

KEMPER COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports
For the Year Ended September 30, 2007

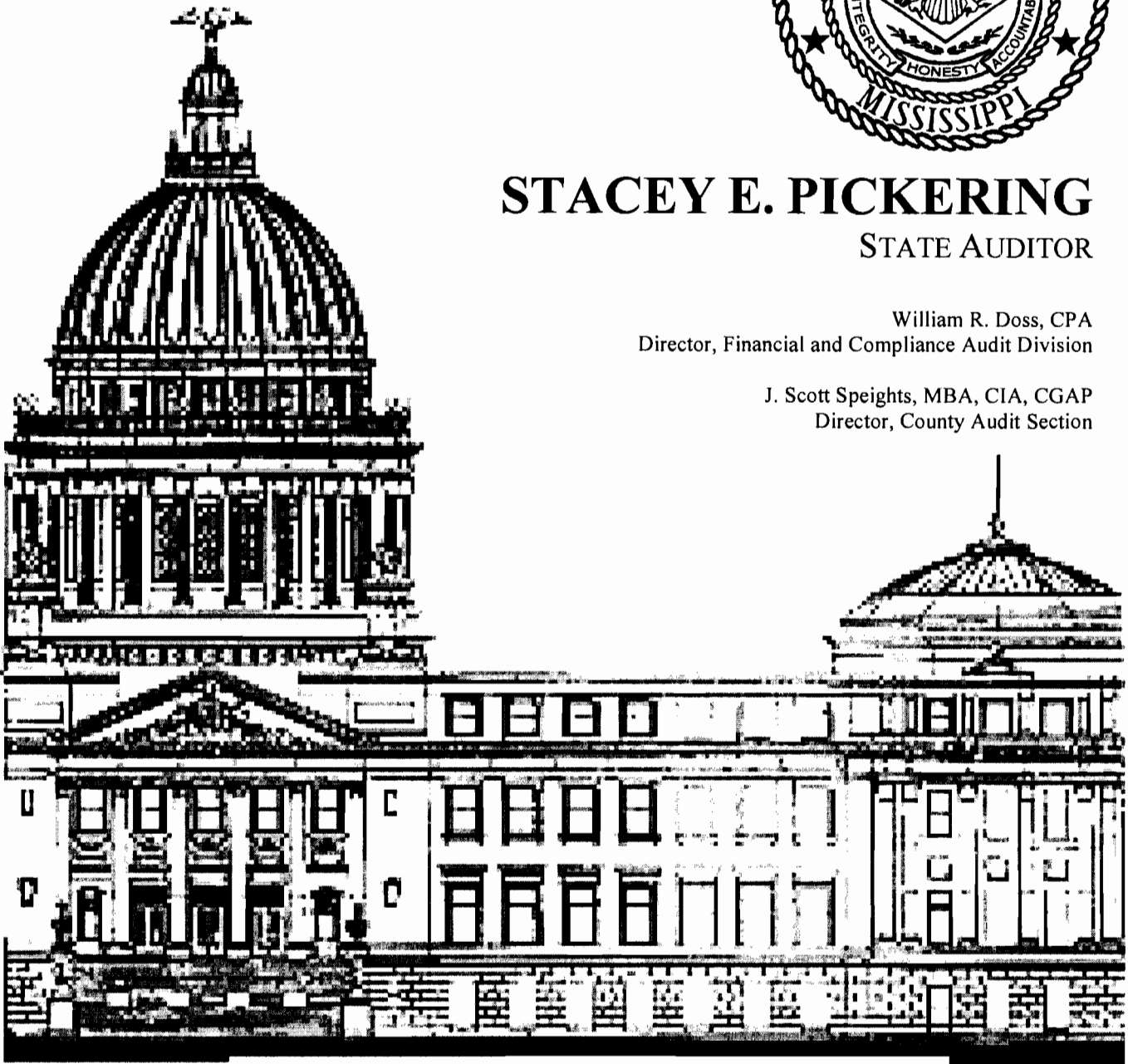


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

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Director, County Audit Section



A Report from the County Audit Section

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KEMPER COUNTY

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KEMPER COUNTY

FINANCIAL SECTION

KEMPER COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

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, 2007, 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.

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 do not include financial data for the county's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for its component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component unit is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of Kemper County, Mississippi, as of September 30, 2007, or the changes in financial position thereof for the year then ended.

In addition, 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 of Kemper County, Mississippi, as of September 30, 2007, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008, 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.



