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LEE COUNTY, MISSISSIPPI
AUDITED PRIMARY GOVERNMENT FINANCIAL
STATEMENTS AND SPECIAL REPORTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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SEPTEMBER 30, 2007**

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LEE COUNTY

FINANCIAL SECTION

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

Members of the Board of Supervisors
Lee 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 Lee 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 units. Accounting principles generally accepted in the United States of America require the financial data for those 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 units. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, revenues, and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, 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 units of Lee County, Mississippi, as of September 30, 2007, or the changes in financial position thereof for the year then ended.

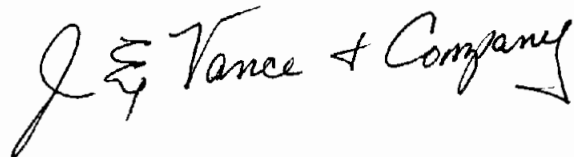
In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, as 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 a report dated January 20, 2009, on our consideration of Lee 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.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Tupelo, Mississippi
January 20, 2009

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

LEE COUNTY BOARD OF SUPERVISORS

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MEMBER – 2ND DISTRICT
SALTILLO, MISSISSIPPI

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MEMBER - 5TH DISTRICT
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MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

This discussion and analysis of Lee County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2007. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is an element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June, 1999. Certain comparative information between the current year and the prior year is required to be presented.

Lee County is located in Northeast Mississippi along U.S. Highway 78. The population, according to the 2000 census, is 75,755. The local economic base is driven mainly by manufacturing and retail.

FINANCIAL HIGHLIGHTS

Lee County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Lee County continues to grow both economically and in population. Over the past 5-year period (2003-2008), this growth has provided sufficient revenues to sustain and improve services without the need for a tax rate increase. Looking back over the past 8-year period (1999-2007) this growth has resulted in the lowering of tax rates by a little over 13% from the highest rate (1999 & 2000) to the current rate, which has been steady since 2003. This tax rate decrease does not account for funding provided for school purposes that required school tax rates to increase nor does it include the funding of community college programs.

Total net assets decreased \$4,666,935, which represents a 2.30% decrease from the prior fiscal year. The County's ending cash balance decreased by \$1,631,545. This represents a 5.79% decrease from the prior fiscal year.

The County had \$33,571,430 in total revenues. Tax revenues account for \$15,625,295 or 46.54% of total revenues. Revenues in the form of charges for services account for \$4,548,369 or 13.55% of total revenues. Revenue generated by fines and other fees account for \$2,181,789 or 6.50%. State revenues in the form of reimbursements, shared revenue or grants, account for \$4,012,273 or 11.95% of total revenues. Additionally, \$1,784,059, or 5.32%, of total revenues were Federal revenues in the form of grants. Grants from other local jurisdictions amount to \$2,757,554 or 8.21% of total revenues. Other miscellaneous revenues totaled \$2,662,091 or 7.93% of total revenues.

The County had \$38,238,365 in total expenses, which represents an increase of \$2,495,367 or 6.98% from the prior fiscal year. Expenses in the amount of \$13,698,262 were offset by charges for services, grants, outside contributions or debt being issued. General revenues of \$19,873,168 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$18,927,342 in revenues and \$18,222,503 in expenditures. The General Fund's fund balance decreased \$202,910 from the prior year. The Countywide Road Fund had \$4,227,758 in revenues and \$5,289,383 in expenditures. The Countywide Road Fund's fund balance decreased \$454,845 from the prior year. The Countywide Bridge Fund had \$2,241,185 in revenues and \$2,603,467 in expenditures. The Countywide Bridge Fund's fund balance decreased \$194,003 from the prior year. The TKA Fabco Fund had \$2,583,976 in revenues and \$3,783,256 in expenditures. The TKA Fabco Fund's fund balance decreased \$200,280 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$3,287,575 or 1.77%. The majority of this decrease was due to depreciation expense related to infrastructure such as roads and bridges.

Long-term liabilities increased by \$850,838 or 8.60%

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are comprised of three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the County's financial statements, including the portion of the County's government they cover and the types of information they

contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

Figure 1 – Required Components of the County's Annual Report

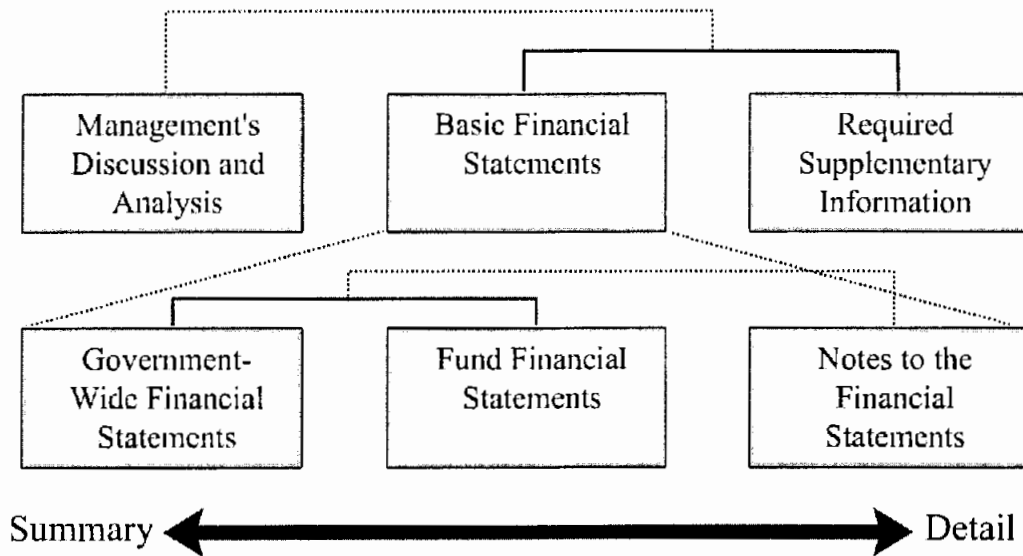


Figure 2 – Major Features of the County's Government-Wide and Fund Financial Statements

| | Government-Wide Financial Statements | Fund Financial Statements | | |
|--|--|---|---|---|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire County government (except fiduciary funds) and component units | All activities of the County that are not business-type or fiduciary in nature | Activities of the County that operate similar to private businesses | The County is the trustee or agent for someone else's resources |
| Required financial statements | <ul style="list-style-type: none"> Statement of net assets Statement of activities | <ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures and changes in fund balances | <ul style="list-style-type: none"> Statement of net assets Statement of revenues, expenses and changes in net assets Statement of cash flows | <ul style="list-style-type: none"> Statement of fiduciary assets and liabilities |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |

Figure 2 – Major Features of the County’s Government-Wide and Fund Financial Statements

| | Government-Wide Financial Statements | Fund Financial Statements | | |
|-------------------------------------|--|--|--|--|
| | | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Type of asset/liability information | All assets and liabilities, both financial and capital and short and long term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short and long term | All assets and liabilities, both short and long term |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter | All revenues and expenses during the year, regardless of when cash is received or paid | All revenues and expenses during the year, regardless of when cash is received or paid |

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **statement of net assets** presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; education; economic development; and interest on long-term debt. The business-type activities of the County include Solid Waste Collection and Disposal and Turner Industrial Park Water and Sewer.

The Government-wide Financial Statements can be found on pages 20-21 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. The "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 23 and 25, respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 22 and 24 of this report.

Proprietary funds are maintained as enterprise funds. These enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The County uses enterprise funds to account for the operations of the Solid Waste Collection and Disposal and Turner Industrial Park Water and Sewer.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Solid Waste Collection and Disposal is considered to be major fund of the County; however, since the County only has two proprietary funds, both are presented individually. The proprietary funds financial statements can be found on pages 26-28 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the

County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets and Liabilities, which can be found on page 29 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 30-54 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 56-61 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 63-65 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of Lee County, assets exceeded liabilities by \$198,136,748 as of September 30, 2007.

By far, the largest portion of the County's net assets (87.56%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2007.

(in thousands of dollars)

| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change 2006-2007 |
|--|----------------------------|-------------------|-----------------------------|---------------|-------------------|-------------------|--|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | |
| Current assets | \$ 42,859 | \$ 41,769 | \$ 676 | \$ 726 | \$ 43,535 | \$ 42,495 | -2.39% |
| Capital assets, net | 185,092 | 181,797 | 821 | 828 | 185,913 | 182,625 | -1.77% |
| Total assets | 227,951 | 223,566 | 1,497 | 1,554 | 229,448 | 225,120 | -1.89% |
| Current liabilities | 17,157 | 17,220 | 464 | 453 | 17,621 | 17,673 | 0.30% |
| Long-term debt outstanding | 7,585 | 8,530 | 944 | 780 | 8,529 | 9,310 | 9.16% |
| Total liabilities | 24,742 | 25,750 | 1,408 | 1,233 | 26,150 | 26,983 | 3.19% |
| Net assets: | | | | | | | |
| Invested in capital assets, net of related debt | 176,834 | 173,123 | 336 | 366 | 177,170 | 173,489 | -2.08% |
| Restricted | 14,507 | 13,844 | (247) | (45) | 14,260 | 13,799 | -3.23% |
| Unrestricted | 11,868 | 10,849 | - | - | 11,868 | 10,849 | -8.59% |
| Total net assets | \$ 203,209 | \$ 197,816 | \$ 89 | \$ 321 | \$ 203,298 | \$ 198,137 | -2.54% |

Note: Lee County operates two business-type activities:

Solid Waste Collection and Disposal

Lee County operates a solid waste collection and disposal service for both household and commercial accounts. Household customers pay \$9.00 per month for this weekly service and commercial accounts are charged based on the size of the dumpster and the number of times service is to be provided. For a commercial rate schedule contact the Lee County Solid Waste office at (662) 841-0378.

