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**DESOTO COUNTY, MISSISSIPPI
AUDITED PRIMARY GOVERNMENT FINANCIAL
STATEMENTS AND SPECIAL REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006**

DESOTO COUNTY, MISSISSIPPI
ANNUAL FINANCIAL REPORT
Year Ended September 30, 2006

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FINANCIAL SECTION

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

Members of the Board of Supervisors
DeSoto County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeSoto 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 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 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 DeSoto 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 DeSoto 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, each major fund and the aggregate remaining fund information for the primary government of DeSoto County, Mississippi, as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2007 on our consideration of DeSoto 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.

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 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.

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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

March 27, 2007

MANAGEMENT'S DISCUSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

The discussion and analysis of DeSoto County Board of Supervisors' 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. Information contained in this section is qualified by the more detailed information contained elsewhere in this county's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the county's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

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 September 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased from \$94,682,294 in the 2005 fiscal year to \$105,857,029 in the 2006 fiscal year, which represents an 11.8% increase from fiscal year 2005.
- General revenues account for \$48,435,713 in revenue, or 84% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$9,271,321 or 16% of total revenues. Total revenues for the County were \$57,707,034.
- The County had \$47,166,993 in expenses; only \$9,271,321 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$48,435,713 were more than adequate to provide for the balance of these expenses.
- Among major funds, the General Fund had \$32,710,615 in revenues and \$29,871,208 in expenditures. The General Fund's fund balance increased \$2,839,407 over the prior year. The increase in fund balance was the result of several factors. General Fund revenues increased 8.6%, which was higher than anticipated during the development of the 2006 fiscal year budget due to the growth of the assessed values from the 2005 to the 2006 fiscal year. Interest income increased due to larger cash balances on hand and higher interest rates on funds available.
- Among major funds, County Wide Road Maintenance had \$5,680,105 in revenues and expenditures of \$7,267,955. The increase in expenditures over the 2005 fiscal year was due, in great part, to timing of road projects that may have begun in the 2005 fiscal year but not finished and paid for until the 2006 fiscal year.
- Among major funds, the 2004 Construction Fund had \$691,445 in revenues and \$7,580,799 in expenditures. These funds were the proceeds of a bond issue and the majority of the proceeds were still on hand at the beginning of the 2006 fiscal year. The proceeds are to be used for various capital projects in the county to improve the roadways and build new buildings to serve the citizens of the county.

- Among major funds, the Bridge and Culvert Fund had \$6,497,713 in revenues and \$5,776,185 in expenditures in the 2006 fiscal year. The Bridge and Culvert fund balance increased \$721,528 over the prior year. This was due, mainly to the increase in revenues and the good management of the revenues by the road department.
- Capital assets, net of accumulated depreciation, increased by \$9,753,778. The increase in capital assets was mainly due to the addition of new assets and a large amount of construction in progress on buildings and roads.
- Long-term debt decreased by \$4,684,677. This was due to principal payments being made on the outstanding debt issues that reduced the amounts due. Also, one lease purchase was paid off early.

OVERVIEW OF 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 financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all the County's 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 the County's 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 only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the County that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the County include general government; public safety; public works (road and bridges); health and welfare; culture and recreation; education; economic development; and interest on long-term debt. The business-type activities of the County are for the self-funded health insurance plan for county employees.

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

- DeSoto County, Mississippi Port Commission
- Walls Sewer District
- DeSoto County, Mississippi Regional Utility Authority
- DeSoto County Emergency Communications District
- DeSoto County Civic Center

The government-wide financial statements can be found on pages 12 – 13 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 compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental 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 fund financial statements focus on current 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 the County's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. Governmental Funds Statements provide a detailed short-term view of the county's operations.

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 County's current financing decisions. Both the governmental fund balance sheet and the governmental fund 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 15 and 18, 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 fund balance sheet and in the governmental fund 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 fund financial statements can be found on pages 14-18 of this report.

The Proprietary fund is maintained in two ways. The Internal service fund is an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses an internal service fund to account for its self-funded health insurance plan for county employees. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Fund financial statements for the proprietary fund provide the same type of information as the government-wide financial statements, only in more detail. The self-funded health insurance fund is considered to be a major fund of the County. The proprietary fund financial statements can be found on pages 19-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the County. Fiduciary funds are not reflected in the government-wide financial statements because 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 separate Statements of Fiduciary Net Assets on page 22.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-39 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 40-44 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on pages 45-46 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 DeSoto County, assets exceeded liabilities by \$105,857,029 as of September 30, 2006.

The largest portion of the County's net assets (55%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress, less any related debt used to acquire those assets that is still outstanding). The County uses these capital assets to provide services to its citizens; consequently these assets are not available for future spending.

The County's financial position is a product of several financial transactions including the net result of activities, the 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 and 2005. Current assets increased by \$9,682,793 primarily due to the increase in property values, and the large amount of construction in progress at September 30, 2006.

	<u>2006</u>	<u>2005</u>
Assets:		
Current assets	\$ 97,984,471	\$ 98,055,456
Capital assets, net	121,107,301	111,353,523
Total assets	<u>\$ 219,091,772</u>	<u>\$ 209,408,979</u>
Liabilities:		
Current liabilities	\$ 45,027,834	\$ 41,835,099
Long-term liabilities	68,206,909	72,891,586
Total liabilities	<u>\$ 113,234,743</u>	<u>\$ 114,726,685</u>
Net assets:		
Invested in capital assets, net of related debt	\$ 41,917,176	\$ 38,653,410
Restricted	25,095,880	30,786,939
Unrestricted	38,843,973	25,241,945
Total net assets	<u>\$ 105,857,029</u>	<u>\$ 94,682,294</u>

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

- The county paid off a significant amount of the outstanding debt which reduced the liability of the county.
- The claims payable decreased by 32% and the deferred revenue increased by 9% due to the increases in property taxes receivable,
- The construction of the juvenile detention facility and numerous road projects resulted in additions to capital assets.

Changes in net assets. The County's total revenues for the fiscal year ended September 30, 2006 were \$57,707,034. The total cost of all programs and services was \$47,166,993. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
Revenues:		
Program revenues		
Charges for services	\$ 4,666,517	\$ 5,346,615
Federal and state grants	4,604,804	5,910,082
General revenues		
Property taxes	39,353,587	36,735,975
Grants and contribution not restricted to specific programs	2,922,484	
Road and bridge privilege taxes	1,789,728	1,699,645
Interest Income	1,884,561	1,327,464
Miscellaneous	<u>2,485,353</u>	<u>1,908,878</u>
Total Revenues	<u>57,707,034</u>	<u>52,928,659</u>
Expenses:		
General government	12,259,210	10,837,727
Public safety	16,330,711	14,997,492
Public works	12,344,394	16,900,901
Health and welfare	1,486,350	1,467,917
Culture and recreation	1,266,109	1,184,446
Education	10,800	10,800
Conservation of natural resources	473,118	469,335
Economic development	82,337	103,043
Interest on long term debt	<u>2,913,964</u>	<u>2,864,335</u>
Total Expenses	<u>47,166,993</u>	<u>48,835,996</u>
Change in Net Assets	<u>\$ 10,540,041</u>	<u>\$ 4,092,663</u>

Governmental activities. The following table presents the cost of ten major County functional activities: general government, public safety, public works, health & welfare, culture and recreation, education, conservation and natural resources, economic development, capital projects, and interest on long term debt. The table also shows each activity's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific activities). The net cost shows the financial burden that was placed on the county's taxpayers by each of these activities.