STACEY E. PICKERING
State Auditor



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

October 20, 2008

KEMPER COUNTY

FINANCIAL STATEMENTS

KEMPER COUNTY

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KEMPER COUNTY
Statement of Net Assets
September 30, 2007

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 2,859,934	98,951	2,958,885
Investments		2,909,061	2,909,061
Property tax receivable	3,785,645	110,786	3,896,431
Accounts receivable (net of allowance for uncollectibles of \$432,946)		63,203	63,203
Fines receivable (net of allowance for uncollectibles of \$279,404)	43,237		43,237
Loans receivable	602,040		602,040
Intergovernmental receivables	63,203	3,552	66,755
Other receivables	19,595		19,595
Internal balances	(1,689)	1,689	
Capital assets:			
Land and construction in progress	642,631		642,631
Other capital assets, net	7,152,895	4,752,368	11,905,263
Total Assets	15,167,491	7,939,610	23,107,101
LIABILITIES			
Claims payable	330,039	120,714	450,753
Intergovernmental payables	40,058		40,058
Accrued interest payable	19,172	22,189	41,361
Unearned revenue	89,232	17,253	106,485
Deferred revenue	3,785,645	110,786	3,896,431
Other payables	66,167		66,167
Long-term liabilities			
Due within one year:			
Capital debt	238,154	272,752	510,906
Non-capital debt	299,358		299,358
Due in more than one year:			
Capital debt	2,246,529	4,175,000	6,421,529
Non-capital debt	1,080,962	36,712	1,117,674
Total Liabilities	8,195,316	4,755,406	12,950,722
NET ASSETS			
Invested in capital assets, net of related debt	5,310,843	304,616	5,615,459
Restricted:			
Expendable:			
Debt service	17,163		17,163
Public safety	25,442	2,767,671	2,793,113
Public works		111,917	111,917
Culture and recreation	12,851		12,851
Economic development	1,259,427		1,259,427
Unrestricted	346,449		346,449
Total Net Assets	\$ 6,972,175	3,184,204	10,156,379

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

KEMPER COUNTY
Statement of Activities
For the Year Ended September 30, 2007

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,663,618	321,497			(1,342,121)		(1,342,121)
Public safety	1,283,788	150,717	38,303	67,975	(1,026,793)		(1,026,793)
Public works	3,051,179		802,153	70,606	(2,178,420)		(2,178,420)
Health and welfare	239,104		121,844	75,375	(41,885)		(41,885)
Culture and recreation	63,098		9,200		(53,898)		(53,898)
Conservation of natural resources	78,524				(78,524)		(78,524)
Economic development and assistance	348,054		15,988	145,907	(186,159)		(186,159)
Interest on long-term debt	151,442				(151,442)		(151,442)
Total Governmental Activities	<u>6,878,807</u>	<u>472,214</u>	<u>987,488</u>	<u>359,863</u>	<u>(5,059,242)</u>	<u>0</u>	<u>(5,059,242)</u>
Business-type activities:							
Regional jail	2,583,087	2,953,121	37,427			407,461	407,461
Solid waste	416,419	270,306				(146,113)	(146,113)
Total Business-type Activities	<u>2,999,506</u>	<u>3,223,427</u>	<u>37,427</u>	<u>0</u>	<u>0</u>	<u>261,348</u>	<u>261,348</u>
Total Primary Government	<u>\$ 9,878,313</u>	<u>3,695,641</u>	<u>1,024,915</u>	<u>359,863</u>	<u>(5,059,242)</u>	<u>261,348</u>	<u>(4,797,894)</u>
General revenues:							
Property taxes					\$ 3,582,971	102,034	3,685,005
Road & bridge privilege taxes					270,874		270,874
Unrestricted investment income					36,643	111,748	148,391
Miscellaneous					271,103	11,771	282,874
Total General Revenues					<u>4,161,591</u>	<u>225,553</u>	<u>4,387,144</u>
Changes in Net Assets					<u>(897,651)</u>	<u>486,901</u>	<u>(410,750)</u>
Net Assets - Beginning					<u>7,869,826</u>	<u>2,697,303</u>	<u>10,567,129</u>
Net Assets - Ending					<u>\$ 6,972,175</u>	<u>3,184,204</u>	<u>10,156,379</u>

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

KEMPER COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2007

Exhibit 3

	Major Funds				Total Governmental Funds
	General Fund	Pharma Pac Fund	Countywide Road and Bridge Fund	Other Governmental Funds	
ASSETS					
Cash	\$ 2,007,642	656,323	72,157	123,812	2,859,934
Property tax receivable	2,295,303		1,347,462	142,880	3,785,645
Fines receivable (net of allowance for uncollectibles of \$279,404)	43,237				43,237
Loans receivable		394,408		207,632	602,040
Intergovernmental receivables	38,883			24,320	63,203
Other receivables	19,595				19,595
Due from other funds			28,252	2,670	30,922
Total Assets	\$ 4,404,660	1,050,731	1,447,871	501,314	7,404,576
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 121,721		185,873	22,445	330,039
Intergovernmental payables	37,441				37,441
Due to other funds	35,228				35,228
Unearned revenue			89,232		89,232
Deferred revenue	2,338,540		1,347,462	142,880	3,828,882
Other payables	66,167				66,167
Total Liabilities	2,599,097	0	1,622,567	165,325	4,386,989
Fund balances:					
Reserved for:					
Debt service				17,163	17,163
Loans receivable		394,408		207,632	602,040
Unreserved - undesignated, reported in:					
General Fund	1,805,563				1,805,563
Special Revenue Funds		656,323	(174,696)	111,194	592,821
Total Fund Balances	1,805,563	1,050,731	(174,696)	335,989	3,017,587
Total Liabilities and Fund Balances	\$ 4,404,660	1,050,731	1,447,871	501,314	7,404,576

