



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

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**KEMPER COUNTY, MISSISSIPPI**

**Audited Primary Government Financial Statements and Special Reports  
For the Year Ended September 30, 2005**







KEMPER COUNTY

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KEMPER COUNTY

FINANCIAL SECTION

KEMPER COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Kemper County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Kemper County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of Kemper 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 unit, 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 Kemper County, Mississippi, as of September 30, 2005, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of Kemper County, Mississippi, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

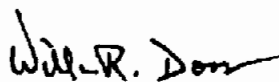
In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2006, on our consideration of Kemper County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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.

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

The Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 6, 2006

[Except for Note 17 to which the date is November 6, 2006]

KEMPER COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

KEMPER COUNTY  
Statement of Net Assets  
September 30, 2005

Exhibit I

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Cash and investments	\$ 2,544,609	2,156,934	4,701,543
Property tax receivable	3,289,477	102,052	3,391,529
Accounts receivable (net of allowance for uncollectibles of \$359,101)		58,476	58,476
Fines receivable (net of allowance for uncollectibles of \$272,229)	60,907		60,907
Loans receivable	727,745		727,745
Intergovernmental receivables	67,760		67,760
Other receivables	2,748		2,748
Internal balances	2,026	(2,026)	
Capital assets, net	6,175,351	5,063,109	11,238,460
<b>Total Assets</b>	<b>12,870,623</b>	<b>7,378,545</b>	<b>20,249,168</b>
<b>LIABILITIES</b>			
Claims payable	143,609	110,331	253,940
Intergovernmental payables	54,861		54,861
Accrued interest payable		23,183	23,183
Other payables	70,124		70,124
Unearned revenue	3,289,477	102,052	3,391,529
Long-term liabilities			
Due within one year:			
Capital debt	561,057	261,851	822,908
Non-capital debt	146,712		146,712
Due in more than one year:			
Capital debt	279,630	4,710,793	4,990,423
Non-capital debt	621,359	19,575	640,934
<b>Total Liabilities</b>	<b>5,166,829</b>	<b>5,227,785</b>	<b>10,394,614</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,334,664	90,465	5,425,129
Restricted:			
Expendable:			
Public safety	219,310	1,959,414	2,178,724
Public works	499,263	100,881	600,144
Culture and recreation	18,995		18,995
Economic development	1,064		1,064
Unrestricted	1,630,498		1,630,498
<b>Total Net Assets</b>	<b>\$ 7,703,794</b>	<b>2,150,760</b>	<b>9,854,554</b>

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

KEMPER COUNTY  
Statement of Activities  
For the Year Ended September 30, 2005

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,404,827	87,253	15,542	3,497	(1,298,535)		(1,298,535)
Public safety	934,083	91,396	80,101	178,452	(584,134)		(584,134)
Public works	2,195,379		571,801	881,439	(742,139)		(742,139)
Health and welfare	152,031		16,126	15,334	(120,571)		(120,571)
Culture and recreation	56,956				(56,956)		(56,956)
Conservation of natural resources	81,230				(81,230)		(81,230)
Economic development and assistance	206,061		45,725	2,500	(157,836)		(157,836)
Interest on long-term debt	42,714				(42,714)		(42,714)
Total Governmental Activities	<u>5,073,281</u>	<u>178,649</u>	<u>729,295</u>	<u>1,081,222</u>	<u>(3,084,115)</u>	<u>0</u>	<u>(3,084,115)</u>
Business-type activities:							
Regional jail	2,524,872	2,615,415				90,543	90,543
Solid waste	388,368	263,429				(124,939)	(124,939)
Total Business-type Activities	<u>2,913,240</u>	<u>2,878,844</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(34,396)</u>	<u>(34,396)</u>
Total Primary Government	<u>\$ 7,986,521</u>	<u>3,057,493</u>	<u>729,295</u>	<u>1,081,222</u>	<u>(3,084,115)</u>	<u>(34,396)</u>	<u>(3,118,511)</u>
General revenues:							
Property taxes					\$ 3,494,009	102,127	3,596,136
Road & bridge privilege taxes					103,348		103,348
Grants and contributions not restricted to specific programs					248,302		248,302
Unrestricted investment income					10,688	30,935	41,623
Miscellaneous					186,167	28,452	214,619
Total General Revenues					<u>4,042,514</u>	<u>161,514</u>	<u>4,204,028</u>
Changes in Net Assets					<u>958,399</u>	<u>127,118</u>	<u>1,085,517</u>
Net Assets - Beginning					7,535,944	2,023,642	9,559,586
Prior period adjustment					(790,549)		(790,549)
Net Assets - Beginning, as restated					<u>6,745,395</u>	<u>2,023,642</u>	<u>8,769,037</u>
Net Assets - Ending					<u>\$ 7,703,794</u>	<u>2,150,760</u>	<u>9,854,554</u>