	<u>2006</u>	<u>2006</u>	<u>2005</u>	<u>2005</u>
	<u>Total</u>	<u>Net (Expense)</u>	<u>Total</u>	<u>Net</u>
	<u>Expenses</u>	<u>Revenue</u>	<u>Expenses</u>	<u>(Expense)</u>
				<u>Revenue</u>
General government	\$12,259,210	\$ (9,241,044)	\$10,837,727	\$(5,734,190)
Public safety	16,330,711	(11,088,803)	14,997,492	(9,783,193)
Public works	12,344,394	(11,427,099)	16,900,901	(16,028,915)
Health and welfare	1,486,350	(1,392,398)	1,467,917	(1,401,042)
Culture and recreation	1,266,109	(1,266,109)	1,184,446	(1,184,446)
Education	10,800	(10,800)	10,800	(10,800)
Conservation of natural resources	473,118	(473,118)	469,335	(469,335)
Economic development	82,337	(82,337)	103,043	(103,043)
Capital Projects				
Interest on long term debt	<u>2,913,964</u>	<u>(2,913,964)</u>	<u>2,864,335</u>	<u>(2,864,335)</u>
Total Expenses	<u>\$47,166,993</u>	<u>\$ (37,895,672)</u>	<u>\$48,835,996</u>	<u>\$(37,579,299)</u>

In 2006, the net cost of governmental activities (\$37,895,672), was financed by general revenue, which is made up primarily of property taxes totaling \$39,353,587. In 2005, property taxes were \$36,735,975 of the general revenue of \$41,671,962.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

As noted earlier, the County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the County's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the County's net resources available for spending at the end of the fiscal year.

The financial performance of the County as a whole is reflected in its governmental funds. As the County completed the year, its governmental funds reported a combined fund balance of \$49,194,258, a decrease of \$3,733,794 due primarily to:

- An increase in property tax revenues and interest income for fiscal year 2006
- A decrease in fines and forfeitures
- An increase in intergovernmental revenues

- An increase in general government expenditures and principal retirement expenditures
- An increase in interest and fiscal charges for long-term debt
- An increase in expenditures for road and bridge construction and maintenance
- An increase in the expenditures for capital projects in the bond proceeds fund, which used existing funds carried over from the 2005 fiscal year
- An increase in the beginning fund balances from funds carried over from the 2005 fiscal year in the road maintenance and bridge and culvert funds

The General Fund is the principal operating fund of the County. The increase in fund balance in the General Fund for the fiscal year was \$2,409,489 largely due to an increase from the 2005 fiscal year in the excess of revenues over expenditures.

BUDGETARY HIGHLIGHTS

Over the course of the year, the County revised the annual operating budget.

- Budget amendments were made mainly to increase expenditures for additional personnel and infrastructure necessary to provide services to DeSoto County residents in the 2006 fiscal year. There were some amendments for public safety purposes to ensure the safety and security of the citizens of DeSoto County. In the road maintenance, bridge and culvert, and the 2004 construction funds the budget amendments were made for building projects to improve the existing facilities and build additional facilities to serve DeSoto County citizens and to improve the roads for future needs in transportation throughout the county.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

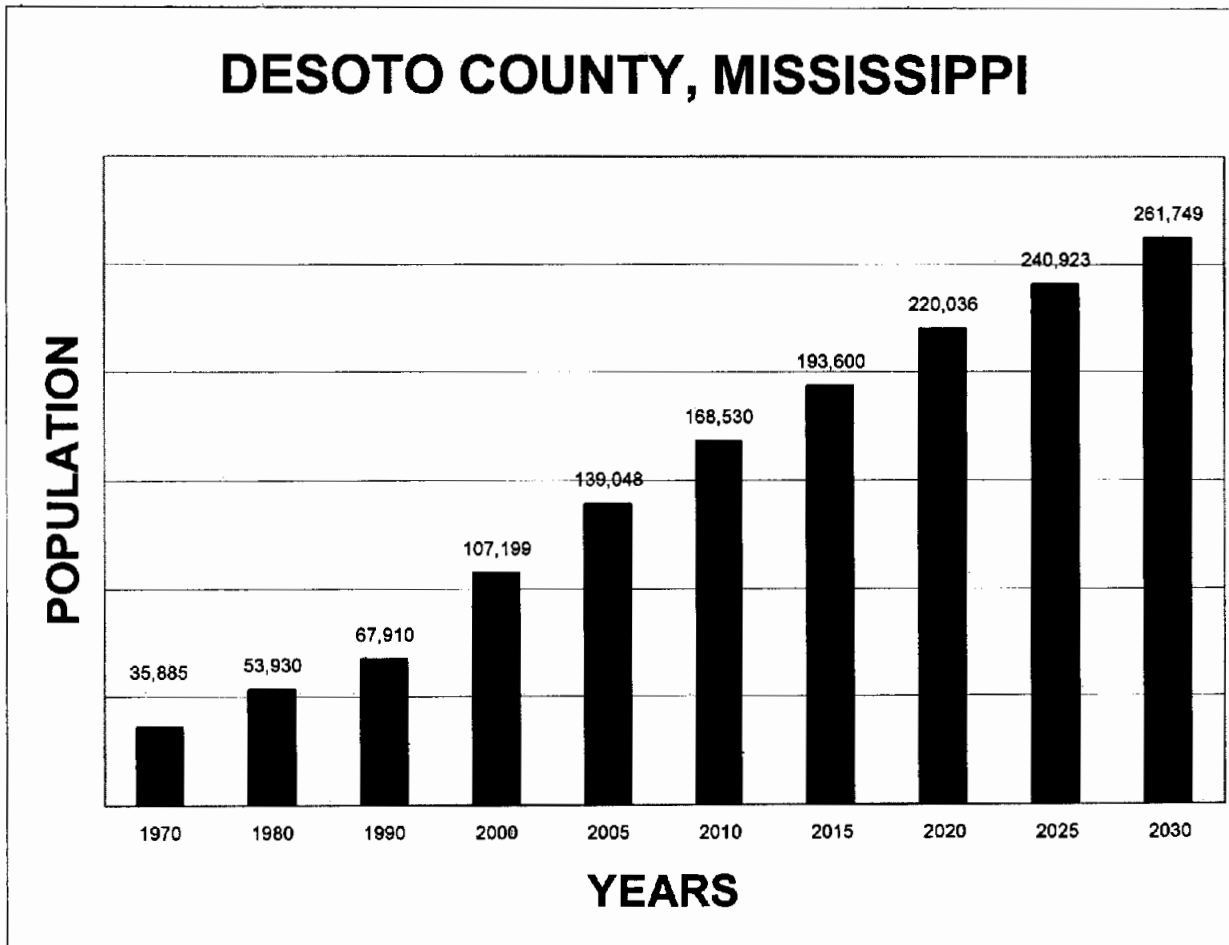
Capital Assets. As of September 30, 2006, the County's total capital assets were \$121,107,301, including buildings, improvements other than buildings, infrastructure, leased property under capital leases, and furniture and equipment. This amount represents an increase of \$9,753,778 from the previous year. The increase in capital assets is mainly due to the construction of the road maintenance building and the juvenile detention facility and various infrastructure projects. Total accumulated depreciation as of September 30, 2006 was \$59,321,973 and total depreciation expense for the year was \$5,867,703. Additional information on the County's capital assets can be found in Note 8 of this report.

Debt Administration. At September 30, 2006, the County had \$68,206,909 in general obligation bonds and other long-term debt outstanding, of which \$5,050,860 is due within one year. Funds in both debt retirement accounts are adequate to cover FY2006 payments.

The County maintains a AA- bond rating from Standard & Poors and a Aa3 rating from Moody's Investors. Additional information of the County's long-term debt can be found in Note 11 of this report.

CURRENT ISSUES

The DeSoto County Board of Supervisors is financially stable and has accomplished this by committing itself to financial excellence for many years. DeSoto County has been experiencing phenomenal growth over the past several years, and the trend is for even greater growth for the next several years. The County's population has grown over the past 30 years and that growth is expected to continue as follows:



Between seven and ten companies located to DeSoto County each year. The county averages 12 industrial expansions annually. Unemployment is at 3 percent, the lowest in the state of Mississippi. This growth has been complimented by conservative, yet progressive leadership. The catalyst of the growth may be a strong school system and a pro-active leadership from the Board of Supervisors that has allowed the county to keep millage low.

