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YALOBUSHA COUNTY, MISSISSIPPI

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

YALOBUSHA COUNTY

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YALOBUSHA COUNTY

FINANCIAL SECTION

Windham and Lacey, PLLC

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INDEPENDENT AUDITOR'S REPORT ON THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS

Members of the Board of Supervisors
Yalobusha County, Mississippi

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

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

The financial statements referred to above include only the primary government of Yalobusha 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 Yalobusha County, Mississippi, as of September 30, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

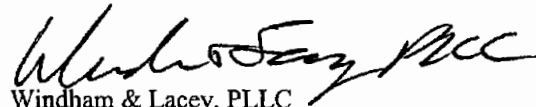
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of Yalobusha County, Mississippi, as of September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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2007, on our consideration of Yalobusha County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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



Windham & Lacey, PLLC
August 28, 2007

YALOBUSHA COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

YALOBUSHA COUNTY
Statement of Net Assets
September 30, 2006

Exhibit I

	Primary Government Governmental Activities
ASSETS	
Cash	\$ 5,629,168
Property tax receivable	4,183,167
Fines receivable, net of allowance for uncollectible of \$395,846	3,512
Intergovernmental receivables	47,804
Other receivables, net	81,609
Capital assets, net	13,268,912
Total Assets	23,214,172
LIABILITIES	
Claims payable	60,001
Intergovernmental payables	86,030
Accrued interest payable	77,928
Deferred revenue	4,183,167
Other payables	8,928
Long-term liabilities	
Due within one year:	
Capital related debt	374,238
Non-capital debt	5,000
Due in more than one year:	
Capital related debt	4,069,868
Non-capital debt	55,856
Total Liabilities	8,921,016
NET ASSETS	
Invested in capital assets, net of related debt	8,824,805
Restricted net assets:	
Expendable:	
Debt service	288,316
Public safety	375,112
Public works	1,556,912
Capital projects	78,698
Unemployment compensation	53,473
Reappraisal	533,119
Unrestricted	2,582,721
Total Net Assets	\$ 14,293,156

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

YALOBUSHA COUNTY

Statement of Activities

For the Year Ended September 30, 2006

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
		Fines, Fees and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Governmental Activities
Primary government:						
Governmental activities:						
General government	\$ 2,181,972	207,840	128,156	525,105	(1,974,132)	(1,974,132)
Public safety	1,099,671	179,792	788,158	454,553	(266,618)	(266,618)
Public works	2,183,612	412,006	17,681		(528,895)	(528,895)
Health and welfare	339,823				(322,142)	(322,142)
Culture and recreation	65,153				(65,153)	(65,153)
Conservation of natural resources	51,224				(51,224)	(51,224)
Economic development and assistance	12,474				(12,474)	(12,474)
Interest on long-term debt	211,312				(211,312)	(211,312)
Total Governmental Activities	6,145,241	799,638	933,995	979,658	(3,431,950)	(3,431,950)
Total Primary Government	\$ 6,145,241	799,638	933,995	979,658		
General revenues:						
Taxes:						
Property taxes					\$ 4,161,555	4,161,555
Road & bridge privilege taxes					139,235	139,235
Grants and contributions not restricted to specific programs					273,559	273,559
Unrestricted investment income					275,283	275,283
Miscellaneous					278,212	278,212
Proceeds from sale of assets					20,207	20,207
Total General Revenues					5,148,051	5,148,051
Changes in Net Assets					1,716,101	1,716,101
Net Assets - Beginning					12,577,055	12,577,055
Net Assets - Ending					\$ 14,293,156	14,293,156