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

KEMPER COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2005

Exhibit 3

	Major Funds				
	General Fund	Countywide Road and Bridge Fund	State Aid Special Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash	\$ 1,689,844	845	16,143	837,777	2,544,609
Property tax receivable	2,041,395	1,197,462		50,620	3,289,477
Fines receivable (net of allowance for uncollectibles of \$272,229)	60,907				60,907
Loans receivable				727,745	727,745
Intergovernmental receivables	43,440			24,320	67,760
Other receivables	2,748				2,748
Due from other funds	4,100	54,884		1,010	59,994
Total Assets	\$ 3,842,434	1,253,191	16,143	1,641,472	6,753,240
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Claims payable	\$ 62,379	64,921		16,309	143,609
Intergovernmental payables	51,273				51,273
Due to other funds	61,556				61,556
Deferred revenue	60,907				60,907
Unearned revenue	2,041,395	1,197,462		50,620	3,289,477
Other payables	70,124				70,124
Total Liabilities	2,347,634	1,262,383	0	66,929	3,676,946
Fund balances:					
Reserved for:					
Loans receivable				727,745	727,745
Economic development				1,064	1,064
Unreserved, reported in:					
General Fund	1,494,800				1,494,800
Special Revenue Funds		(9,192)	16,143	845,734	852,685
Total Fund Balances	1,494,800	(9,192)	16,143	1,574,543	3,076,294
Total Liabilities and Fund Balances	\$ 3,842,434	1,253,191	16,143	1,641,472	6,753,240

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

KEMPER COUNTY  
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2005

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,076,294
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 \$3,458,695.	6,175,351
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	60,907
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(1,608,758)</u>
Total Net Assets - Governmental Activities	<u>\$ 7,703,794</u>

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

KEMPER COUNTY  
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2005

Exhibit 4

	Major Funds				Total Governmental Funds
	General Fund	Countywide Road and Bridge Fund	State Aid Special Fund	Other Governmental Funds	
<b>REVENUES</b>					
Property taxes	\$ 2,131,994	1,297,631		64,384	3,494,009
Road and bridge privilege taxes		103,348			103,348
Licenses, commissions and other revenue	42,060			29,322	71,382
Fines and forfeitures	101,087				101,087
Intergovernmental revenues	572,700	543,152	533,655	409,312	2,058,819
Charges for services	11,652			68,746	80,398
Interest income	8,901	1,551		236	10,688
Miscellaneous revenues	1,039	5,702		179,426	186,167
<b>Total Revenues</b>	<b>2,869,433</b>	<b>1,951,384</b>	<b>533,655</b>	<b>751,426</b>	<b>6,105,898</b>
<b>EXPENDITURES</b>					
Current:					
General government	1,386,219				1,386,219
Public safety	688,413			196,567	884,980
Public works		1,909,697	587,128	262,024	2,758,849
Health and welfare	147,031			5,000	152,031
Culture and recreation	37,063			19,893	56,956
Conservation of natural resources	81,230				81,230
Economic development and assistance	95,032			111,029	206,061
Debt service:					
Principal	64,878	169,521		112,504	346,903
Interest	3,502	35,321		3,891	42,714
<b>Total Expenditures</b>	<b>2,503,368</b>	<b>2,114,539</b>	<b>587,128</b>	<b>710,908</b>	<b>5,915,943</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>366,065</b>	<b>(163,155)</b>	<b>(53,473)</b>	<b>40,518</b>	<b>189,955</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term capital debt issued		13,479			13,479
Transfers in	15,465	111,218	54,682		181,365
Transfers out				(181,365)	(181,365)
<b>Total Other Financing Sources and Uses</b>	<b>15,465</b>	<b>124,697</b>	<b>54,682</b>	<b>(181,365)</b>	<b>13,479</b>
<b>Net Changes in Fund Balances</b>	<b>381,530</b>	<b>(38,458)</b>	<b>1,209</b>	<b>(140,847)</b>	<b>203,434</b>
Fund Balances - Beginning	1,113,270	29,266	14,934	1,715,390	2,872,860
Fund Balances - Ending	\$ 1,494,800	(9,192)	16,143	1,574,543	3,076,294