	General County	Road/Bridge	Debt Svc.	Solid Waste	EMS	TOTAL
1991	18.00	6.00	11.05	2.00	0.50	37.55
1992	19.25	6.25	9.40	2.00	0.50	37.40
1993	20.25	6.25	8.60	2.00	0.50	37.60
1994	20.75	6.25	8.60	2.00	0.50	38.10
1995	22.59	6.25	8.00	2.00	0.50	39.34
1996	22.59	6.25	7.20	2.00	0.50	38.54
1997	22.59	7.04	5.75	2.00	0.50	37.78
1998	22.59	7.04	5.75	2.00	0.50	37.88
1999	22.09	8.39	5.45	2.00		37.93
2000	21.10	8.39	5.98	2.25		37.72
2001	22.74	8.39	5.65	2.25		39.03
2002	23.21	8.39	5.00	2.03		38.63
2003	23.84	8.39	4.31	2.09		38.63
2004	23.89	8.34	3.72	2.07		38.02
2005	23.95	8.34	6.22	2.07		40.58
2006	23.78	8.84	5.83	1.57		40.02
2007	24.28	8.84	5.58	1.32		40.02

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Comptroller's Office of the DeSoto County Board of Supervisors, 365 Loshier Street, Suite 320, Hernando, MS 38632 .

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

DESOTO COUNTY, MISSISSIPPI
Statement of Net Assets
September 30, 2006

Exhibit 1

	Governmental Activities
ASSETS:	
Cash	\$ 47,752,123
Property tax receivable	40,305,080
Fines receivable, net of allowances for uncollectable amounts of \$1,345,699	735,577
Loans receivable	7,594,614
Intergovernmental receivables	973,845
Other receivables	102,461
Bond issue cost	520,771
Capital assets:	
Land and construction in progress	11,286,737
Other capital assets, net	109,820,564
Total Assets	<u>\$ 219,091,772</u>
LIABILITIES:	
Claims payable	\$ 1,085,939
Liabilities payable from restricted assets	302,503
Retainage payables	357,677
Intergovernmental payables	2,580,723
Accrued interest payable	395,912
Deferred revenue	40,305,080
Long-term liabilities:	
Due within one year:	
Capital debt	5,050,860
Due in more than one year:	
Capital debt	62,456,616
Non-capital debt	699,433
Total Liabilities	<u>\$ 113,234,743</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 41,917,176
Restricted:	
Expendable:	
General government	
Debt service	1,714,575
Public safety	408,552
Public works	(1,331,782)
Unemployment compensation	1,086
Capital projects	24,303,449
Unrestricted	38,843,973
Total Net Assets	<u>\$ 105,857,029</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Activities
For the Year Ended September 30, 2006

Exhibit 2

Functions/Programs	Program Revenues				Net(Expenses) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants & Contributions	Governmental Activities
Primary government:					
Governmental activities					
General government	\$ 12,259,210	\$ 2,976,366	\$ 41,800	\$ -	\$ (9,241,044)
Public safety	16,330,711	1,690,151	3,459,088	92,669	(11,088,803)
Public works	12,344,394	-	671,176	246,119	(11,427,099)
Health & welfare	1,486,350	-	93,952	-	(1,392,398)
Culture & recreation	1,266,109	-	-	-	(1,266,109)
Education	10,800	-	-	-	(10,800)
Cons. of natural resources	473,118	-	-	-	(473,118)
Econ. develop and assist	82,337	-	-	-	(82,337)
Interest on long- term debt	2,913,964	-	-	-	(2,913,964)
Total Governmental Activities	<u>\$ 47,166,993</u>	<u>\$ 4,666,517</u>	<u>\$ 4,266,016</u>	<u>\$ 338,788</u>	<u>(37,895,672)</u>
General revenues					
Property taxes					\$ 39,353,587
Road and bridge privilege taxes					1,789,728
Grants and contribution not restricted to specific programs					2,922,484
Unrestricted investment income					1,884,561
Miscellaneous					2,485,353
Total general revenues					<u>48,435,713</u>
Changes in net assets					10,540,041
Net assets - Beginning					94,682,294
Prior period adjustments					634,694
Net assets - Beginning, as restated					<u>95,316,988</u>
Net assets-Ending					<u>\$ 105,857,029</u>

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

DESOTO COUNTY, MISSISSIPPI
Balance Sheet
Governmental Funds
September 30, 2006

Exhibit 3

	Major Funds					Total Governmental Funds
	General	County Wide Road Maint.	Bridge & Culvert	2004 Bond Construction	Other Governmental Funds	
ASSETS						
Cash	\$ 16,739,159	\$ 3,497,479	\$ 4,802,397	\$ 14,274,841	\$ 5,147,523	\$ 44,461,399
Property tax receivable	24,551,973	2,000,000	6,093,891	-	7,659,216	40,305,080
Fines receivable	735,577	-	-	-	-	735,577
Loans receivable	7,594,614	-	-	-	-	7,594,614
Intergovernmental receivables	973,843	-	-	-	-	973,843
Other receivables	42,753	59,709	-	-	-	102,462
Due from other funds	447,394	201,824	121,761	-	174,208	945,187
Total Assets	\$ 51,085,313	\$ 5,759,012	\$ 11,018,049	\$ 14,274,841	\$ 12,980,947	\$ 95,118,162
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 334,338	\$ 21,472	\$ 29,578	\$ -	\$ 351,234	\$ 736,622
Liabilities payable from restricted assets	263,038	-	-	-	-	263,038
Retainage payable	-	286,153	-	-	71,524	357,677
Intergovernmental payables	2,565,570	-	-	-	15,153	2,580,723
Due to other funds	497,792	-	-	-	447,395	945,187
Deferred revenue	25,287,550	2,000,000	6,093,891	-	7,659,216	41,040,657
Total Liabilities	\$ 28,948,288	\$ 2,307,625	\$ 6,123,469	\$ -	\$ 8,544,522	\$ 45,923,904
Fund Balances:						
Reserved for:						
Debt service	-	-	-	-	1,404,950	1,404,950
Loans receivable	7,594,614	-	-	-	-	7,594,614
Unemployment compensation	-	-	-	-	86,795	86,795
Other	263,038	-	-	-	-	263,038
Unreserved, undesignated, reported in:						
General Fund	14,279,373	-	-	-	-	14,279,373
Special Revenue Funds	-	3,451,387	4,894,580	-	1,994,461	10,340,428
Capital Project Funds	-	-	-	14,274,841	950,219	15,225,060
Total Fund Balances	\$ 22,137,025	\$ 3,451,387	\$ 4,894,580	\$ 14,274,841	\$ 4,436,425	\$ 49,194,258
Total Liabilities and Fund Balances	\$ 51,085,313	\$ 5,759,012	\$ 11,018,049	\$ 14,274,841	\$ 12,980,947	\$ 95,118,162

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

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

Exhibit 3-1

	<u>Amount</u>
Total Fund Balances - Governmental Funds	\$ 49,194,258
Amounts reported for governmental services in the Statement of Net Assets 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 \$59,321,973	121,107,301
Other long- term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fines receivable	735,577
Bond issue cost	520,772
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(68,206,909)
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of the following:	
Accrued interest	(395,912)
Internal service funds are used by management to charge the cost of insurance to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Assets.	<u>2,901,942</u>
Total Net Assets - Governmental Activities	<u>\$ 105,857,029</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2006

Exhibit 4

	Major Funds					Total Governmental Funds
	General	County Wide Road Maint.	Bridge & Culvert	2004 Construction	Other Governmental Funds	
Revenues:						
Property taxes	\$ 22,570,603	\$ 1,947,114	\$ 6,297,102	\$ -	\$ 8,538,768	\$ 39,353,587
Road & bridge privilege taxes	-	1,789,728	-	-	-	1,789,728
Licenses, commissions and other revenue	2,483,097	-	-	-	-	2,483,097
Fines and forfeitures	400,505	-	-	-	-	400,505
Intergovernmental revenues	4,329,835	1,729,543	24,393	-	1,401,703	7,485,474
Charges for services	785,081	-	-	-	1,411,901	2,196,982
Interest income	511,820	173,332	176,218	691,445	230,845	1,783,660
Miscellaneous revenues	1,629,674	40,388	-	-	617,885	2,287,947
Total Revenues	32,710,615	5,680,105	6,497,713	691,445	12,201,102	57,780,980
Expenditures:						
Current						
General government	11,434,595	-	-	-	565,466	12,000,061
Public safety	14,536,529	(2,485)	-	-	1,954,474	16,488,518
Public works	-	7,075,256	5,496,185	7,580,799	2,935,475	23,087,715
Health & welfare	1,487,430	-	-	-	-	1,487,430
Culture & recreation	1,178,087	-	-	-	-	1,178,087
Education	10,800	-	-	-	-	10,800
Conservation of natural resources	474,851	-	-	-	-	474,851
Economic development & assistance	82,337	-	-	-	-	82,337
Debt service:						
Principal retirement	375,000	180,209	280,000	-	3,910,000	4,745,209
Interest and fiscal charges	291,579	14,975	-	-	2,623,160	2,929,714
Total Expenditures	29,871,208	7,267,955	5,776,185	7,580,799	11,988,575	62,484,722
Excess of (deficiency) of revenues over (under) Expenditures	2,839,407	(1,587,850)	721,528	(6,889,354)	212,527	(4,703,742)