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

YALOBUSHA COUNTY
Balance Sheet - Governmental Funds
September 30, 2006

Exhibit 3

	Major Funds			
	General Funds	Capital Improvements Courthouse Construction	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 2,886,323	78,698	2,664,051	5,629,072
Property tax receivable	2,825,750		1,357,417	4,183,167
Fines receivable, net of allowance for uncollectible of \$395,846	3,512			3,512
Intergovernmental receivables	47,804			47,804
Other receivables			52,609	52,609
Due from other funds	124,559		37,483	162,042
Total Assets	\$ 5,887,948	78,698	4,111,560	10,078,206
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 60,965		32,901	93,866
Intergovernmental payables	83,934			83,934
Due to other funds	60,685		103,356	164,041
Matured bonds and interest payable				0
Deferred revenue	2,829,288		1,357,417	4,186,705
Total Liabilities	3,034,872	0	1,493,674	4,528,546
Fund balances:				
Reserved for:				
Debt service			366,244	366,244
Unemployment compensation			53,473	53,473
Unreserved, reported in:				
General fund	2,853,076			2,853,076
Special revenue funds			2,198,169	2,198,169
Capital project funds		78,698		78,698
Total Fund Balances	2,853,076	78,698	2,617,886	5,549,660
Total Liabilities and Fund Balances	\$ 5,887,948	78,698	4,111,560	10,078,206

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

YALOBUSHA COUNTY

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

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 5,549,660
Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and, therefore, are not reported in the funds.	13,268,912
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fines receivable	3,512
Garbage fees receivable	53,962
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	
Long-term liabilities	(4,504,962)
Accrued interest on bonds	<u>(77,928)</u>
Total net assets - governmental activities (Exhibit 1)	\$ <u>14,293,156</u>

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

YALOBUSHA COUNTY

Exhibit 4

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

	Major Funds			
	General Fund	Capital Improvements Courthouse Construction	Other Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 2,828,288		1,332,977	4,161,265
Road and bridge privilege taxes			139,395	139,395
Licenses, commissions and other revenue	70,585		9,809	80,394
Fines and forfeitures	167,396			167,396
Intergovernmental revenues	360,643	311,580	1,519,989	2,192,212
Charges for services	32,082		515,968	548,050
Interest income	154,502	9,965	110,817	275,284
Miscellaneous revenues	199,589	265	57,437	257,291
Total Revenues	<u>3,813,085</u>	<u>321,810</u>	<u>3,686,392</u>	<u>7,821,287</u>
EXPENDITURES				
Current:				
General government	1,966,961	873,019	143,952	2,983,932
Public safety	625,364		1,104,779	1,730,143
Public works	75		2,089,280	2,089,355
Health and welfare	339,823			339,823
Culture and recreation	44,600		10,615	55,215
Conservation of natural resources	51,224			51,224
Economic development and assistance	12,474			12,474
Debt service:				
Principal			421,672	421,672
Interest			215,833	215,833
Bond issue costs			2,531	2,531
Total Expenditures	<u>3,040,521</u>	<u>873,019</u>	<u>3,988,662</u>	<u>7,902,202</u>
Excess of Revenues over (under) Expenditures	<u>772,564</u>	<u>(551,209)</u>	<u>(302,270)</u>	<u>(80,915)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	158,000	88,777	227,211	473,988
Transfers out	(315,988)		(158,000)	(473,988)
Proceeds from issuance of debt			18,787	18,787
Proceeds from sale of assets	21,177		46,086	67,263
Total Other Financing Sources and Uses	<u>(136,811)</u>	<u>88,777</u>	<u>134,084</u>	<u>86,050</u>
Net Changes in Fund Balances	635,753	(462,432)	(168,186)	5,135
Fund Balances - Beginning	<u>2,217,323</u>	<u>541,130</u>	<u>2,786,072</u>	<u>5,544,525</u>
Fund Balances - Ending	<u>\$ 2,853,076</u>	<u>78,698</u>	<u>2,617,886</u>	<u>5,549,660</u>

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

YALOBUSHA COUNTY

Exhibit 4-1

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

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ 5,135
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays \$1,801,767 exceeded depreciation \$465,580 in the current period.	1,336,187
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.	(23,804)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$421,672 exceeded debt proceeds \$18,787.	402,885
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long- term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Change in compensated absences	(5,418)
Solid waste receivable	26,247
Accrued bond interest payable	4,520
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	<u>(29,651)</u>
Change in net assets of governmental activities (Exhibit 2)	\$ <u>1,716,101</u>

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

YALOBUSHA COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2006

Exhibit 5

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 96
Due from other funds	<u>2,000</u>
Total Assets	<u>\$ 2,096</u>
LIABILITIES	
Intergovernmental payables	\$ <u>2,096</u>
Total Liabilities	<u>\$ 2,096</u>

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

YALOBUSHA COUNTY

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

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

- Yalobusha General Hospital
- Yalobusha County Public Library System

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

YALOBUSHA COUNTY

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

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

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

The county reports the following major governmental funds:

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

Courthouse Construction Fund - Accounts for monies from bond proceeds that are restricted for renovations to the courthouses.