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

## KEMPER 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, 2005

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 203,434
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$928,369 exceeded depreciation of \$466,340 in the current period.	462,029
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 loss on disposal of assets in the current period.	(1,253)
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.	(74,218)
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 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 \$346,903 exceeded debt proceeds of \$13,479.	333,424
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. Thus, the change in net assets differs from the change in fund balances by the amount of the net decrease in compensated absences.	<u>34,983</u>
Change in Net Assets of Governmental Activities	<u>\$ 958,399</u>

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

KEMPER COUNTY  
Statement of Net Assets - Proprietary Funds  
September 30, 2005

Exhibit 5

	Business-type Activities - Enterprise Funds		
	Major Fund - Regional Jail Fund	Nonmajor Fund - Solid Waste Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 2,101,264	55,670	2,156,934
Property tax receivable		102,052	102,052
Accounts receivable (net of allowance for uncollectibles of \$359,101)		58,476	58,476
Due from other funds		2,074	2,074
Total Current Assets	<u>2,101,264</u>	<u>218,272</u>	<u>2,319,536</u>
Noncurrent assets:			
Capital assets, net	<u>4,888,573</u>	<u>174,536</u>	<u>5,063,109</u>
Total Noncurrent Assets	<u>4,888,573</u>	<u>174,536</u>	<u>5,063,109</u>
Total Assets	<u>6,989,837</u>	<u>392,808</u>	<u>7,382,645</u>
<b>LIABILITIES</b>			
Current liabilities:			
Claims payable	98,590	11,741	110,331
Due to other funds	4,100		4,100
Accrued interest payable	23,183		23,183
Unearned revenue		102,052	102,052
Capital debt:			
Capital leases payable	7,797	9,054	16,851
Other long-term liabilities	<u>245,000</u>		<u>245,000</u>
Total Current Liabilities	<u>378,670</u>	<u>122,847</u>	<u>501,517</u>
Noncurrent liabilities:			
Capital debt:			
Capital leases payable	10,793		10,793
Other long-term liabilities	4,700,000		4,700,000
Non-capital debt:			
Compensated absences payable	<u>15,977</u>	<u>3,598</u>	<u>19,575</u>
Total Noncurrent Liabilities	<u>4,726,770</u>	<u>3,598</u>	<u>4,730,368</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	(75,017)	165,482	90,465
Restricted for public safety	1,959,414		1,959,414
Restricted for public works		<u>100,881</u>	<u>100,881</u>
Total Net Assets	<u>\$ 1,884,397</u>	<u>266,363</u>	<u>2,150,760</u>

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

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds  
For the Year Ended September 30, 2005

	Business-type Activities - Enterprise Funds		Totals
	Major Fund - Regional Jail Fund	Nonmajor Fund - Solid Waste Fund	
Operating Revenues			
Charges for services	\$ 2,615,415	263,429	2,878,844
Miscellaneous	15,215	13,237	28,452
Total Operating Revenues	<u>2,630,630</u>	<u>276,666</u>	<u>2,907,296</u>
Operating Expenses			
Personal services	1,180,124	225,664	1,405,788
Contractual services	708,887	78,845	787,732
Materials and supplies	154,232	46,703	200,935
Depreciation expense	127,692	32,358	160,050
Indirect administrative cost	37,730	3,754	41,484
Total Operating Expenses	<u>2,208,665</u>	<u>387,324</u>	<u>2,595,989</u>
Operating Income (Loss)	<u>421,965</u>	<u>(110,658)</u>	<u>311,307</u>
Nonoperating Revenues (Expenses)			
Property tax		102,127	102,127
Interest income	30,935		30,935
Interest expense	(316,207)	(1,044)	(317,251)
Net Nonoperating Revenue (Expenses)	<u>(285,272)</u>	<u>101,083</u>	<u>(184,189)</u>
Changes in Net Assets	136,693	(9,575)	127,118
Net Assets - Beginning	<u>1,747,704</u>	<u>275,938</u>	<u>2,023,642</u>
Net Assets - Ending	<u>\$ 1,884,397</u>	<u>266,363</u>	<u>2,150,760</u>

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

KEMPER COUNTY  
Statement of Cash Flows - Proprietary Funds  
For the Year Ended September 30, 2005