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

DESOTO COUNTY, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Balances -
Governmental Funds
For the Year Ended September 30, 2006

Exhibit 4

	General	County Wide Road Maint.	Bridge & Culvert	2004 Construction	Other Governmental Funds	Total Governmental Funds
Other Financing Sources (Uses)						
Proceeds from sale of capital assets	33,913	444,392	573,062	-	-	1,051,367
Operating transfers in	-	-	-	-	494,824	494,824
Operating transfers out	(463,831)	-	-	-	(30,993)	(494,824)
Total Other Financing Sources (Uses)	<u>(429,918)</u>	<u>444,392</u>	<u>573,062</u>	<u>-</u>	<u>463,831</u>	<u>1,051,367</u>
Net Changes in Fund Balance	2,409,489	(1,143,458)	1,294,590	(6,889,354)	676,358	(3,652,375)
Fund Balances						
Beginning of year	19,808,955	4,594,845	3,599,990	21,164,195	3,760,067	52,928,052
Prior period adjustment	(81,419)	-	-	-	-	(81,419)
End of year	<u>\$ 22,137,025</u>	<u>\$ 3,451,387</u>	<u>\$ 4,894,580</u>	<u>\$ 14,274,841</u>	<u>\$ 4,436,425</u>	<u>\$ 49,194,258</u>
						Concluded

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

DESOTO COUNTY, MISSISSIPPI
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
September 30, 2006

Exhibit 4-1

	<u>Amount</u>
Net change in Fund Balances - total Governmental Funds	\$ (3,652,375)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlay 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 \$16,040,496 (less completed construction \$281,062) exceeded depreciation \$5,867,703 in the current period.	9,891,731
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 on disposal of \$1,051,367 and the proceeds from the sale of \$197,406 in the current period.	(853,961)
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.	(372,252)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment of debt 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 of \$4,745,208 exceeded debt proceeds of \$0	4,745,208
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 and available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and revenue are reported regardless of when financial resources are available. Thus the change in net assets differs from the change in fund balances by a combination of the following items:	
Accrued interest on debt	65,690
Compensated absences	(46,358)
Premium on bond	2,475
Bond issue costs	(35,764)
Deferred loss on refunding bond	(16,650)
An Internal Service Fund is used by management to charge the cost of insurance to individual funds. The net revenue (expense) is reported within the governmental activities.	812,297
Change in Net Assets of Governmental Activities	<u>\$ 10,540,041</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Net Assets
Proprietary Fund(s)
September 30, 2006

Exhibit 5

	Govt. Acct. Internal Service Fund
ASSETS	
Cash	\$ 3,251,259
Total assets	<u>\$ 3,251,259</u>
LIABILITIES	
Claims and judgements liability	\$ 349,317
Total liabilities	<u>\$ 349,317</u>
NET ASSETS	
Unrestricted	<u>\$ 2,901,942</u>
Total Net Assets	<u>\$ 2,901,942</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Revenues, Expenditures and Changes in Fund Net Assets
Proprietary Funds
September 30, 2006

Exhibit 6

	Govt. Acct. Internal Service Fund
Operating Revenues	
Premiums	\$ 4,060,947
Total operating revenues	<u>4,060,947</u>
Operating Expenses	
Claims payments	2,584,330
Administrative	765,221
Total operating expenses	<u>3,349,551</u>
Operating Income (Loss)	<u>711,397</u>
Non-operating Revenues (Expenses)	
Interest income	<u>100,900</u>
Net non-operating revenues (expenses)	<u>100,900</u>
Net income (loss)	812,297
Net Assets - Beginning	2,089,539
Prior period adjustment	<u>106</u>
Net Assets -Ending	<u>\$ 2,901,942</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Cash Flows -
Proprietary Fund(s)
September 30, 2006

Exhibit 7

	Govt. Acct. Internal Service Fund
Cash Flows From Operating Activities	
Receipts for premiums	\$ 4,060,947
Payments for claims	(2,858,654)
Payments to administrator for services	(765,221)
Net Cash Provided (Used) by Operating Activities	<u>437,072</u>
Cash Flows From Investing Activities	
Interest and dividends on investments	100,900
Net Cash Provided (Used) by Investing Activities	<u>100,900</u>
Net Increase (Decrease) in Cash and Cash Equivalents	537,972
Cash and Cash Equivalents at Beginning of Year	2,713,181
Prior period adjustment	106
Cash and Cash Equivalents at End of Year	<u>\$ 3,251,259</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	
Operating income (loss)	\$ 711,397
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Change in assets and liabilities:	
Increase (decrease) in claims and judgments liability	(274,325)
Total adjustments	<u>(274,325)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 437,072</u>

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

DESOTO COUNTY, MISSISSIPPI
Statement of Fiduciary Assets & Liabilities
September 30, 2006

Exhibit 8

ASSETS

Cash
Intergovernmental receivable

Agency
Fund

\$ 10,060
88,022

Total Assets

\$ 98,082

LIABILITIES

Amounts held in custody for others
Intergovernmental payable
Due to other funds

\$ 10,060
88,022
-

Total Liabilities

\$ 98,082

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

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

DeSoto County, Mississippi 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 DeSoto County, Mississippi 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 necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- *DeSoto County, Mississippi Port Commission*
- *Walls Sewer District*
- *DeSoto County, Mississippi Regional Utility District*
- *DeSoto County Emergency Communications District*
- *DeSoto County Civic Center*

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. Blended Component Units Disclosure

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

The DeSoto County, Mississippi Public Improvement Corporation is comprised solely of the five members of the Board of Supervisors and the Chancery Clerk. Although it is legally separate from DeSoto County, Mississippi, the corporation is reported as if it were part of the primary government because it is a pass-through corporation whose sole purpose is to finance, renovate and construct county buildings.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

C. Basis of Presentation

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

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. 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 and 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 program revenues, are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self financing or draws from the general revenues the county.

Fund Financial Statements:

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

D. Measurement Focus and Basis of Accounting

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

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

DESOTO COUNTY, MISSISSIPPI

Notes to Financial Statements

September 30, 2006

The revenues and expenses of Proprietary Funds 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.

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.

Bridge & Culvert Fund – Accounts for bridge and culvert construction.

County Wide Road Maintenance – Accounts for various road projects

2004 Bond Construction – Accounts for various road and construction projects.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

PROPRIETARY FUND TYPES

Internal Service Funds – These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The county's internal service fund reports on self-insurance programs for employee medical benefits.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

FIDUCIARY FUND TYPES

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

E. Account Classifications

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

F. 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.

G. Receivables

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

H. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

I. Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the (applicable) governmental activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets 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.