YALOBUSHA COUNTY

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

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.

FIDUCIARY FUND TYPES

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

D. Account Classifications.

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

E. Deposits.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

YALOBUSHA COUNTY

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

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in governmental fund statements and the related assets are reported as capital assets in the applicable governmental activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. 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 of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land and construction-in-progress. A full year's depreciation expense is taken for all purchases of capital assets during the year. No depreciation is taken for sales of assets in the year of sale. The following schedule details those thresholds:

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

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Yalobusha County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. Current year general infrastructure assets are not reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

I. Long-term Liabilities.

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

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets.

YALOBUSHA COUNTY

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

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

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated.

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

K. Property Tax Revenues.

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

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

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied.

YALOBUSHA COUNTY

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

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

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

Therefore, the county's full liability in the amount of \$60,856 for accumulated unpaid personal leave up to a maximum of 30 days per employee is reported as a liability in the Statement of Net Assets.

(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.

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$5,629,264, and the bank balance was \$6,499,470. 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.

YALOBUSHA COUNTY

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

(4) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Nonmajor Governmental Funds	General Fund	\$ 37,483
General Fund	Nonmajor Governmental Funds	124,559
Agency Funds	General Fund	1,999
Total		\$ <u>164,041</u>

Amounts listed are the tax revenues collected but not settled until October, 2006, and short-term loans to other funds for operating and capital acquisitions. All interfund balances are expected to be repaid within one year of the date of the financial statements.

B. Transfers:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Major Funds:		
General Fund	Nonmajor Governmental Funds	\$ 158,000
Capital Improvements – Courthouse Construction	General Fund	88,777
Nonmajor Governmental Funds	General Fund	227,211
Total		\$ <u>473,988</u>

The purpose of these transfers were routine allocations between funds for road and bridge maintenance, transfers for debt service, and transfers to fire districts for fire protection. In addition, funds were transferred from the General Fund to Capital Improvements funds for construction costs.

(5) Intergovernmental Receivables.

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

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 46,998
Housing of local prisoners	806
Total Governmental Activities	\$ <u>47,804</u>

YALOBUSHA COUNTY

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

(6) Capital Assets.

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending Balance</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 497,524	43,440			540,964
Construction in progress	1,992,854	873,018			2,865,872
Total capital assets, not being depreciated	<u>2,490,378</u>	<u>916,458</u>	<u>0</u>	<u>0</u>	<u>3,406,836</u>
Capital assets, being depreciated:					
Buildings	9,200,354				9,200,354
Improvements other than buildings	10,818				10,818
Mobile equipment	3,476,661	754,800	(37,611)	67,502	4,261,352
Furniture and equipment	203,536	111,721		84,642	399,899
Property under capital leases	762,381	18,787	(56,737)	(152,144)	572,287
Infrastructure					
Total capital assets being depreciated	<u>13,653,750</u>	<u>885,308</u>	<u>(94,348)</u>	<u>0</u>	<u>14,444,710</u>
Less: Accumulated depreciation for:					
Buildings	1,267,387	183,386			1,450,773
Improvements other than buildings	3,030	433			3,463
Mobile equipment	2,424,594	206,347	(33,850)	50,654	2,647,745
Furniture and equipment	134,131	19,864		83,796	237,791
Property under capital leases	352,609	55,550	(30,847)	(134,450)	242,862
Infrastructure					
Total accumulated depreciation	<u>4,181,751</u>	<u>465,580</u>	<u>(64,697)</u>	<u>0</u>	<u>4,582,634</u>
Total capital assets, being depreciated, net	<u>9,471,999</u>	<u>419,728</u>	<u>(29,651)</u>	<u>0</u>	<u>9,862,076</u>
Governmental activities capital assets, net	\$ <u>11,962,377</u>	<u>1,336,186</u>	<u>(29,651)</u>	<u>0</u>	<u>13,268,912</u>

Depreciation expense was charged to the following functions:

Governmental activities:	
General government	\$ 186,587
Public safety	88,382
Public works	180,673
Culture and recreation	<u>9,938</u>
Total depreciation expense - governmental activities	\$ <u>465,580</u>

YALOBUSHA COUNTY

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

(7) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(8) Capital Leases.