Exhibit 7

	Business-type Activities - Enterprise Funds		Totals
	Major Fund - Regional Jail Fund	Nonmajor Fund - Solid Waste Fund	
<b>Cash Flows From Operating Activities</b>			
Receipts from users	\$ 2,615,415		2,615,415
Receipts from customers		266,204	266,204
Payments to employees	(1,177,154)	(230,364)	(1,407,518)
Payments to suppliers	(820,813)	(116,151)	(936,964)
Payments to General Fund for indirect costs	(46,598)		(46,598)
Other operating cash receipts	15,215	13,237	28,452
Net Cash Provided (Used) by Operating Activities	<u>586,065</u>	<u>(67,074)</u>	<u>518,991</u>
<b>Cash Flows From Noncapital Financing Activities</b>			
Cash received from property taxes		101,350	101,350
Cash received from other funds:			
Interfund loan repayments		7,483	7,483
Cash paid to other funds:			
Interfund loan repayments	(7,483)		(7,483)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(7,483)</u>	<u>108,833</u>	<u>101,350</u>
<b>Cash Flows From Capital and Related Financing Activities</b>			
Principal paid on long-term debt	(235,061)	(20,963)	(256,024)
Interest paid on debt	(293,024)	(1,044)	(294,068)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(528,085)</u>	<u>(22,007)</u>	<u>(550,092)</u>
<b>Cash Flows From Investing Activities</b>			
Interest on investments	30,935		30,935
Net Cash Provided (Used) by Investing Activities	<u>30,935</u>	<u>0</u>	<u>30,935</u>
Net Increase (Decrease) in Cash and Cash Equivalents	81,432	19,752	101,184
Cash and Cash Equivalents at Beginning of Year	<u>2,019,832</u>	<u>35,918</u>	<u>2,055,750</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,101,264</u>	<u>55,670</u>	<u>2,156,934</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>			
Operating income (loss)	\$ 421,965	(110,658)	311,307
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	127,692	32,358	160,050
Provision for uncollectible accounts		27,370	27,370
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable		(28,259)	(28,259)
(Increase) decrease in intergovernmental receivables		3,664	3,664
Increase (decrease) in claims payable	42,306	9,288	51,594
Increase (decrease) in compensated absences liability	2,970	(837)	2,133
Increase (decrease) in interfund payables	(8,868)		(8,868)
Total Adjustments	<u>164,100</u>	<u>43,584</u>	<u>207,684</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 586,065</u>	<u>(67,074)</u>	<u>518,991</u>

Noncash Capital Financing Activity:

Kemper County lease purchased mobile equipment for \$23,651 for 3 years at 3.21% interest. Principal payments of \$5,061 were made on the lease during the year.

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

KEMPER COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2005

Exhibit 8

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 208,745
Due from other funds	<u>3,588</u>
Total Assets	<u><u>\$ 212,333</u></u>
<b>LIABILITIES</b>	
Amounts held in custody for others	\$ 173,451
Intergovernmental payables	<u>38,882</u>
Total Liabilities	<u><u>\$ 212,333</u></u>

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

## KEMPER COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2005

#### (1) Summary of Significant Accounting Policies.

##### A. Financial Reporting Entity.

Kemper 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 Kemper 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 unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Kemper County Economic Development Authority

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.

## KEMPER COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2005

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

#### Fund Financial Statements:

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

#### C. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary 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.

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

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

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and 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.

## KEMPER COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2005

The county reports the following major Governmental Funds:

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

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

State Aid Special Fund - This fund is used to account for monies from the State of Mississippi, Department of Transportation that are restricted for the construction of roads and bridges.

The county reports the following major Proprietary Fund:

Regional Jail Fund - This fund is used to account for the county's activities of housing local and state inmates within the county's regional jail.

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 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.

#### PROPRIETARY FUND TYPE

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

#### FIDUCIARY FUND TYPE

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

#### D. Account Classifications.

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

#### E. Deposits and Investments.

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

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

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. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. 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.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Kemper 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. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

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

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 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.

I. Long-term Liabilities.

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

In the government-wide financial statements and in the Proprietary Funds in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Assets.

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, construction 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."

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

Fund Financial Statements:

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

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

K. Property Tax Revenues.

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

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

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

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

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

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2005, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this new statement have been incorporated into the financial statements and the accompanying notes.

(3) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
To record long-term debt omitted in error in prior years	\$ <u>(790,549)</u>

(4) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$2,828,971, and the bank balance was \$2,911,633. 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.

Investments:

The county's investments at year end consisted entirely of money market mutual funds held by the Hancock Bank trust department. At year end, the carrying amount of the county's investments was \$2,081,317 and the cost was \$2,081,317. All of the county's investments are uninsured and unregistered. The money market mutual fund investments are not backed by the full faith and credit of the federal government. As of September 30, 2005, the county's investment in Hancock Horizon Treasury Securities Money Market Fund was rated AAAM by Standard and Poors.

**Interest Rate Risk.** The county does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972), limits the maturity period of any investment to no more than one year.