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. Depreciation is calculated

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

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

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

J. Long-term Liabilities

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

K. Equity Classifications

Government-wide Financial Statements:

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

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

Restricted Net Assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations 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.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

L. Property Tax Revenues.

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

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

M. Intergovernmental Revenues in Governmental Funds.

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

N. Compensated Absences.

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

(2) Changes 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.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(3) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

<u>Exhibit 2 - Statement of Activities</u>	<u>Amount</u>
To correctly post 2005 rental car taxes in the general fund	\$ (82,868)
Increase in Tax Collector petty cash	700
To cancel old outstanding checks in the general fund	749
To cancel old outstanding checks in the self-funded insurance fund	105
Capital assets incorrectly expensed in prior year	716,008
	<u>\$ 634,694</u>

<u>Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances</u>	<u>Amount</u>
To correctly post 2005 rental car taxes in the general fund	\$ (82,868)
Increase in Tax Collector petty cash	700
To cancel old outstanding checks in the general fund	749
	<u>\$ (81,419)</u>

<u>Exhibit 6 - Statement of Revenues, Expenditures and Changes in Net Assets - Proprietary Fund</u>	<u>Amount</u>
To cancel old outstanding checks in the self-funded insurance fund	\$ 106
	<u>\$ 106</u>

(4) Deposits

Deposits

The carrying amount of DeSoto County, Mississippi's total deposits with financial institutions at September 30, 2006 was \$47,762,183 and the bank balance was \$54,977,820. 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.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(5) 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	Other Governmental Funds	\$ 447,394
Countywide Road Maint.	General Fund	201,824
Bridge & Culvert	General Fund	121,761
Other Governmental Funds	General Fund	174,208
Total		<u>\$ 945,187</u>

These are for settlement of September tax receipts, and for federal grant money deposited into the general fund. All interfund balances are expected to be repaid within one year.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	463,831
Other Governmental Funds	Other Governmental Funds	30,993
Total		<u>\$ 494,824</u>

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

(6) Intergovernmental Receivables

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

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative credit	\$ 968,312
Reimbursement for Food Stamps	5,531
Total Governmental Activities	<u>\$ 973,843</u>

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(7) Loans Receivable

Loans receivable balances at September 30, 2006, are as follows:

<i>Description</i>	<i>Date of Loan</i>	<i>Interest Rate</i>	<i>Maturity Date</i>	<i>Balance Payable</i>
<i>DeSoto Civic Center</i>	<i>9/30/1998</i>	<i>5%</i>	<i>1/1/2014</i>	<i>\$ 47,209</i>
<i>DeSoto Civic Center</i>	<i>9/30/1999</i>	<i>5%</i>	<i>1/1/2014</i>	<i>170,865</i>
<i>DeSoto Civic Center</i>	<i>9/30/2000</i>	<i>5%</i>	<i>1/1/2014</i>	<i>562,949</i>
<i>DeSoto Civic Center</i>	<i>9/30/2001</i>	<i>5%</i>	<i>1/1/2014</i>	<i>4,963,591</i>
<i>DeSoto Civic Center</i>	<i>10/6/2003</i>	<i>5%</i>	<i>1/1/2014</i>	<i>750,000</i>
<i>DeSoto Civic Center</i>	<i>9/30/2005</i>	<i>5%</i>	<i>1/1/2014</i>	<i>600,000</i>
<i>DeSoto Civic Center</i>	<i>9/30/2006</i>	<i>5%</i>	<i>1/1/2014</i>	<i>500,000</i>
<i>Total</i>				<u><u><i>\$ 7,594,614</i></u></u>

(8) Capital Assets

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

Governmental Activities

	<i>Balance at 10/1/2005</i>	<i>Additions</i>	<i>Deletions</i>	<i>Adjustments</i>	<i>Balance at 9/30/2006</i>
<u><i>Non-depreciable capital assets:</i></u>					
<i>Land</i>	<i>\$ 2,555,579</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ -</i>	<i>\$ 2,555,579</i>
<i>Construction in progress</i>	<i>1,665,803</i>	<i>7,346,957</i>	<i>281,062</i>	<i>(540)</i>	<i>8,731,158</i>
<i>Total non-depreciable capital assets</i>	<u><i>4,221,382</i></u>	<u><i>7,346,957</i></u>	<u><i>281,062</i></u>	<u><i>(540)</i></u>	<u><i>11,286,737</i></u>
<u><i>Depreciable capital assets:</i></u>					
<i>Buildings and improvements</i>	<i>32,665,246</i>	<i>965,203</i>	<i>-</i>	<i>-</i>	<i>33,630,449</i>
<i>Improvements other than buildings</i>	<i>561,872</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>561,872</i>
<i>Equipment and machinery</i>	<i>13,193,942</i>	<i>4,234,789</i>	<i>1,698,191</i>	<i>2</i>	<i>15,730,542</i>
<i>Infrastructure</i>	<i>113,536,324</i>	<i>3,493,547</i>	<i>-</i>	<i>1,312,006</i>	<i>118,341,877</i>
<i>Leased property under capital leases</i>	<i>1,115,429</i>	<i>-</i>	<i>237,632</i>	<i>-</i>	<i>877,797</i>
<i>Total depreciable capital assets</i>	<u><i>161,072,813</i></u>	<u><i>8,693,539</i></u>	<u><i>1,935,823</i></u>	<u><i>1,312,008</i></u>	<u><i>169,142,537</i></u>
<u><i>Less accumulated depreciation for:</i></u>					
<i>Buildings and improvements</i>	<i>7,878,944</i>	<i>591,341</i>	<i>-</i>	<i>1</i>	<i>8,470,286</i>
<i>Improvements other than buildings</i>	<i>133,448</i>	<i>22,479</i>	<i>-</i>	<i>-</i>	<i>155,927</i>
<i>Equipment and machinery</i>	<i>7,891,376</i>	<i>1,556,449</i>	<i>996,306</i>	<i>-</i>	<i>8,451,519</i>
<i>Infrastructure</i>	<i>37,654,153</i>	<i>3,628,482</i>	<i>-</i>	<i>595,459</i>	<i>41,878,094</i>
<i>Leased property under capital leases</i>	<i>382,751</i>	<i>68,952</i>	<i>85,556</i>	<i>-</i>	<i>366,147</i>
<i>Total accumulated depreciation</i>	<u><i>53,940,672</i></u>	<u><i>5,867,703</i></u>	<u><i>1,081,862</i></u>	<u><i>595,460</i></u>	<u><i>59,321,973</i></u>
<i>Total depreciable capital assets, net</i>	<u><i>107,132,141</i></u>	<u><i>2,825,836</i></u>	<u><i>853,961</i></u>	<u><i>716,548</i></u>	<u><i>109,820,564</i></u>
<i>Governmental activities capital assets, net</i>	<u><u><i>\$ 111,353,523</i></u></u>	<u><u><i>\$ 10,172,793</i></u></u>	<u><u><i>\$ 1,135,023</i></u></u>	<u><u><i>\$ 716,008</i></u></u>	<u><u><i>\$ 121,107,301</i></u></u>

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
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Depreciation expense was charged to the following functions:

Governmental Activities:

<i>General government</i>	<i>\$ 705,098</i>
<i>Public safety</i>	<i>747,920</i>
<i>Public works</i>	<i>4,405,710</i>
<i>Health and welfare</i>	<i>8,975</i>
<i>Total governmental activities and depreciation expense</i>	<i><u>\$ 5,867,703</u></i>

Commitments with respect to unfinished capital projects at September 30, 2006, consisted of the following:

<i>Description of Commitment</i>	<i>Remaining Financial Commitment</i>	<i>Expected Date of Completion</i>
<i>Juvenile Detention Facility</i>	<i>\$ 746,852</i>	<i>Feb-07</i>
<i>Central Maintenance Building</i>	<i>8,481</i>	<i>Oct-06</i>
<i>Justice Court Building</i>	<i>148,764</i>	<i>Jun-07</i>
<i>2005 Road Project</i>	<i>15,635,519</i>	<i>Jul-08</i>
	<i><u>\$ 16,539,616</u></i>	

(9) 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.

The County is exposed to risk of loss relating to employee health, accident and dental coverage. Beginning March 1, 1992 and pursuant to Section 25-15-101, Miss. Code Ann (1972), the County established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. The County Board of Supervisors has extended coverage to the employees of the following public entities:

Horn Lake Creek Basin

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Each participating public entity, including DeSoto County, Mississippi, pays the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The County has a minimum uninsured risk retention for all participating entities, including DeSoto County, Mississippi, to the extent that actual claims submitted exceed the predetermined premium. The County has implemented the following plans to minimize potential loss:

The County has purchased coinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$50,000, and the aggregate policy covers all submitted claims in excess of \$1,000,000.