As Lessee:

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

	Governmental Activities
Asset:	
Machinery and equipment	\$ 572,287
Less: Accumulated depreciation	<u>(242,862)</u>
Total	<u>\$ 329,425</u>

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

Year Ending September 30	Governmental Activities	
	Principal	Interest
2007	\$ 124,238	9,151
2008	76,927	4,783
2009	<u>62,941</u>	<u>2,035</u>
Total	<u>\$ 264,107</u>	<u>15,969</u>

YALOBUSHA COUNTY

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

(9) Long-term Debt.

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
Rural fire construction	\$ 20,000	5%	7/1/2007
District 3 road & bridge	15,000	6.125 - 6.25%	10/1/2007
Hospital bonds	685,000	3.9 - 4.125%	11/1/2013
Courthouse bonds	3,460,000	3.9 - 5.0%	5/1/2022
Total General Obligation Bonds	\$ 4,180,000		
B. Capital Leases:			
2 2003 Crown Victorias	\$ 8,406	3.92%	5/15/2007
2006 GMC truck	12,761	3.86%	3/23/2008
New Holland tractor	5,387	3.88%	10/17/2006
2004 Dodge Ram 1500 pickup	10,388	3.05%	3/15/2009
Used 2001 CAT 140H motor grader	74,358	3.35%	9/30/2009
2004 Dodge Ram 1500 pickup	13,633	3.05%	3/15/2009
Kubota Model M105shc tractor	18,493	3.08%	9/8/2009
2002 Chevy dump truck	8,577	3.84%	9/1/2005
1998 CAT 12H motor grader	18,792	4.00%	10/1/2007
2004 Dodge Ram 1500 pickup	10,388	3.05%	3/15/2009
2002 Chevy dump truck	8,577	3.84%	6/10/2007
Tractor	10,816	3.00%	1/6/2008
1997 CAT 140H motor grader	55,712	3.24%	12/10/2008
2004 GMC Sierra pickup	7,819	3.05%	3/22/2008
Total Capital Leases	\$ 264,107		

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

Governmental Activities:

Year Ending September 30	General Obligation Bonds	
	Principal	Interest
2007	\$ 250,000	187,765
2008	235,000	175,713
2009	240,000	166,054
2010	250,000	156,471
2011	265,000	146,284
2012-2016	1,310,000	559,982
2017-2021	1,325,000	275,375
2022	305,000	14,946
Total	\$ 4,180,000	1,682,590

YALOBUSHA COUNTY

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

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2006, the amount of outstanding debt was equal to 7.1 % of the latest property assessments.

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

	Balance 10/1/2005	Additions	Reductions	Balance 9/30/2006	Amount due within one year
Governmental Activities:					
Compensated absences	\$ 55,438	5,418		60,856	5,000
General obligation bonds	4,420,000		240,000	4,180,000	250,000
Capital leases	426,992	18,787	181,672	264,107	124,238
Total	\$ 4,902,430	24,205	421,672	4,504,963	379,238

(10) Contingencies and Commitments.

Federal Grants - The county has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county.

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

General Obligation Debt Contingencies - The county issues general obligation bonds and special obligation bonds to provide funds for constructing and improving capital facilities of the Yalobusha General Hospital. Such debt is being retired from pledged resources of the hospital and, therefore, is reported as a liability of the hospital. However, because general obligation bonds are backed by the full faith, credit and taxing power of the county, the county remains contingently liable for its retirement. The principal amount of such debt outstanding at year-end is \$2,691,000.

(11) Related Organization.

The Yalobusha County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Yalobusha County Water & Sewer District, but the county's accountability for this organization does not extend beyond making the appointments. During the year, the county did not appropriate to this organization.