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

Credit Risk. State law limits investments to those authorized by Section 19-9-29, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2005:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Regional Jail	\$ 4,100
Countywide Road and Bridge	General	54,884
Other Governmental Funds	General	1,010
Other Enterprise Funds	General	2,074
Agency Funds	General	<u>3,588</u>
Total		<u>\$ 65,656</u>

The Regional Jail Fund payable represents indirect administrative costs incurred during the fiscal year. All other receivables represent the tax revenue collected but not settled until October, 2005. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 15,465
Countywide Road and Bridge Fund	Other Governmental Funds	111,218
State Aid Special Fund	Other Governmental Funds	<u>54,682</u>
Total		<u>\$ 181,365</u>

The purpose of the interfund transfers to the General Fund was to transfer balances of inactive funds. The purpose of the other interfund transfers was to provide operating funds to pay for ongoing fund expenditures. The interfund transfers were routine and consistent with the activities of the funds making the transfer.

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2005, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	\$ 43,440
State aid road funds	<u>24,320</u>
Total Governmental Activities	<u>\$ 67,760</u>

(7) Loans Receivable.

Loans receivable balances at September 30, 2005, are as follows:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Trans Tech	10/15/02	3.00%	03/01/10	\$ 207,632
Pharma Pac	06/27/03	0.50%	12/01/13	<u>520,113</u>
Total				<u>\$ 727,745</u>

(8) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2005:

Governmental activities:

	<u>Balance Oct. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments *</u>	<u>Balance Sept. 30, 2005</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 419,884				419,884
Construction in progress	<u>1,746,957</u>	<u>847,828</u>		<u>(2,372,038)</u>	<u>222,747</u>
Total non-depreciable capital assets	<u>2,166,841</u>	<u>847,828</u>	<u>0</u>	<u>(2,372,038)</u>	<u>642,631</u>
<u>Depreciable capital assets:</u>					
Infrastructure	806,673			2,372,038	3,178,711
Buildings	1,889,029				1,889,029
Mobile equipment	2,650,061	57,907			2,707,968
Furniture and equipment	320,830	9,155	217,768		112,217
Leased property under capital leases	1,090,011	13,479			1,103,490
Total depreciable capital assets	<u>6,756,604</u>	<u>80,541</u>	<u>217,768</u>	<u>2,372,038</u>	<u>8,991,415</u>

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

	Balance Oct. 1, 2004	Additions	Deletions	Adjustments *	Balance Sept. 30, 2005
<u>Less accumulated depreciation for:</u>					
Infrastructure	40,416	147,492			187,908
Buildings	849,658	31,491			881,149
Mobile equipment	1,648,286	172,464			1,820,750
Furniture and equipment	306,981	5,036	216,515		95,502
Leased property under capital leases	363,529	109,857			473,386
Total accumulated depreciation	<u>3,208,870</u>	<u>466,340</u>	<u>216,515</u>	<u>0</u>	<u>3,458,695</u>
Total depreciable capital assets, net	<u>3,547,734</u>	<u>(385,799)</u>	<u>1,253</u>	<u>2,372,038</u>	<u>5,532,720</u>
Governmental activities capital assets, net	<u>\$ 5,714,575</u>	<u>462,029</u>	<u>1,253</u>	<u>0</u>	<u>6,175,351</u>
Business-type activities:					
	Balance Oct. 1, 2004	Additions	Deletions	Adjustments *	Balance Sept. 30, 2005
<u>Depreciable capital assets:</u>					
Buildings	\$ 5,141,731				5,141,731
Mobile equipment	223,213			(57,753)	165,460
Furniture and equipment	49,750				49,750
Leased property under capital leases	82,685	23,651		57,753	164,089
Total depreciable capital assets	<u>5,497,379</u>	<u>23,651</u>	<u>0</u>	<u>0</u>	<u>5,521,030</u>
<u>Less accumulated depreciation for:</u>					
Buildings	205,669	102,835			308,504
Mobile equipment	30,935	22,129		19,078	72,142
Furniture and equipment	18,881	12,932			31,813
Leased property under capital leases	42,386	22,154		(19,078)	45,462
Total accumulated depreciation	<u>297,871</u>	<u>160,050</u>	<u>0</u>	<u>0</u>	<u>457,921</u>
Business-type activities capital assets, net	<u>\$ 5,199,508</u>	<u>(136,399)</u>	<u>0</u>	<u>0</u>	<u>5,063,109</u>

\* Adjustments are to correct a prior year error and to reclassify completed construction in progress to infrastructure and paid out leases to mobile equipment.