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, 2007

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,017,587
Amounts reported for governmental activities 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 \$4,008,864.	7,795,526
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	43,237
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(3,865,003)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(19,172)</u>
Total Net Assets - Governmental Activities	<u>\$ 6,972,175</u>

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

KEMPER COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
 For the Year Ended September 30, 2007

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Pharma Pac Fund	Countywide Road and Bridge Fund		
REVENUES					
Property taxes	\$ 2,114,019		1,307,124	161,828	3,582,971
Road and bridge privilege taxes			100,970		100,970
Licenses, commissions and other revenue	59,384			9,753	69,137
Fines and forfeitures	181,186			4,330	185,516
Intergovernmental revenues	549,907	15,988	570,425	481,905	1,618,225
Charges for services	55,875			77,579	133,454
Interest income	26,151	7,085	3,117	290	36,643
Miscellaneous revenues	12,293	13,704	5,262	172,138	203,397
Total Revenues	2,998,815	36,777	1,986,898	907,823	5,930,313
EXPENDITURES					
Current:					
General government	1,611,868				1,611,868
Public safety	964,423			410,750	1,375,173
Public works			3,184,589	282,454	3,467,043
Health and welfare	155,148			75,375	230,523
Culture and recreation	43,217			16,402	59,619
Conservation of natural resources	78,524				78,524
Economic development and assistance	97,031	100,036		145,907	342,974
Debt service:					
Principal	47,892	76,570	145,323	554,127	823,912
Interest	2,412	214	32,972	96,672	132,270
Total Expenditures	3,000,515	176,820	3,362,884	1,581,687	8,121,906
Excess of Revenues over (under) Expenditures	(1,700)	(140,043)	(1,375,986)	(673,864)	(2,191,593)
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	50,320		797,450		847,770
Proceeds from sale of capital assets	17,910			460,350	478,260
Transfers in			452,390		452,390
Transfers out				(452,390)	(452,390)
Total Other Financing Sources and Uses	68,230	0	1,249,840	7,960	1,326,030
Net Change in Fund Balance	66,530	(140,043)	(126,146)	(665,904)	(865,563)
Fund Balances - Beginning	1,739,033	1,190,774	(48,550)	1,001,893	3,883,150
Fund Balances - Ending	\$ 1,805,563	1,050,731	(174,696)	335,989	3,017,587

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, 2007

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (865,563)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays of \$1,149,871 exceeded depreciation of \$700,309 in the current period.	449,562
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 net gain of \$67,706 and the proceeds from the sale of \$478,260 in the current period.	(410,554)
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.	(16,863)
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 proceeds of \$847,770 exceeded debt repayments of \$823,912.	(23,858)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The amount of increase in compensated absences	(11,203)
The amount of increase in accrued interest payable	<u>(19,172)</u>
Change in Net Assets of Governmental Activities	<u>\$ (897,651)</u>

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

KEMPER COUNTY
Statement of Net Assets - Proprietary Funds
September 30, 2007

Exhibit 5

	Business-type Activities - Enterprise Funds		
	Major Fund	Nonmajor Fund	Total
	Regional Jail Fund	Solid Waste Fund	
ASSETS			
Current assets:			
Cash	\$ 23,022	75,929	98,951
Investments	2,909,061		2,909,061
Property tax receivable		110,786	110,786
Accounts receivable (net of allowance for uncollectibles of \$432,946)		63,203	63,203
Intergovernmental receivables		3,552	3,552
Due from other funds		1,689	1,689
Total Current Assets	<u>2,932,083</u>	<u>255,159</u>	<u>3,187,242</u>
Noncurrent assets:			
Other capital assets, net	<u>4,668,677</u>	<u>83,691</u>	<u>4,752,368</u>
Total Noncurrent Assets	<u>4,668,677</u>	<u>83,691</u>	<u>4,752,368</u>
Total Assets	<u>\$ 7,600,760</u>	<u>338,850</u>	<u>7,939,610</u>
LIABILITIES			
Current liabilities:			
Claims payable	\$ 110,906	9,808	120,714
Accrued interest payable	22,189		22,189
Deferred revenue		110,786	110,786
Unearned revenue		17,253	17,253
Capital debt:			
Capital leases payable	2,752		2,752
Other long-term liabilities	<u>270,000</u>		<u>270,000</u>
Total Current Liabilities	<u>405,847</u>	<u>137,847</u>	<u>543,694</u>
Noncurrent liabilities:			
Capital debt:			
Other long-term liabilities	4,175,000		4,175,000
Non-capital debt:			
Compensated absences payable	<u>31,317</u>	<u>5,395</u>	<u>36,712</u>
Total Noncurrent Liabilities	<u>4,206,317</u>	<u>5,395</u>	<u>4,211,712</u>
NET ASSETS			
Invested in capital assets, net of related debt	220,925	83,691	304,616
Restricted for:			
Public safety	2,767,671		2,767,671
Public works		111,917	111,917
Total Net Assets	<u>\$ 2,988,596</u>	<u>195,608</u>	<u>3,184,204</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, 2007