DeSoto County, Mississippi has collected an additional charge for expected future catastrophic losses. This additional charge has resulted in \$2,901,942 of the Internal Service Fund's retained earnings balance at September 30, 2006, being designated for catastrophic losses.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2006, the amount of these liabilities was \$349,317. An analysis of claims activities is presented below:

	<i>Beginning of fiscal year liability</i>	<i>Current Year Claims and Changes in Estimates</i>	<i>Claim Payments</i>	<i>End of fiscal year liability</i>
2004-2005	\$ 312,415	2,821,786	2,510,559	\$ 623,642
2005-2006	623,642	2,584,330	2,858,655	349,317

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(10) Capital Leases

As Lessee:

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

<i>Classes of Property</i>	<u><i>Governmental Activities</i></u>
<i>Mobile equipment</i>	<i>\$ 300,860</i>
<i>Other furniture and equipment</i>	<u><i>576,937</i></u>
<i>Total</i>	<i>877,797</i>
<i>Less: Accumulated Depreciation</i>	<u><i>(366,147)</i></u>
<i>Lease Property under Capital Leases</i>	<u><u><i>\$ 511,650</i></u></u>

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

<i>Year Ending September 30</i>	<u><i>Governmental Activities</i></u>	
	<u><i>Principal</i></u>	<u><i>Interest</i></u>
<i>2007</i>	<u><i>\$ 300,860</i></u>	<u><i>\$ 10,687</i></u>
	<u><u><i>\$ 300,860</i></u></u>	<u><u><i>\$ 10,687</i></u></u>

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(11) Long – Term Debt

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

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
A. General Obligation Bonds			
Administration Building	\$ 635,000	4.40% - 6.25%	12/1/2017
Walls Sewer District	260,000	5.40% - 6.40%	10/1/2014
General obligation refunding bonds	2,650,000	3.70% - 4.50%	4/1/2013
Courthouse renovation	465,000	4.75% - 6.40%	10/1/2019
General obligation building bonds	965,000	3.63% - 5.00%	12/1/2008
Public improvements	15,135,000	variable	10/1/2020
General obligation refunding bonds	4,665,000	3.00% - 4.25%	10/1/2012
General obligation refunding bonds	8,800,000	3.125% - 5.00%	11/1/2018
Public Improvements	20,590,000	3.50% - 5.00%	7/1/2024
General obligation refunding bonds	6,820,000	3.00% - 4.00%	10/1/2019
Total General Obligation Bonds	\$ 60,985,000		
B. Capital Leases:			
John Deere 6420 Tractor	\$ 14,313	3.48%	6/10/2007
John Deere 6420 Tractor	-	3.48%	6/10/2007
John Deere 6420 Tractor	11,134	3.48%	6/10/2007
Various Equipment	245,494	2.98%	3/10/2007
Freightliner FL 70	15,325	3.48%	6/10/2007
John Deere 6410 Tractor	14,594	3.48%	6/10/2007
Total Capital Leases	\$ 300,860		
C. Other Loans			
Mississippi Development Bank Promissory Note	\$ 6,406,250	variable	7/5/2020
Total Other Loans	\$ 6,406,250		

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(11) Long – Term Debt (continued)

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

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 4,375,000	\$ 3,669,345
2008	4,900,000	3,525,282
2009	4,370,000	3,173,525
2010	4,215,000	2,934,032
2011	4,400,000	2,808,000
2012-2016	18,465,000	12,309,743
2017-2021	15,580,000	8,235,482
2022-2026	4,680,000	471,317
<i>Total</i>	<u>\$ 60,985,000</u>	<u>\$ 37,126,726</u>

<u>Year Ending September 30</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 375,000	\$ 131,545
2008	375,000	123,633
2009	375,000	115,720
2010	375,000	107,808
2011	375,000	99,895
2012-2016	1,875,000	380,789
2017-2021	2,656,250	153,524
<i>Total</i>	<u>\$ 6,406,250</u>	<u>\$ 1,112,914</u>

Legal Debt Margin – The amount of debt, excluding specific exempted debt, that can be incurred by DeSoto County, Mississippi 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 DeSoto County, Mississippi, 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 DeSoto County, Mississippi. As of September 30, 2006, the amount of outstanding debt was equal to 4.93% of the latest property assessment.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
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The following is a summary of changes in long-term liabilities for the year ended September 30, 2006:

	Balance at 9/30/2005	Additions	Deletions	Balance at 9/30/2006	Amounts Due within One Year
<i>Governmental Activities:</i>					
<i>Bonds payable:</i>					
General obligation bonds payable	\$ 65,175,000	\$ -	\$ 4,190,000	\$ 60,985,000	\$ 4,375,000
<i>Deferred amounts:</i>					
For deferred loss on refunding bonds	(242,809)	-	(16,650)	(226,159)	-
For bond premiums	44,000	-	2,475	41,525	-
Total bonds payable	64,976,191	-	4,175,825	60,800,366	4,375,000
 Leases payable	481,070	-	180,210	300,860	300,860
Loans payable	6,781,250	-	375,000	6,406,250	375,000
Compensated absences	653,075	46,358	-	699,433	-
Governmental activities long-term liabilities	\$ 72,891,586	\$ 46,358	\$ 4,731,035	\$ 68,206,909	\$ 5,050,860

(12) Contingencies

Federal Grants – DeSoto County, Mississippi 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 DeSoto County, Mississippi. No provision for any liability that may result has been recognized in the DeSoto County, Mississippi's financial statements.

Litigation – DeSoto County, Mississippi 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 DeSoto County, Mississippi 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 DeSoto County, Mississippi.

Limited Obligation Bonds Contingencies – DeSoto County, Mississippi issued limited obligation bonds to provide funds for constructing and improving capital facilities of the DeSoto County, Mississippi Civic Center. Limited obligation bonds are reported as a liability of the DeSoto County, Mississippi Civic Center because such debt is payable primarily from the revenues received from the 2% tourism tax on restaurants, hotels, and motels; however, DeSoto County, Mississippi remains contingently liable for the retirement of those bonds because DeSoto County, Mississippi has agreed to provide for the intercept of local taxes from the State Tax Commission to satisfy any delinquent payment. The principal amount of the limited obligation bonds outstanding bonds outstanding at September 30, 2006 is \$30,115,000.

(13) Related Organization

The DeSoto County, Mississippi Board of Supervisors is responsible for appointing a voting majority of the Members of the Board of the Horn Lake Creek Watershed Drainage District, and the DeSoto County Convention and Visitors Bureau, but DeSoto County, Mississippi's accountability for these organizations does not exceed beyond making the appointments. During the year, the county did not appropriate any funds to these organizations.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(14) Joint Venture

DeSoto County, Mississippi participates in the following joint venture:

DeSoto County, Mississippi is a participant with DeSoto, Lafayette, Panola and Tate Counties in a joint venture, authorized by Section 39-3-9, Miss. Code Ann (1972), to operate the First Regional Library. The joint venture was created to provide free library service to the citizens of the respective counties. First Regional Library is governed by a five-member board appointed by the Board of Supervisors of the counties participating, one from each county. Each county appropriates funds each year with the amount being determined by each Board of Supervisors for the ongoing support of the First Regional Library. DeSoto County, Mississippi's appropriations from the General Fund this year to the joint venture amounted to \$1,079,700. Complete financial statements for the First Regional Library can be obtained from P.O. Box 386, Hernando, Mississippi 38632.

(15) Jointly Governed Organizations

DeSoto County, Mississippi participates in the following jointly governed organizations:

North Delta Planning and Development District operates in a district composed of the Counties of Coahoma, DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The DeSoto County, Mississippi Board of Supervisors appoints four of 30 members of the board of directors. The County appropriated \$310,300 for the operation of the district in fiscal year 2006.

Yazoo-Mississippi Water Management District operates in a district composed of the Counties of Bolivar, Carroll, Coahoma, DeSoto, Holmes, Humphreys, Issaquena, LeFlore, Panola, Quitman, Sharkey, Sunflower, Tallahatchie, Tate, Tunica, Washington and Yazoo. The DeSoto County Board of Supervisors appoints one of the 21 members of the board of commissioners. DeSoto County, Mississippi levied a .61 mill tax, which resulted in \$9,482 to help support the district in fiscal year 2006.

Communicare operates in a district composed of the Counties of Calhoun, DeSoto, Lafayette, Marshall, Panola, Tate and Yalobusha. The DeSoto County, Mississippi Board of Supervisors appoints one of the 7 members of the board of commissioners. DeSoto County, Mississippi appropriated \$180,250 for support of the district in fiscal year 2006.