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 33,217
Public safety	57,494
Public works	<u>375,629</u>
Total governmental activities depreciation expense	\$ <u><u>466,340</u></u>
Business-type activities:	
Solid waste	\$ 32,358
Correctional facility	<u>127,692</u>
Total business-type activities depreciation expense	\$ <u><u>160,050</u></u>

Commitment with respect to an unfinished capital project at September 30, 2005, consists of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Access road to industrial park	\$ 319,601	September 30, 2006

(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.

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(10) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2005:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,052,229	164,089
Furniture and equipment	51,261	
Total	1,103,490	164,089
Less: Accumulated depreciation	473,386	45,462
Leased Property Under Capital Leases	\$ <u>630,104</u>	<u>118,627</u>

The following is a schedule by years of the total payments due as of September 30, 2005:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 524,805	18,759	16,851	599
2007	99,495	4,112	8,051	229
2008	62,720	1,398	2,742	18
2009	19,417	219		
Total	\$ <u>706,437</u>	<u>24,488</u>	<u>27,644</u>	<u>846</u>

(11) Long-term Debt.

Debt outstanding as of September 30, 2005, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. Capital Leases:			
3 Caterpillar motor graders	\$ 306,684	5.25%	02/06
2 John Deere motor graders	116,766	4.89%	04/06
AS400 computer system	22,844	3.91%	10/07
Rubber tire roller	22,383	3.97%	11/07
Asphalt tar truck	46,832	3.23%	04/08
Crown Victoria	12,040	2.88%	02/07
2 dump trucks	65,396	2.67%	06/08
2 John Deere tractors	102,166	2.99%	05/08
GMC pickup	11,326	3.37%	03/08
Total Capital Leases	\$ <u>706,437</u>		

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
B. Other Loans:			
International truck	\$ 4,768	4.05%	12/05
2 fire trucks	80,781	3.00%	10/07
Fire truck	48,701	2.00%	08/13
CDBG - Trans Tech	207,632	3.00%	03/10
CDBG - Pharma Pac	<u>520,113</u>	0.50%	12/13
Total Other Loans	<u>\$ 861,995</u>		

Business-type Activities:

A. Limited Obligation Bonds:			
Urban renewal revenue bonds - regional jail*	<u>\$ 4,945,000</u>	5.20/6.25%	09/19
B. Capital Leases:			
2 garbage trucks	\$ 9,054	5.09%	02/06
Ford van	<u>18,590</u>	3.21%	03/08
Total Capital Leases	<u>\$ 27,644</u>		

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

Governmental Activities:

Year Ending September 30	Other Loans	
	Principal	Interest
2006	\$ 182,964	16,323
2007	130,423	5,272
2008	109,110	3,574
2009	108,292	2,299
2010	94,330	1,066
2011-2015	<u>236,876</u>	<u>1,117</u>
Total	<u>\$ 861,995</u>	<u>29,651</u>

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

Business-type Activities:

<u>Year Ending September 30</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 245,000	278,190
2007	255,000	262,878
2008	270,000	246,940
2009	285,000	230,065
2010	300,000	213,677
2011 - 2015	1,780,000	812,043
2016 - 2020	<u>1,810,000</u>	<u>266,218</u>
Total	\$ <u>4,945,000</u>	<u>2,310,011</u>

Limited Obligation Bonds

- \* Limited obligation urban renewal bonds, designed as “qualified tax exempt obligations” for purposes of Section 265 of the Internal Revenue Code of 1986, were issued with a face value of \$5,800,000 for the purpose of financing the construction and equipping of the Kemper-Neshoba Regional Correctional Facility. The bonds are not a general obligation of the county and, therefore, are not secured by the full faith and credit of the county. The sole source of payment for the revenue bonds is income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners.

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, 2005, the amount of outstanding debt was equal to less than 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, 2005:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments *</u>	<u>Balance</u>	<u>Amount due</u>
	<u>Oct. 1, 2004</u>				<u>Sept. 30, 2005</u>	<u>within one</u>
						<u>year</u>
Governmental Activities:						
Compensated absences	\$ 75,309	45,513	80,496		40,326	
General obligation bonds	15,000		15,000			
Capital leases	864,579	13,479	171,621		706,437	524,805
Other loans	231,728		160,282	790,549	861,995	182,964
Total	\$ <u>1,186,616</u>	<u>58,992</u>	<u>427,399</u>	<u>790,549</u>	<u>1,608,758</u>	<u>707,769</u>

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

	Balance Oct. 1, 2004	Additions	Reductions	Adjustments *	Balance Sept. 30, 2005	Amount due within one year
Business-type Activities:						
Compensated absences	\$ 17,442	21,377	19,244		19,575	
Limited obligation bonds	5,175,000		230,000		4,945,000	245,000
Capital leases	30,017	23,651	26,024		27,644	16,851
Total	\$ 5,222,459	45,028	275,268	0	4,992,219	261,851

\* The adjustment is to record debt omitted in error in prior years.