	Business-type Activities - Enterprise Funds		Totals
	Major Fund	Nonmajor Fund	
	Regional Jail Fund	Solid Waste Fund	
Operating Revenues			
Charges for services	\$ 2,953,121	270,306	3,223,427
Miscellaneous	39,707	9,491	49,198
Total Operating Revenues	<u>2,992,828</u>	<u>279,797</u>	<u>3,272,625</u>
Operating Expenses			
Personal services	1,271,676	251,146	1,522,822
Contractual services	672,973	61,326	734,299
Materials and supplies	185,482	49,179	234,661
Depreciation expense	121,104	48,388	169,492
Indirect administrative cost	68,458	6,380	74,838
Total Operating Expenses	<u>2,319,693</u>	<u>416,419</u>	<u>2,736,112</u>
Operating Income (Loss)	<u>673,135</u>	<u>(136,622)</u>	<u>536,513</u>
Nonoperating Revenues (Expenses)			
Property tax		102,034	102,034
Interest income	111,748		111,748
Interest expense	(263,394)		(263,394)
Net Nonoperating Revenue (Expenses)	<u>(151,646)</u>	<u>102,034</u>	<u>(49,612)</u>
Changes in Net Assets	521,489	(34,588)	486,901
Net Assets - Beginning,	<u>2,467,107</u>	<u>230,196</u>	<u>2,697,303</u>
Net Assets - Ending	<u>\$ 2,988,596</u>	<u>195,608</u>	<u>3,184,204</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, 2007

Exhibit 7

	Business-type Activities - Enterprise Funds		
	Major Fund	Nonmajor Fund	Totals
	Regional Jail Fund	Solid Waste Fund	
Cash Flows From Operating Activities			
Receipts from users	\$ 2,953,121		2,953,121
Receipts from customers		281,092	281,092
Payments to employees	(1,326,369)	(255,938)	(1,582,307)
Payments for claims	(823,740)	(112,648)	(936,388)
Payments to General Fund for indirect costs	(8,700)		(8,700)
Other operating cash receipts	39,707	9,491	49,198
Net Cash Provided (Used) by Operating Activities	<u>834,019</u>	<u>(78,003)</u>	<u>756,016</u>
Cash Flows From Noncapital Financing Activities			
Cash received from property taxes		102,034	102,034
Principal paid on long-term debt	(263,046)		(263,046)
Interest expense	(263,112)		(263,112)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(526,158)</u>	<u>102,034</u>	<u>(424,124)</u>
Cash Flows From Investing Activities			
Interest on investments	111,748		111,748
Net Cash Provided (Used) by Investing Activities	<u>111,748</u>	<u>0</u>	<u>111,748</u>
Net Increase (Decrease) in Cash and Cash Equivalents	419,609	24,031	443,640
Cash and Cash Equivalents at Beginning of Year	2,512,474	51,898	2,564,372
Cash and Cash Equivalents at End of Year	\$ 2,932,083	75,929	3,008,012
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 673,135	(136,622)	536,513
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	121,104	48,388	169,492
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable		6,870	6,870
(Increase) decrease in intergovernmental receivables		(48)	(48)
(Increase) decrease in due from other funds		166	166
Increase (decrease) in claims payable	34,715	(2,143)	32,572
Increase (decrease) in compensated absences liability	13,765	1,588	15,353
Increase (decrease) in unearned revenue		3,798	3,798
Increase (decrease) in interfund payables	(8,700)		(8,700)
Total Adjustments	<u>160,884</u>	<u>58,619</u>	<u>219,503</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 834,019</u>	<u>(78,003)</u>	<u>756,016</u>

Noncash Capital Financing Activity:

Kemper County lease purchased mobile equipment for \$23,651 for 3 years at 3.21 % interest. Principal payments of \$8,046 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, 2007

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 245,064
Due from other funds	<u>2,617</u>
Total Assets	<u><u>\$ 247,681</u></u>
LIABILITIES	
Amounts held in custody for others	\$ 199,023
Intergovernmental payables	<u>48,658</u>
Total Liabilities	<u><u>\$ 247,681</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, 2007

(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 unit which has a significant operational or financial relationship 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 and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and 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, 2007

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

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

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.

KEMPER COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

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.

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.

Pharma Pac Fund - This fund is used to account for the county's economic development activities on behalf of this local industry including federal and state grants, state loans and their repayment.

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.

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.

KEMPER COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." 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, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

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.

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

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

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and Proprietary 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 and estimated useful lives:

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

KEMPER COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

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. 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, 2007

(2) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2007, was \$3,203,949, and the bank balance was \$3,314,157. 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 \$2,909,061 and the cost was \$2,909,061. All 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, 2007, the county's investment in Hancock Horizon Treasury Securities Money Market Mutual 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. The average weighted maturity of the securities in the Hancock Horizon Treasury Securities Money Market Mutual Fund was less than one year.