YALOBUSHA COUNTY

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

(12) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Communicare operates in a district composed of the Counties of Calhoun, DeSoto, Lafayette, Marshall, Panola, Tate and Yalobusha. The Yalobusha County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$18,753 for the support of the district in fiscal year 2006.

North Central Mississippi Planning and Development District operates in a district composed of the Counties of Attala, Carroll, Grenada, Holmes, Leflore, Montgomery and Yalobusha. The Yalobusha County Board of Supervisors appoints four of the 28 members of the board of directors. The county appropriated \$32,974 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 Yalobusha County Board of Supervisors appoints two of the 23 members of the college board of trustees. The county appropriated \$114,063 for maintenance and support of the college in fiscal year 2006.

In 2003, the Oakland/Yalobusha Natural Gas District was formed to provide natural gas distribution infrastructure and natural gas to the Town of Oakland and parts of Yalobusha County. The Yalobusha County Board of Supervisors appoints two of the seven members of the governing board of the District.

(13) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$190,828, \$185,918 and \$154,262, respectively, equal to the required contributions for each year.

YALOBUSHA COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,782,151	2,770,509	2,770,509	
Licenses, commissions and other revenue	69,500	64,224	64,224	
Fines and forfeitures	115,160	150,706	150,706	
Intergovernmental revenues	375,225	360,643	360,643	
Charges for services	44,000	31,277	31,277	
Interest income	60,000	153,817	153,817	
Miscellaneous revenues	71,780	199,590	199,590	
Total Revenues	<u>3,517,816</u>	<u>3,730,766</u>	<u>3,730,766</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	2,217,955	1,943,389	1,943,389	
Public safety	639,219	622,378	622,378	
Public works	75	75	75	
Health and welfare	328,460	339,201	339,201	
Culture and recreation	44,600	44,600	44,600	
Conservation of natural resources	55,274	51,224	51,224	
Economic development and assistance	12,474	12,474	12,474	
Total Expenditures	<u>3,298,057</u>	<u>3,013,341</u>	<u>3,013,341</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>219,759</u>	<u>717,425</u>	<u>717,425</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Other financing uses				
Transfers in	50,000	554,396	554,396	
Transfers out	(244,221)	(712,384)	(712,384)	
Proceeds from sale of assets		21,177	21,177	
Total Other Financing Sources and Uses	<u>(194,221)</u>	<u>(136,811)</u>	<u>(136,811)</u>	<u>0</u>
Net Change in Fund Balance	25,538	580,614	580,614	0
Fund Balances - Beginning	<u>1,870,000</u>	<u>2,217,323</u>	<u>2,217,323</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,895,538</u>	<u>2,797,937</u>	<u>2,797,937</u>	<u>0</u>

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

YALOBUSHA COUNTY

Notes to the Required Supplementary Information For the Year Ended September 30, 2006

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	Governmental Fund Types
	General Fund
Net Change in Fund Balance - Budget (Cash Basis)	\$ 580,614
Increase (decrease):	
Net adjustments for revenue accruals	82,320
Net adjustments for expenditure accruals	(27,181)
Net Change in Fund Balance GAAP Basis	\$ <u>635,753</u>

YALOBUSHA COUNTY

SUPPLEMENTAL INFORMATION

YALOBUSHA COUNTY
Schedule of Expenditures of Federal Awards
September 30, 2006

Federal Grantor/Pass-through Grantor/ Program Title	Federal CFDA Number	Grant Identification Number	Agency or Pass-through Number	Federal Disbursements/ Expenditures
MAJOR PROGRAM:				
U. S. Department of Homeland Security/ Assistance to Firefighters Grant	97.044	EMW2004FG17004 EMW2005FG14936 EMW2004FG12461	\$	149,940 171,000 158,940
Total Major Program				479,880
NON-MAJOR PROGRAMS:				
U. S. Department of Agriculture Rural Development Community Facilities Loan and Grant Program Hospital Equipment Grant	10.766	N/A	N/A	35,460
U. S. Department of Transportation/MDOT Highway Planning and Construction Bridge Inspections	20.205	N/A	N/A	9,910
Federal Election Commission - Election Assistance Commission/Mississippi Secretary of State/Help America Vote Act Voting Machines	90.401	N/A	N/A	84,186
Department of Homeland Security/ MS Department of Public Safety/State Domestic Preparedness Equipment Support Grant	97.004	3SUP95B 04HS081	3SUP95B 04HS081	3,212 40,721
Department of Homeland Security/Mississippi Emergency Management Agency/Emergency Management Performance Grant	97.042	N/A	N/A	5,505
Total Non-Major Programs				178,994
Total Major and Non-Major Programs			\$	658,874