Turner Industrial Park Water and Sewer

Lee County operates the water and sewer system for the Turner Industrial Park located in Saltillo, MS in north-central Lee County. Rates are based on water usage. For a rate schedule contact the Lee County Board of Supervisors office at (662) 841-9110.

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

- Unearned revenues related to property taxes, also a part of current liabilities, increased by \$373,380. Property taxes, which are recognized as revenue during the year in which they can be legally expended, are reported as both a receivable and a unearned revenue at the end of the fiscal year prior to the year of collection.
- Depreciable capital assets acquisitions and depreciation associated with existing depreciable capital assets resulted in a decrease in capital assets of \$3,287,575.

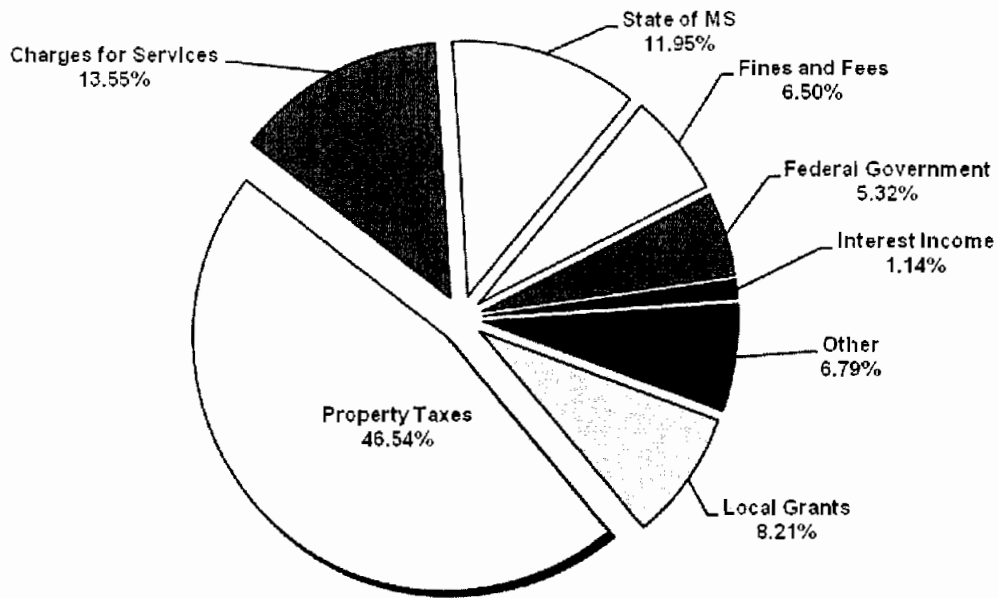
Changes in Net Assets – Lee County's total revenues for the fiscal year ended September 30, 2007 was \$33,571,430. The total cost for all services provided was \$38,238,365. The decrease in net assets was \$4,666,935. The table below presents a summary of the changes in net assets for the fiscal year ended September 30, 2007.

(in thousands of dollars)