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments 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.

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(3) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2007:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Countywide Road and Bridge Fund	General Fund	\$ 28,252
Other Governmental Funds	General Fund	2,670
Other Enterprise Fund	General Fund	1,689
Agency Funds	General Fund	<u>2,617</u>
Total		<u>\$ 35,228</u>

The receivables represent the tax revenue collected but not settled until October, 2007. 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>
Countywide Road and Bridge Fund	Other Governmental Funds	<u>\$ 452,390</u>

The purpose of the transfer to the Countywide Road and Bridge Fund was to provide operating funds for ongoing public works maintenance. All interfund transfers were routine and consistent with activities of the funds making the transfers.

(4) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2007, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tag credit	\$ 38,883
State aid road funds	<u>24,320</u>
Total Governmental Activities	<u>\$ 63,203</u>
Business-type Activities:	
Garbage fees due from the Town of DeKalb	<u>\$ 3,552</u>

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(5) Loans Receivable.

Loans receivable balances at September 30, 2007, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Balance Payable
Trans Tech	10/15/02	3.00%	03/01/10	\$ 207,632
Pharma Pac	06/27/03	0.50%	12/01/13	394,408
Total				<u>\$ 602,040</u>

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2007:

Governmental activities:

	Balance Oct. 1, 2006	Additions	Deletions	Adjustments *	Balance Sept. 30, 2007
<u>Non-depreciable capital assets:</u>					
Land	\$ 419,884				419,884
Construction in progress	1,211,425	221,263		(1,209,941)	222,747
Total non-depreciable capital assets	<u>1,631,309</u>	<u>221,263</u>	<u>0</u>	<u>(1,209,941)</u>	<u>642,631</u>
<u>Depreciable capital assets:</u>					
Infrastructure	3,178,711				3,178,711
Buildings	2,069,719			1,209,941	3,279,660
Mobile equipment	2,897,970	63,670	7,010	24,928	2,979,558
Furniture and equipment	112,217		31,500		80,717
Leased property under capital leases	1,303,778	864,938	500,675	(24,928)	1,643,113
Total depreciable capital assets	<u>9,562,395</u>	<u>928,608</u>	<u>539,185</u>	<u>1,209,941</u>	<u>11,161,759</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	335,400	147,493			482,893
Buildings	916,253	59,302			975,555
Mobile equipment	1,771,086	200,679	7,010	13,461	1,978,216
Furniture and equipment	98,248	5,897	31,500		72,645
Leased property under capital leases	316,199	286,938	90,121	(13,461)	499,555
Total accumulated depreciation	<u>3,437,186</u>	<u>700,309</u>	<u>128,631</u>	<u>0</u>	<u>4,008,864</u>
Total depreciable capital assets, net	<u>6,125,209</u>	<u>228,299</u>	<u>410,554</u>	<u>1,209,941</u>	<u>7,152,895</u>
Governmental activities capital assets, net	<u>\$ 7,756,518</u>	<u>449,562</u>	<u>410,554</u>	<u>0</u>	<u>7,795,526</u>

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

Business-type activities:

	Balance Oct. 1, 2006	Additions	Deletions	Adjustments *	Balance Sept. 30, 2007
<u>Depreciable capital assets:</u>					
Buildings	\$ 5,141,731				5,141,731
Mobile equipment	200,734			140,438	341,172
Furniture and equipment	49,750		6,644		43,106
Leased property under capital leases	164,089			(140,438)	23,651
Total depreciable capital assets	<u>5,556,304</u>	<u>0</u>	<u>6,644</u>	<u>0</u>	<u>5,549,660</u>
<u>Less accumulated depreciation for:</u>					
Buildings	411,338	102,835			514,173
Mobile equipment	103,333	57,479		70,741	231,553
Furniture and equipment	44,775	664	6,644		38,795
Leased property under capital leases	74,998	8,514		(70,741)	12,771
Total accumulated depreciation	<u>634,444</u>	<u>169,492</u>	<u>6,644</u>	<u>0</u>	<u>797,292</u>
Total depreciable capital assets, net	<u>4,921,860</u>	<u>(169,492)</u>	<u>0</u>	<u>0</u>	<u>4,752,368</u>
Business-type activities capital assets, net	<u>\$ 4,921,860</u>	<u>(169,492)</u>	<u>0</u>	<u>0</u>	<u>4,752,368</u>

* Adjustments represent reclassifications from construction in progress to buildings and reclassifications of leased property under capital lease to mobile equipment, along with related accumulated depreciation.

