</u>
Net Change in Fund Balance	133,000	181,000	178,257	2,743
Fund Balances - Beginning	2,230,722	2,235,747	2,235,747	-0-
Fund Balances - Ending	<u>\$ 2,363,722</u>	<u>2,416,747</u>	<u>2,414,004</u>	<u>2,743</u>

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

MARSHALL COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2004

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).

MARSHALL COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2004

C. Budget/GAAP Reconciliation (Continued)

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

	Governmental Fund Types		
	General Fund	Countywide Road Fund	Gas Tax Sinking Fund
Budget (Cash Basis)	(715,023)	125,097	178,257
Increase (Decrease)			
Net adjustments for revenue accruals	267,360	218,807	6,847
Net adjustments for expenditure accrual:	100,136	72,090	
GAAP Basis	<u>(347,527)</u>	<u>415,994</u>	<u>185,104</u>

SPECIAL REPORTS

J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors
Marshall County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Marshall County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the County's basic primary government financial statements and have issued our report thereon dated December 12, 2005. The auditors' report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Marshall County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 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 Marshall County, Mississippi, in our Limited Internal Control and Compliance Review Management Report dated December 12, 2005, included within this document.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Marshall County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect Marshall County, Mississippi's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying Schedule of Findings as item 04-1.

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

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

Tupelo, Mississippi
December 12, 2005

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in dark ink and is positioned to the right of the date and location text.

J.E. VANCE & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' 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
Marshall County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Marshall County, Mississippi, as of and for the year ended September 30, 2004. 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 Marshall 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 Marshall 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, Marshall 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 Marshall 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.

Tupelo, Mississippi
December 12, 2005

J E Vance & Company

Marshall County
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2004

Schedule 1

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other Than the Lowest Bid</u>
5/18/2004	Caterpillar D6RXW dozer	\$ 197,845	Thompson Caterpillar	\$ 167,000	Overall resale value and day-to-day use of equipment

**Marshall County
Schedule of Emergency Purchases
For the Year Ended September 30, 2004**

Schedule 2

Our test results did not identify any emergency purchases.

Marshall County
Schedule of Purchases Made Noncompetitively from a Sole Source
for the Year Ended September 30, 2004

Schedule 3

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

SCHEDULE OF FINDINGS

**MARSHALL COUNTY
SCHEDULE OF FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

Section 1: Summary of Auditors' Results

Financial Statements:

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

Section 2: Financial Statement Findings

04-1 Finding

The county is not properly accounting for construction of infrastructure.

Recommendation

The county should implement effective procedures for compiling financial data for capitalization of infrastructure.

Response

The County will implement effective procedures for compiling financial data for capitalization of infrastructure.

J.E. VANCE & COMPANY, P.A.

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Marshall County, Mississippi

In planning and performing our audit of the financial statements of Marshall County, Mississippi for the year ended September 30, 2004, we considered Marshall 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. Our opinions on the financial statements have been previously submitted to you in a separately issued document dated December 12, 2005.

In addition, for areas not considered material to Marshall 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. The fieldwork for these review procedures and tests was completed on December 12, 2005. Our procedures and tests were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 12, 2005, on the financial statements of Marshall County, Mississippi.

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

Senate Bill 2857, passed in the 2001 Regular Session, effective March 29, 2001, allows the Board of Supervisors to acquire one or more credit cards which may be used by members of the Board of Supervisors and county employees to pay expenses incurred by them when traveling in or out of the state in the performance of their official duties. Detailed records of all authorized cards are to be kept by the Chancery Clerk or Purchase Clerk. No such records are kept by any one person.

Recommendation

The Chancery Clerk or Purchase Clerk should have a complete record of each credit card and the receipts associated with each and present a monthly report to the Board of Supervisors.

Board of Supervisors' Response

The Chancery Clerk or Purchase Clerk will maintain a complete record of each credit card and the receipts associated with each. A monthly report will be made to the Board of Supervisors.

2. Finding

Mineral lease collections are to be settled by the 15th day of the next month with the Chancery Clerk retaining 5% and the remainder distributed equally to the General County fund and the county schools.

Recommendation

Proceeds from mineral leases should be settled properly with the Chancery Clerk retaining 5% and the remaining settled half to the general county fund and half to the county schools.

Response

Proceeds from mineral leases will be settled properly with the Chancery Clerk retaining 5% and the remaining settled half to the General County Fund and half to the County schools.

3. Finding

Section 23-15-153 Miss. Code Ann. (1972) states that Election Commissioners shall receive \$70 per day actually employed in the performance of their duties in the conduct of an election or actually employed in the performance of their duties in the revision of the registration books and pollbooks, subject to annual limitations. This year the number of days was to be limited to 100 days with 35 additional days for more than one election. Two Election Commissioners had 138 and 140 days.

Recommendation

Election Commissioners should not be compensated for more than the annual limited days allowed.

Response

Days worked by Election Commissioners will be closely monitored to insure that days worked do not exceed legal limits.

4. Finding

The audit program outlines three requirements for the county regarding collateralization of funds. The first requirement is to reconcile quarterly reports received from the State Treasurer's Office to their bank records. There is no documentation for this step for each quarter of the fiscal year. The second requirement is that the county notify the appropriate bank officials when increases in deposits exceeding 25% of the average daily balance. There is no documentation that the county completed this step. The final requirement is that the county send the required report of its deposit accounts by bank by October 31st to the State Treasurer. There is no documentation that this step was completed.

Recommendation

The county should be reconciling the Treasurer's reports quarterly, notifying bank officials when increases in deposits exceed 25% of the average balance and sending the required report of its deposit accounts by bank to the State Treasurer by October 31.

Response

The County will reconcile the Treasurer's reports quarterly and notify bank officials when increases in deposits exceed 25% of the average balance. The required report of deposit accounts by bank will be sent to the State Treasurer by October 31.

5. Finding

Monies sent to the county required to be distributed to municipalities and schools were not remitted to those parties until September 30, 2005.

Recommendation

Monies should be settled to the schools and municipalities as applicable in a timely manner.

Response

Monies will be settled to the schools and municipalities in a timely manner.

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

December 12, 2005

A handwritten signature in black ink that reads "J.E. Vance & Company". The signature is written in a cursive, flowing style.