Note A - Basis of Presentation:

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Yalobusha County and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Help America Vote Act (CFDA # 90.401)

Of the federal expenditures presented in the schedule, federal awards totaling \$84,186 represents cash awards for computerized voting machines during the fiscal year ended September 30, 2006.

YALOBUSHA COUNTY

SPECIAL REPORTS

Windham and Lacey, PLLC

Certified Public Accountants

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Pearl, MS 39208
(601)939-8676

Members:
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Mississippi Society of CPAs

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

Members of the Board of Supervisors
Yalobusha County, Mississippi

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Yalobusha County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise Yalobusha County, Mississippi's basic financial statements and have issued our report thereon dated August 28, 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. Except for the limitation referred to above, 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.

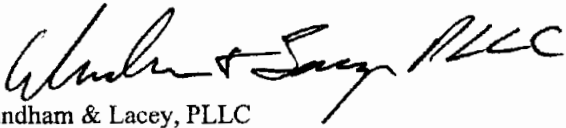
Internal Control Over Financial Reporting

In planning and performing our audit, we considered Yalobusha 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 condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the 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 Yalobusha County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink, appearing to read "Windham & Lacey, PLLC". The signature is stylized and cursive.

Windham & Lacey, PLLC
August 28, 2007

Windham and Lacey, PLLC

Certified Public Accountants

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Mississippi Society of CPAs

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

Members of the Board of Supervisors
Yalobusha County, Mississippi

Compliance

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

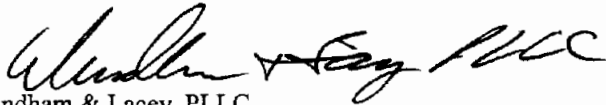
In our opinion, Yalobusha County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

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

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

A handwritten signature in black ink, appearing to read "Windham & Lacey, PLLC", is written over the printed name.

Windham & Lacey, PLLC
August 28, 2007

Windham and Lacey, PLLC

Certified Public Accountants

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

Members:
American Institute of CPAs
Mississippi Society of CPAs

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

Members of the Board of Supervisors
Yalobusha County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Yalobusha 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.

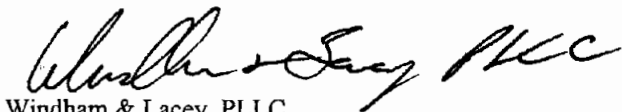
The Board of Supervisors of Yalobusha County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing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

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

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

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

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



Windham & Lacey, PLLC
August 28, 2007

YALOBUSHA COUNTY

Schedule 1

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

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

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

Schedule 2

Our test results did not identify any emergency purchases.

YALOBUSHA COUNTY

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 source.

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

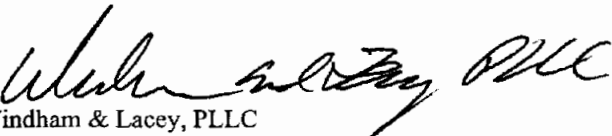
Members of the Board of Supervisors
Yalobusha County Mississippi

In planning and performing our audit of the financial statements of Yalobusha County, Mississippi for the year ended September 30, 2006, we considered Yalobusha 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 Yalobusha 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 August 28, 2007, on the financial statements of Yalobusha County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

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



Windham & Lacey, PLLC
August 28, 2007

YALOBUSHA COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YALOBUSHA COUNTY

Schedule of Findings and Questioned Costs For the Year Ended September 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that is not considered to be a material Weakness? | No |
| 6. | Any audit findings reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | U.S. Department of Homeland Security, Assistance to Firefighters Grant
CFDA #97.044 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No |

YALOBUSHA COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

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 the federal awards.