Northwest Mississippi Community College operates in a district composed of the Counties of Benton, Calhoun, DeSoto, Lafayette, Marshall, Panola, Quitman, Tallahatchie, Tate, Tunica and Yalobusha. The DeSoto County, Mississippi Board of Supervisors appoints two of the 23 members of the college board of trustees. DeSoto County, Mississippi appropriated \$4,507,820 for maintenance and support of the college in fiscal year 2006.

Mid-State Opportunity, Inc. operates in a district composed of the Counties of DeSoto, Panola, Quitman, Tallahatchie, Tate and Tunica. The DeSoto County, Mississippi Board of Supervisors appoints one of the 30 board members. DeSoto County, Mississippi did not appropriate any money for support of the agency in fiscal year 2006.

DESOTO COUNTY, MISSISSIPPI
Notes to Financial Statements
September 30, 2006

(16) Benefit Pension Plan

Plan Description. DeSoto 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 DeSoto County, Mississippi 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. DeSoto County, Mississippi's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$1,710,750, \$1,464,317, and \$1,328,397, respectively, equal to the required contributions for each year.

REQUIRED SUPPLEMENTARY INFORMATION

DESOTO COUNTY, MISSISSIPPI

Budgetary Comparison Schedule – Budget and Actual (Non-GAAP)

For the Year Ended September 30, 2006

	General Fund				
	Original Budget	Final Budget	Actual Non-GAAP Budgetary Basis	Variances	
				Positive (Negative) Original to Final	Final to Actual
Revenues:					
Property taxes	\$ 21,407,496	\$ 22,281,163	\$ 22,561,375	\$ 873,667	\$ 280,212
Intergovernmental revenues	2,427,900	1,059,801	4,324,305	(1,368,099)	3,264,504
Charges for services	3,602,530	3,618,911	3,787,800	16,381	168,889
Use of money and property	270,000	270,116	510,162	116	240,046
Miscellaneous revenues	770,935	855,627	1,629,674	84,692	774,047
Total Revenues	<u>28,478,861</u>	<u>28,085,618</u>	<u>32,813,315</u>	<u>(393,243)</u>	<u>4,727,698</u>
Expenditures					
Current					
General government	11,931,642	12,261,127	11,379,576	(329,485)	881,551
Public safety	14,058,286	15,070,094	14,603,147	(1,011,808)	466,947
Public works	350	350	-	-	350
Health & welfare	1,449,301	1,589,926	1,486,108	(140,625)	103,818
Culture & recreation	1,235,250	1,218,700	1,177,104	16,550	41,596
Education	10,800	10,800	10,800	-	-
Conservation of natural resources	508,640	509,187	472,628	(547)	36,559
Economic development & assistance	572,500	585,210	585,210	(12,710)	-
Debt service	812,040	812,040	666,579	-	145,461
Total Expenditures	<u>30,578,809</u>	<u>32,057,434</u>	<u>30,381,152</u>	<u>(1,478,625)</u>	<u>1,676,281</u>
Excess of Revenues over (under) Expenditures	<u>(2,099,948)</u>	<u>(3,971,816)</u>	<u>2,432,163</u>	<u>(1,871,868)</u>	<u>3,051,417</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	55,000	183,679	33,913	128,679	(149,766)
Transfers in	950,000	950,000	7,050	-	(942,950)
Transfers out	1,108,450	(1,491,413)	(470,881)	(2,599,863)	1,020,532
Total Other Financing Sources (Uses)	<u>2,113,450</u>	<u>(357,734)</u>	<u>(429,919)</u>	<u>(2,471,184)</u>	<u>(72,184)</u>
Net Change in Fund Balance	<u>\$ 13,502</u>	<u>\$ (4,329,550)</u>	<u>2,002,246</u>	<u>\$ (4,343,052)</u>	<u>\$ 2,979,233</u>
Fund Balances					
Beginning of year			12,244,559		
End of year			<u>\$ 14,246,805</u>		

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

DESOTO COUNTY, MISSISSIPPI,
 Budgetary Comparison Schedule – Budget and Actual (Non-GAAP)
 September 30, 2006

	County Wide Road Maintenance				
	Original Budget	Final Budget	Actual Non-GAAP Budgetary Basis	Variances Positive (Negative) Original to Final Final to Actual	
Revenues:					
Property taxes	\$ 5,015,200	\$ 3,700,100	\$ 3,792,003	\$ (1,315,100)	\$ 91,903
Intergovernmental revenues	-	1,340,184	1,669,834	1,340,184	329,650
Charges for services	-	-	-	-	-
Use of money and property	80,000	80,000	173,332	-	93,332
Miscellaneous revenues	31,000	71,387	40,388	40,387	(30,999)
Total Revenues	<u>5,126,200</u>	<u>5,191,671</u>	<u>5,675,557</u>	<u>65,471</u>	<u>483,886</u>
Expenditures					
Current					
Public works	6,465,896	8,295,539	6,796,165	(1,829,643)	1,499,374
Capital projects	-	60,000	-	(60,000)	60,000
Debt service	270,000	270,000	195,184	-	74,816
Total Expenditures	<u>6,735,896</u>	<u>8,625,539</u>	<u>6,991,349</u>	<u>(1,829,643)</u>	<u>1,499,374</u>
Excess of Revenues over (under) Expenditures	<u>(1,609,696)</u>	<u>(3,433,868)</u>	<u>(1,315,792)</u>	<u>1,895,114</u>	<u>(1,015,488)</u>
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	524,172	444,392	524,172	(79,780)
Proceeds from capital leases	-	-	-	-	-
Transfers in	25,000	25,000	-	-	(25,000)
Total Other Financing Sources (Uses)	<u>25,000</u>	<u>549,172</u>	<u>444,392</u>	<u>524,172</u>	<u>(104,780)</u>
Net Change in Fund Balance	<u>\$ (1,584,696)</u>	<u>\$ (2,884,696)</u>	<u>(871,400)</u>	<u>\$ 2,419,286</u>	<u>\$ (1,120,268)</u>
Fund Balances					
Beginning of year			4,368,878		
End of year			<u>\$ 3,497,478</u>		

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

DESOTO COUNTY, MISSISSIPPI,
 Budgetary Comparison Schedule – Budget and Actual (Non-GAAP)
 September 30, 2006

	Bridge & Culvert				
	Original Budget	Final Budget	Actual Non-GAAP Budgetary Basis	Variances Positive (Negative)	
				Original to Final	Final to Actual
Revenues:					
Property taxes	\$ 5,600,000	\$ 5,600,000	\$ 6,287,251	\$ -	\$ 687,251
Intergovernmental revenues	51,000	78,600	24,393	27,600	(54,207)
Use of money and property	60,000	60,000	176,219	-	116,219
Miscellaneous revenues	1,500	1,500	-	-	(1,500)
Total Revenues	5,712,500	5,740,100	6,487,864	27,600	747,764
Expenditures					
Current					
Public works	6,169,370	8,038,039	5,764,289	(1,868,669)	2,273,750
Debt service	399,000	399,000	280,000	-	119,000
Other costs	-	-	-	-	-
Total Expenditures	6,568,370	8,437,039	6,044,288	(1,868,669)	2,392,752
Excess of Revenues over (under) Expenditures	(855,870)	(2,696,939)	443,576	1,896,269	(1,644,988)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	-	573,062	573,062	573,062	-
Proceeds of capital leases	-	-	-	-	-
Transfers in	14,370.00	14,370	-	-	(14,370)
Transfers out	-	-	-	-	-
Total Other Financing Sources (Uses)	14,370	587,432	573,061	573,062	(14,371)
Net Change in Fund Balance	\$ (841,500)	\$ (2,109,507)	1,016,637	\$ 2,469,331	\$ (1,659,359)
Fund Balances					
Beginning of year			3,785,761		
End of year			\$ 4,802,398		

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

DESOTO COUNTY, MISSISSIPPI,
 Budgetary Comparison Schedule – Budget and Actual (Non-GAAP)
 September 30, 2006