(12) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2005:

Fund	Deficit Amount
Countywide Road and Bridge	\$ 9,192
Waste Tire Disposal Grant	7,939

(13) Contingencies.

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

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

(14) Joint Venture.

The county participates in the following joint venture:

Kemper County is a participant with Newton County in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Kemper-Newton Regional Library System. The joint venture was created to provide free public library service to the citizens of the respective counties. The Kemper County Board of Supervisors alternately appoints two or three of the five members of the board of directors. By contractual agreement, the county's appropriation to the joint venture was \$32,834 in fiscal year 2005. Complete financial statements for the Kemper-Newton Regional Library System can be obtained from 101 Peachtree Street, Union, MS 39365.

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(15) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

East Central Mississippi Planning and Development District operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Kemper County Board of Supervisors appoints one of the 15 members of the board of directors. The county appropriated \$10,222 for the support of the district in fiscal year 2005.

The Multi-County Community Service Agency operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Newton and Wayne. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Kemper County Board of Supervisors appoints one of the 24 members of the board of directors. Most of the funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants.

Region Ten Mental Health-Mental Retardation Commission operates in a district composed of the Counties of Clarke, Jasper, Kemper, Lauderdale, Leake, Neshoba, Newton, Scott and Smith. The Kemper County Board of Supervisors appoints one of the nine members of the board of commissioners. The county provided \$20,538 for support of the commission in fiscal year 2005.

East Mississippi Community College operates in a district composed of the Counties of Clay, Kemper, Lauderdale, Lowndes, Noxubee and Oktibbeha. The Kemper County Board of Supervisors appoints two of the 12 members of the college board of trustees. The county appropriated \$168,875 for maintenance and support of the college in fiscal year 2005.

(16) Defined Benefit Pension Plan.

Plan Description. Kemper 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 current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2005, 2004 and 2003 were \$273,227, \$243,615 and \$238,063, respectively, equal to the required contributions for each year.

KEMPER COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2005

(17) Subsequent Events.

Subsequent to September 30, 2005, Kemper County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
11/01/05	4.00/5.50%	\$ 1,125,000	General obligation public improvement bonds	Ad valorem tax levy
11/07/05	3.74%	853,170	Lease purchase	Countywide Road and Bridge Fund revenues
11/21/05	3.19%	468,200	Lease purchase	Countywide Road and Bridge Fund revenues

Subsequent to the audit report date of June 6, 2006, Kemper County issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
09/18/06	0.00%	\$ 740,000	General obligation industrial development bonds	Rental income

KEMPER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

KEMPER COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,106,690	2,107,410	2,124,016	16,606
Road and bridge privilege taxes	720			
Licenses, commissions and other revenue	40,162	40,162	40,922	760
Fines and forfeitures	84,176	84,176	100,835	16,659
Intergovernmental revenues	275,913	314,704	575,547	260,843
Charges for services	28,362	48,362	125,480	77,118
Interest income	5,598	5,598	8,908	3,310
Miscellaneous revenues		1,236	97,804	96,568
<b>Total Revenues</b>	<u>2,541,621</u>	<u>2,601,648</u>	<u>3,073,512</u>	<u>471,864</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	1,786,492	1,777,567	1,412,532	365,035
Public safety	683,685	777,298	842,880	(65,582)
Health and welfare	161,465	160,765	146,141	14,624
Culture and recreation	38,834	38,834	37,063	1,771
Education	44,500	44,500	20,317	24,183
Conservation of natural resources	84,218	84,218	80,291	3,927
Economic development and assistance	97,482	97,482	95,032	2,450
<b>Debt service:</b>				
Principal		56,940	63,108	(6,168)
Interest			5,267	(5,267)
<b>Total Expenditures</b>	<u>2,896,676</u>	<u>3,037,604</u>	<u>2,702,631</u>	<u>334,973</u>
<b>Excess of Revenues over (under) Expenditures</b>	<u>(355,055)</u>	<u>(435,956)</u>	<u>370,881</u>	<u>806,837</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			56,759	56,759
Transfers out	(41,625)	0	(41,294)	(41,294)
<b>Total Other Financing Sources and Uses</b>	<u>(41,625)</u>	<u>0</u>	<u>15,465</u>	<u>15,465</u>
<b>Net Change in Fund Balances</b>	(396,680)	(435,956)	386,346	822,302
<b>Fund Balances - Beginning</b>	<u>396,680</u>	<u>435,956</u>	<u>1,127,696</u>	<u>691,740</u>
<b>Fund Balances - Ending</b>	<u>\$ 0</u>	<u>0</u>	<u>1,514,042</u>	<u>1,514,042</u>