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 48,025
Public safety	37,262
Public works	597,882
Health and welfare	8,581
Culture and recreation	3,479
Economic development	5,080
Total governmental activities depreciation expense	<u>\$ 700,309</u>
<u>Business-type activities:</u>	
Solid waste	\$ 48,388
Correctional facility	121,104
Total business-type activities depreciation expense	<u>\$ 169,492</u>

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(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 \$1,000,000 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, 2007, to January 1, 2008. 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, 2007:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,591,852	23,651
Furniture and equipment	<u>51,261</u>	<u> </u>
Total	1,643,113	23,651
Less: Accumulated depreciation	<u>499,555</u>	<u>12,771</u>
Leased Property Under Capital Leases	<u>\$ 1,143,558</u>	<u>10,880</u>

The following is a schedule by years of the total payments due as of September 30, 2007:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 177,399	40,831	2,752	18
2009	130,464	35,844		
2010	114,171	31,242		
2011	<u>752,100</u>	<u>12,412</u>		
Total	<u>\$ 1,174,134</u>	<u>120,329</u>	<u>2,752</u>	<u>18</u>

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

(9) Long-term Debt.

Debt outstanding as of September 30, 2007, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
G. O. building bonds	\$ 1,090,000	4.00/5.50%	11/25
Industrial development bonds (Pharma Pac)	<u>726,296</u>	0.00%	07/16
Total General Obligation Bonds	<u>\$ 1,816,296</u>		
B. Capital Leases:			
AS400 computer system	\$ 950	3.91%	10/07
Rubber tire roller	1,791	3.97%	11/07
Asphalt tar truck	10,918	3.23%	04/08
2 dump trucks	18,308	2.67%	06/08
2 John Deere tractors	47,828	2.99%	05/08
GMC pickup	2,342	3.37%	03/08
5 Caterpillar motor graders	745,350	3.74%	12/10
F150 Ford truck	13,852	3.92%	12/10
2 Crown victoria patrol cars	10,295	3.92%	12/10
3 Mack dump trucks	<u>322,500</u>	4.01%	09/10
Total Capital Leases	<u>\$ 1,174,134</u>		
C. Other Loans:			
Fire truck	\$ 61,713	2.00%	08/13
CDBG - Trans Tech	207,632	3.00%	03/10
CDBG - Pharma Pac	394,408	0.50%	12/13
2 fire trucks	<u>158,836</u>	2.00%	05/16
Total Other Loans	<u>\$ 822,589</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Urban renewal revenue bonds - regional jail*	<u>\$ 4,445,000</u>	5.20/6.25%	09/19
B. Capital Lease:			
Ford van	<u>\$ 2,752</u>	3.21%	03/08

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

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

Governmental Activities:

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 117,222	47,449	242,891	19,423
2009	122,222	45,386	125,798	4,947
2010	122,222	43,186	109,146	3,368
2011	127,222	40,849	91,668	2,609
2012	127,222	38,374	92,277	2,001
2013 - 2017	570,186	158,144	160,809	2,824
2018 - 2022	320,000	99,953		
2023 - 2027	310,000	27,411		
Total	\$ <u>1,816,296</u>	<u>500,752</u>	<u>822,589</u>	<u>35,172</u>

Business-type Activities:

<u>Year Ending September 30</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 270,000	246,940
2009	285,000	230,065
2010	300,000	213,677
2011	320,000	198,078
2012	335,000	181,277
2013 - 2017	1,980,000	615,328
2018 - 2022	955,000	83,578
Total	\$ <u>4,445,000</u>	<u>1,768,943</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.

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

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, 2007, the amount of outstanding debt was equal to 5.2% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2007:

	Balance Oct. 1, 2006	Additions	Reductions	Adjustments	Balance Sept. 30, 2007	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 40,781	11,203			51,984	
General obligation bonds	1,865,000		48,704		1,816,296	117,222
Capital leases	987,565	847,770	661,201		1,174,134	177,399
Other loans	936,596		114,007		822,589	242,891
Total	\$ <u>3,829,942</u>	<u>858,973</u>	<u>823,912</u>	<u>0</u>	<u>3,865,003</u>	<u>537,512</u>
Business-type Activities:						
Compensated absences	\$ 21,359	15,353			36,712	
Limited obligation bonds	4,700,000		255,000		4,445,000	270,000
Capital leases	10,798		8,046		2,752	2,752
Total	\$ <u>4,732,157</u>	<u>15,353</u>	<u>263,046</u>	<u>0</u>	<u>4,484,464</u>	<u>272,752</u>

(10) 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.

KEMPER COUNTY

Notes to Financial Statements For the Year Ended September 30, 2007

(11) 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 \$37,334 in fiscal year 2007. Complete financial statements for the Kemper-Newton Regional Library System can be obtained from 101 Peachtree Street, Union, MS 39365.

(12) 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 contributes a small percentage of the district's total revenue. The county appropriated \$10,222 for the support of the district in fiscal year 2007.

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 2007.

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 \$169,883 for maintenance and support of the college in fiscal year 2007.

(13) 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.

KEMPER COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2007

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, 2007 was 11.85% 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, 2007, 2006 and 2005 were \$327,036, \$293,868 and \$273,227, respectively, equal to the required contributions for each year.

(14) Subsequent Events.