	2004				
	Bond Construction				
	Original Budget	Final Budget	Actual Non-GAAP Budgetary Basis	Variances Positive (Negative) Original to Final Final to Actual	
Revenues:					
Use of money and property	\$ 250,000	\$ 250,000	\$ 691,445	\$ -	\$ 441,445
Total Revenues	<u>250,000</u>	<u>250,000</u>	<u>691,445</u>	<u>-</u>	<u>441,445</u>
Expenditures					
Current					
Public works	21,000,290	21,000,290	7,580,799	-	13,419,491
Debt service	-	-	-	-	-
Total Expenditures	<u>21,000,290</u>	<u>21,000,290</u>	<u>7,580,799</u>	<u>-</u>	<u>13,419,491</u>
Excess of Revenues over (under) Expenditures	<u>(20,750,290)</u>	<u>(20,750,290)</u>	<u>(6,889,354)</u>	<u>-</u>	<u>(12,978,046)</u>
Other Financing Sources (Uses)					
Transfers in	-	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	<u>\$ (20,750,290)</u>	<u>\$ (20,750,290)</u>	<u>(6,889,354)</u>	<u>\$ -</u>	<u>\$ (12,978,046)</u>
Fund Balances					
Beginning of year			21,164,195		
End of year			<u>\$ 14,274,841</u>		

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

DESOTO 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 DeSoto County, Mississippi'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 DeSoto County, Mississippi, 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.

DeSoto County, Mississippi'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) is 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:

	<i>Governmental Fund Types</i>			
	<i>General Fund</i>	<i>County Wide Road Maint.</i>	<i>Bridge & Culvert</i>	<i>2004 Construction</i>
<i>Budget (Cash Basis)</i>	\$ 2,002,246	(871,400)	\$ 1,016,637	\$ (6,889,354)
<i>Increase (decrease)</i>				
<i>Net adjustments for revenue accruals</i>	(109,636)	4,547	9,851	-
<i>Net adjustments for expenditure</i>	516,879	(276,605)	268,102	-
<i>GAAP Basis</i>	<u>\$ 2,409,489</u>	<u>\$ (1,143,458)</u>	<u>\$ 1,294,590</u>	<u>\$ (6,889,354)</u>

SUPPLEMENTAL INFORMATION

DESOTO 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	Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
U.S. Department of Homeland Security			
Passed-through Mississippi Emergency Management			
State Domestic Preparedness Equipment Support Program	97.004	3SSG5006	\$ 5,221
		3SSG5008	3,568
		3SSGR-4015	25,200
		04CC017	3,215
		04HS017	717
		04HS017R	436,452
		04LE017	76,560
			<u>550,933</u>
State Homeland Security Grant Program	97.067	05HS017	102,371
		05HS017R	62,598
		05LE017	65,120
			<u>230,089</u>
Total U.S. Department of Homeland Security			<u>781,022</u>
Total Expenditures of Major Federal Awards			<u>781,022</u>
OTHER FEDERAL AWARDS			
U.S. Department of Housing and Urban Development			
Passed-through Mississippi Development Authority			
Community Development Block Grant	14.228	1122-05-017-ED-01	<u>30,755</u>
U.S. Department of the Interior			
Payment in Lieu of Taxes	15.226	N/A	<u>25,508</u>
U.S. Department of Justice			
Passed-through the Mississippi Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	02JB1171	28,828
Crime Victim Assistance	16.575	04NW1177	18,361
Edward Byrne Memorial Formula Grant Program	16.579	05NM1171	140,376
Public Safety Partnership and Community Policing Grants	16.710	2003UMWX0067	<u>27,455</u>
Total U.S. Department of Justice			<u>215,020</u>
			Continued

DESOTO COUNTY, MISSISSIPPI
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006

U.S. Department of Transportation			
Highway planning and construction	20.205	N/A	<u>9,680</u>
U.S. Election Assistance Commission			
Passed-through Mississippi Secretary of State			
Help America Vote Act Requirements Payments	90.401	N/A	<u>223,887</u>
U.S. Department of Health & Human Services			
Passed - through Mississippi Department of Human Services			
Adolescent Offender Program	93.558	464W151	126,346
		464W161	<u>44,599</u>
			170,945
Voting Access for Individuals with Disabilities - Grants to States	93.617	N/A	<u>9,237</u>
Total U.S. Department of Health & Human Services			<u>180,182</u>
U.S. Department of Homeland Security			
Disaster Grants - Public Assistance	97.036	N/A	<u>39,949</u>
Total Expenditures of Other Federal Awards			<u>724,981</u>
Total Expenditures of Federal Awards			<u>\$ 1,506,003</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 - Help America Vote Act Requirements Payments

The County received reimbursement for prior fiscal years' federal HAVA expenditures during FY 2006 as follows:

Section 102 Funds	39.011	N/A	
FY 2002 expenditures			<u>\$ 102,151</u>
Section 251 Funds	90.401	N/A	
FY 2002 expenditures			149,006
FY 2003 expenditures			36,852
FY 2004 expenditures			11,311
FY 2005 expenditures			<u>12,116</u>
			<u>209,285</u>
Total Prior Fiscal Years' HAVA Expenditures awarded FY 2006			<u>\$ 311,436</u>

SPECIAL REPORTS



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

Members of the Board of Supervisors
DeSoto 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 DeSoto 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 March 27, 2007. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. 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 DeSoto 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. 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 risk that misstatements caused by error of 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 the DeSoto 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 statements 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*.

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Page 2

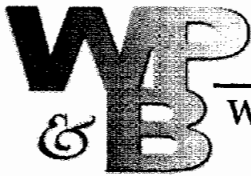
This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not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

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC

Certified Public Accountants

March 27, 2007



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**INDEPENDENT AUDITORS' 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
DeSoto County, Mississippi

Compliance

We have audited the compliance of DeSoto County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2006. DeSoto 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 its major federal programs is the responsibility of the DeSoto County, Mississippi's management. Our responsibility is to express an opinion on the DeSoto 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 DeSoto 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 DeSoto County, Mississippi's compliance with those requirements.

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

Continued...

Page 2

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the 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.

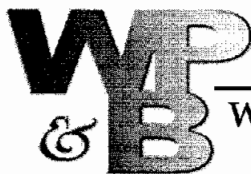
This report is intended for information and use of the management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Williams, Pitts & Beard, PLLC

Williams, Pitt & Beard, PLLC

Certified Public Accountants

March 27, 2007



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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
DeSoto County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of DeSoto 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 DeSoto 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 DeSoto County, Mississippi, has established centralized purchasing for all funds of DeSoto County, Mississippi 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, DeSoto 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.

Continued
Page 2

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

Williams, Pitts & Beard, PLLC
Williams, Pitts and Beard, PLLC
Certified Public Accountants
March 27, 2007

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

Schedule 1

Date	Item Purchased	Bid Accepted	Vendor	Lowest Bid	Remarks
01/13/06	Backhoe	\$ 69,000	Thompson Machinery	\$ 56,497	Chosen because of Buyback value
01/13/06	Backhoe	69,000	Thompson Machinery	56,497	Chosen because of Buyback value

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

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Remarks</u>
10/25/05	Repair E911 Tower	6,000	Norht MS Two-Way	Restore 911 service at Eudora Fire Station
10/25/05	Repair to Eudora Fire Department	1,000	Whitfield Electric Co.	Repair to meter base and main power to Eudora Fire Department

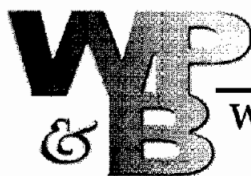
DESOTO COUNTY, MISSISSIPPI

Schedule 3

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

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

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
-------------	-----------------------	------------------------	---------------



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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
DeSoto County, Mississippi

In planning and performing our audit of the financial statements of DeSoto County, Mississippi for the year ended September 30, 2006, we considered DeSoto 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 DeSoto 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 March 27, 2007, on the financial statements of DeSoto County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, 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 the legal requirements.

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

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
March 27, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditors' 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) Domestic Preparedness Equipment Grant CFDA # 97.004

(b) State Homeland Security Grant Program CFDA # 97.067

(8) The dollar threshold used to distinguish between type A and type B programs:

\$300,000

(9) Auditee qualified as a low-risk auditee?

Yes

(10) Prior fiscal year audit 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

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.