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

KEMPER COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Countywide Road and Bridge Fund  
 For the Year Ended September 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 1,230,858	1,292,713	1,292,713	
Road and bridge privilege taxes	77,572	100,938	100,938	
Intergovernmental revenues	521,300	534,546	534,546	
Interest income	497	1,458	1,551	93
Miscellaneous revenues		26,133	26,133	
<b>Total Revenues</b>	<u>1,830,227</u>	<u>1,955,788</u>	<u>1,955,881</u>	<u>93</u>
<b>EXPENDITURES</b>				
Current:				
Public works	1,627,750	1,961,327	1,962,855	(1,528)
Debt service:				
Principal	202,477	169,521	169,521	
Interest		36,956	35,321	1,635
<b>Total Expenditures</b>	<u>1,830,227</u>	<u>2,167,804</u>	<u>2,167,697</u>	<u>107</u>
<b>Excess of Revenues over (under) Expenditures</b>	<u>0</u>	<u>(212,016)</u>	<u>(211,816)</u>	<u>200</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in		181,018	181,018	
<b>Total Other Financing Sources and Uses</b>	<u>0</u>	<u>181,018</u>	<u>181,018</u>	<u>0</u>
<b>Net Change in Fund Balances</b>	<u>0</u>	<u>(30,998)</u>	<u>(30,798)</u>	<u>200</u>
<b>Fund Balances - Beginning</b>	<u>0</u>	<u>30,998</u>	<u>31,643</u>	<u>645</u>
<b>Fund Balances - Ending</b>	<u>\$ 0</u>	<u>0</u>	<u>845</u>	<u>845</u>

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

KEMPER COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 State Aid Special Fund  
 For the Year Ended September 30, 2005

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Intergovernmental revenues	\$ 235,000	599,900	122,402	(477,498)
Total Revenues	<u>235,000</u>	<u>599,900</u>	<u>122,402</u>	<u>(477,498)</u>
<b>EXPENDITURES</b>				
Current:				
Public works	235,000	599,900	147,903	451,997
Total Expenditures	<u>235,000</u>	<u>599,900</u>	<u>147,903</u>	<u>451,997</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>0</u>	<u>(25,501)</u>	<u>(25,501)</u>
Net Change in Fund Balances	0	0	(25,501)	(25,501)
Fund Balances - Beginning	<u>0</u>	<u>0</u>	<u>41,644</u>	<u>41,644</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>0</u>	<u>16,143</u>	<u>16,143</u>

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

KEMPER COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2005

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:

	<u>Governmental Fund Types</u>		
	<u>General Fund</u>	<u>Countywide Road and Bridge Fund</u>	<u>State Aid Special Fund</u>
Budget (Cash Basis)	\$ 386,346	(30,798)	(25,501)
Increase (Decrease)			
Net adjustments for revenue accruals	(204,079)	7,328	
Net adjustments for expenditure accruals	<u>199,263</u>	<u>(14,988)</u>	<u>26,710</u>
GAAP Basis	<u>\$ 381,530</u>	<u>(38,458)</u>	<u>1,209</u>

KEMPER COUNTY

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KEMPER COUNTY

SPECIAL REPORTS

KEMPER COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## 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  
Kemper 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 Kemper County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated June 6, 2006. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kemper County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

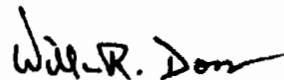
### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kemper County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 is not intended to be and should not be used by anyone other than this specified party. However, this report is a matter of public record and its distribution is not limited.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 6, 2006



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## 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  
Kemper County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Kemper County, Mississippi, as of and for the year ended September 30, 2005. 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 Kemper 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 Kemper 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.

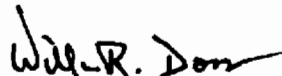
In our opinion, Kemper County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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 Kemper 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 6, 2006

KEMPER COUNTY  
Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2005

Schedule 1

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

KEMPER COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2005

Schedule 2

Our test results did not identify any emergency purchases.

KEMPER COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2005

Schedule 3

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

KEMPER COUNTY

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KEMPER COUNTY

SCHEDULE OF FINDINGS

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KEMPER COUNTY

Schedule of Findings  
For the Year Ended September 30, 2005

Section 1: Summary of Auditor's Results

***Financial Statements:***

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