Subsequent to September 30, 2007, Kemper Ccounty 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>
11/05/07	4.06%	\$ 94,878	Capital lease	Countywide Road and Bridge Fund revenues
04/07/08	4.25%	23,924	Capital lease	General Fund revenues
06/01/08	2.25/4.25%	3,500,000	G. O. building bonds	Regional Jail Fund revenues

KEMPER COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

KEMPER COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,268,357	2,130,739	2,119,166	(11,573)
Licenses, commissions and other revenue	46,000	27,500	56,366	28,866
Fines and forfeitures	99,000	99,000	180,641	81,641
Intergovernmental revenues	324,350	454,854	571,079	116,225
Charges for services	40,000	40,000	116,100	76,100
Interest income	3,000	3,000	26,150	23,150
Miscellaneous revenues	31,500	31,500	64,556	33,056
Total Revenues	<u>2,812,207</u>	<u>2,786,593</u>	<u>3,134,058</u>	<u>347,465</u>
EXPENDITURES				
Current:				
General government	2,034,383	1,840,457	1,583,308	257,149
Public safety	736,012	913,665	1,029,826	(116,161)
Health and welfare	152,565	158,265	154,507	3,758
Culture and recreation	43,334	50,334	43,217	7,117
Education	44,500	44,500		44,500
Conservation of natural resources	87,444	86,904	76,859	10,045
Economic development and assistance	100,722	98,972	97,031	1,941
Debt service:				
Principal		27,428	11,161	16,267
Interest		5,347	275	5,072
Total Expenditures	<u>3,198,960</u>	<u>3,225,872</u>	<u>2,996,184</u>	<u>229,688</u>
Excess of Revenues over (under) Expenditures	<u>(386,753)</u>	<u>(439,279)</u>	<u>137,874</u>	<u>577,153</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	42,630		52,353	52,353
Transfers out			(44,647)	(44,647)
Total Other Financing Sources and Uses	<u>42,630</u>	<u>0</u>	<u>7,706</u>	<u>7,706</u>
Net Change in Fund Balance	(344,123)	(439,279)	145,580	584,859
Fund Balances - Beginning	<u>1,739,033</u>	<u>1,739,033</u>	<u>1,739,033</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,394,910</u>	<u>1,299,754</u>	<u>1,884,613</u>	<u>584,859</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)
 Pharma Pac Fund
 For the Year Ended September 30, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Interest income	\$		6,877	6,877
Miscellaneous revenues	63,019	63,019	153,553	90,534
Total Revenues	<u>63,019</u>	<u>63,019</u>	<u>160,430</u>	<u>97,411</u>
EXPENDITURES				
Current:				
Economic development and assistance	1,853,019	1,853,019	244,107	1,608,912
Total Expenditures	<u>1,853,019</u>	<u>1,853,019</u>	<u>244,107</u>	<u>1,608,912</u>
Excess of Revenues over (under) Expenditures	<u>(1,790,000)</u>	<u>(1,790,000)</u>	<u>(83,677)</u>	<u>1,706,323</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	1,790,000	1,790,000		(1,790,000)
Total Other Financing Sources and Uses	<u>1,790,000</u>	<u>1,790,000</u>	<u>0</u>	<u>(1,790,000)</u>
Net Change in Fund Balance	0	0	(83,677)	(83,677)
Fund Balances - Beginning	<u>1,190,774</u>	<u>1,190,774</u>	<u>1,190,774</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,190,774</u>	<u>1,190,774</u>	<u>1,107,097</u>	<u>(83,677)</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, 2007

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,260,576	1,308,576	1,309,747	1,171
Road and bridge privilege taxes	95,000	95,000	102,358	7,358
Intergovernmental revenues	538,000	627,232	657,574	30,342
Interest income	1,300	1,300	3,117	1,817
Miscellaneous revenues		30,000	30,894	894
Total Revenues	<u>1,894,876</u>	<u>2,062,108</u>	<u>2,103,690</u>	<u>41,582</u>
EXPENDITURES				
Current:				
Public works	1,717,456	2,337,078	2,311,758	25,320
Debt service:				
Principal	144,468	144,468	144,531	(63)
Interest	32,952	32,952	32,868	84
Total Expenditures	<u>1,894,876</u>	<u>2,514,498</u>	<u>2,489,157</u>	<u>25,341</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(452,390)</u>	<u>(385,467)</u>	<u>66,923</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		452,390	452,390	0
Total Other Financing Sources and Uses	<u>0</u>	<u>452,390</u>	<u>452,390</u>	<u>0</u>
Net Change in Fund Balance	0	0	66,923	66,923
Fund Balances - Beginning	<u>(48,550)</u>	<u>(48,550)</u>	<u>(48,550)</u>	<u>0</u>
Fund Balances - Ending	<u>\$ (48,550)</u>	<u>(48,550)</u>	<u>18,373</u>	<u>66,923</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, 2007

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>		
	General	Pharma Pac	Countywide Road and Bridge Fund
	<u>Fund</u>	<u>Fund</u>	<u>Bridge Fund</u>
Budget (Cash Basis)	\$ 145,580	(83,677)	66,923
Increase (Decrease)			
Net adjustments for revenue accruals	(13,583)	(110,746)	(4,011)
Net adjustments for expenditure accruals	(65,467)	54,380	(189,058)
	<u> </u>	<u> </u>	<u> </u>
GAAP Basis	\$ <u>66,530</u>	<u>(140,043)</u>	<u>(126,146)</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
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Kemper County, Mississippi

We have audited the 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, 2007, which collectively comprise the county's basic financial statements and have issued our report thereon dated October 20, 2008. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the reporting entity that include the financial data for its component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kemper County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kemper County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-1 and 07-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kemper County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

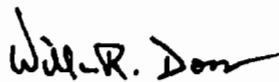
However, we noted a certain matter that we reported to the management of Kemper County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated October 20, 2008, included within this document.

Kemper County's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. We did not audit Kemper County's responses and, accordingly, we express no opinion on them.

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.



STACEY E. PICKERING
State Auditor



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

October 20, 2008



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
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, 2007. 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.

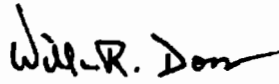
In our opinion, Kemper County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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.



STACEY E. PICKERING
State Auditor



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

October 20, 2008

KEMPER COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2007

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, 2007

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, 2007

Schedule 3

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

KEMPER COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Kemper County, Mississippi

In planning and performing our audit of the financial statements of Kemper County, Mississippi for the year ended September 30, 2007, we considered Kemper County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Kemper County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated October 20, 2008, on the financial statements of Kemper County, Mississippi.

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

The results of our review procedures and compliance tests identified a certain immaterial instance of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency. Our finding and recommendation and your response are disclosed below:

Board of Supervisors.

Finding

During the audited fiscal year, the county donated \$5,000 to the Boys and Girls Club of East Mississippi. We know of no statutory authority that allows this donation. Expenditures made without proper statutory authority could result in the loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should repay the \$5,000 that was improperly donated to the Boys and Girls Club of East Mississippi.

Board of Supervisors' Response

The Board is aware that the money will have to be paid back. We were, however, under the impression that the Boys and Girls Club had refunded the money to the county. Mr. Henry Palmer, the Board's Attorney is presently seeking to secure the necessary refund from the Boys and Girls Club of East Mississippi.

Auditor's Note

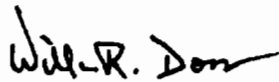
This improper donation in the amount of \$5,000 has been repaid to the General Fund as evidenced by Receive Warrant number 20970, dated August 14, 2008.

Kemper County's response to the finding included in this report was not audited and, accordingly, we express no opinion on it.

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.



STACEY E. PICKERING
State Auditor



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

October 20, 2008

KEMPER COUNTY

SCHEDULE OF FINDINGS

KEMPER COUNTY

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KEMPER COUNTY

Schedule of Findings
For the Year Ended September 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Unqualified |
| | Business-type activities | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| | General Fund | Unqualified |
| | Countywide Road and Bridge Fund | Unqualified |
| | Pharma Pac Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to the financial statements? | No |

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency - Material Weakness

07-1. Finding

A critical aspect of effective financial management is the preparation of accurate financial statements. Management did not have personnel that possessed the necessary expertise to prepare financial statements in accordance with generally accepted accounting principles. Therefore, since the county personnel lacked expertise to apply generally accepted accounting principles in preparing its financial statements, the auditor was relied upon to perform these tasks. Without adequate controls in place over the preparation of financial statements in accordance with generally accepted accounting principles, the risk increases that inaccurate information may be reported.

Recommendation

The Board of Supervisors should establish adequate controls and procedures to ensure that financial statements are presented and disclosed in accordance with generally accepted accounting principles.

KEMPER COUNTY

Schedule of Findings For the Year Ended September 30, 2007

Board of Supervisors' Response

The finding herein indicates that the management (county) does not have the personnel with the necessary expertise to prepare financial statements in accordance with generally accepted accounting principles. In order to bring the county into compliance it has been suggested that the county secure the services of an independent accounting firm to provide controls and prepare the financial statements in accordance with generally accepted accounting principles. This has been presented to the Kemper County Board of Supervisors and we are aware of the finding. However, at the present time, the county does not have the money or resources necessary to employ an independent accounting firm.

Significant Deficiency - Material Weakness

07-2. Finding

Generally accepted accounting principles require the financial data for the county's component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit.

Recommendation

The county should provide the financial data for its discretely presented component unit for the inclusion in the county's financial statements.

Board of Supervisors' Response

Until this year, Kemper County was in compliance with generally accepted accounting principles regarding the treatment of component units. Recent changes by the Governmental Accounting Standards Board, in the standards applicable to governmental accounting, has caused Kemper County to not be in compliance regarding the treatment of the component units. This has been presented to the Kemper County Board of Supervisors and we are aware of the finding. However, at the present time, the county does not have the money or resources necessary to include component unit financial data with that of the county's financial statements.