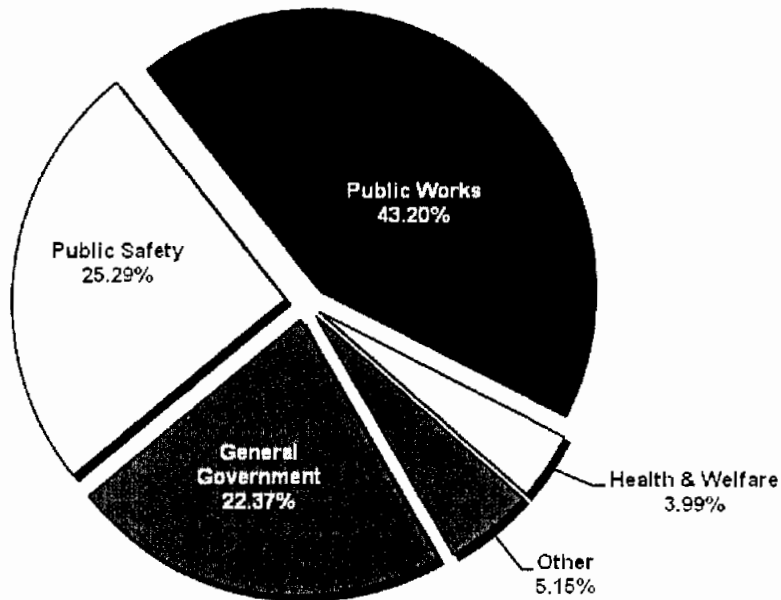
| | Governmental Activities | | Business-type Activities | | Total | | Total Percentage Change |
|-----------------------------------|----------------------------|----------------|-----------------------------|--------------|-------------------|----------------|-------------------------------|
| | 2006 | 2007 | 2006 | 2007 | 2006 | 2007 | 2006-2007 |
| Revenues: | | | | | | | |
| Program revenues | | | | | | | |
| Charges for services | \$ 2,279 | 2,470 | \$ 1,951 | 2,079 | \$ 4,230 | 4,549 | 7.54% |
| Fines and fees | 2,473 | 2,182 | - | - | 2,473 | 2,182 | -11.77% |
| Federal grants | 2,202 | 1,784 | - | - | 2,202 | 1,784 | -18.98% |
| State grants | 1,935 | 2,420 | - | 74 | 1,935 | 2,494 | 28.89% |
| Local grants | 151 | 2,690 | - | - | 151 | 2,690 | 1681.46% |
| General revenues | | | | | | | |
| Property taxes | 13,930 | 14,680 | - | - | 13,930 | 14,680 | 5.38% |
| Road & Bridge privilege taxes | 939 | 945 | - | - | 939 | 945 | 0.64% |
| Other | 3,666 | 4,228 | 41 | 20 | 3,707 | 4,248 | 14.59% |
| Total Revenues | \$ 27,575 | 31,399 | \$ 1,992 | 2,173 | \$ 29,567 | 33,572 | 13.55% |
| Expenses: | | | | | | | |
| General government | 8,263 | 8,553 | - | - | 8,263 | 8,553 | 3.51% |
| Public safety | 9,688 | 9,670 | - | - | 9,688 | 9,670 | -0.19% |
| Public works | 12,488 | 14,374 | - | - | 12,488 | 14,374 | 15.10% |
| Health and welfare | 1,469 | 1,526 | - | - | 1,469 | 1,526 | 3.88% |
| Culture and recreation | 885 | 888 | - | - | 885 | 888 | 0.34% |
| Education | 13 | 13 | - | - | 13 | 13 | 0.00% |
| Conservation of natural resources | 214 | 210 | - | - | 214 | 210 | -1.87% |
| Economic development | 246 | 483 | - | - | 246 | 483 | 96.34% |
| Interest on long-term debt | 404 | 375 | - | - | 404 | 375 | -7.18% |
| Solid waste collection & disposal | - | - | 1,979 | 2,046 | 1,979 | 2,046 | 3.39% |
| Turner Ind. Park water & sewer | - | - | 94 | 101 | 94 | 101 | 7.45% |
| Total Expenses | \$ 33,670 | 36,092 | \$ 2,073 | 2,147 | \$ 35,743 | 38,239 | 6.98% |
| Deficiency before transfers | (6,095) | (4,693) | (81) | 26 | (6,176) | (4,667) | -24.43% |
| Transfers | (151) | (206) | 151 | 206 | - | - | |
| Decrease in Net Assets | \$ (6,246) | (4,899) | \$ 70 | 232 | \$ (6,176) | (4,667) | -24.43% |

The following charts represent the County's sources of revenue and how those revenues are spent:

Where The County Gets Its Revenue



How County Revenues Are Used



Note: The color-coding for each chart is specific to that chart alone and should not be used to try to reconcile the source of revenue to the use thereof.

Governmental Activities – The following table presents the cost of five major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare and Economic Development.

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Lee County's taxpayers by each of these functions.

| | Total Cost of Services | | Percentage | Net Cost of Services | | Percentage |
|------------------------|------------------------|------------|------------|----------------------|------------|------------|
| | 2006 | 2007 | Change | 2006 | 2007 | Change |
| General Government | \$ 8,262,503 | 8,552,855 | 3.51% | \$ 5,830,195 | 5,826,314 | -0.07% |
| Public Safety | 9,688,182 | 9,669,684 | -0.19% | 6,078,688 | 6,043,185 | -0.58% |
| Public Works | 12,487,610 | 14,373,681 | 15.10% | 11,065,363 | 12,925,047 | 16.81% |
| Health & Welfare | 1,468,411 | 1,526,218 | 3.94% | 898,414 | 936,546 | 4.24% |
| Economic Development * | 1,634,214 | 4,753,663 | 190.88% | 382,254 | 1,599,191 | 318.36% |

*In the prior year, total costs for Economic Development included \$1,388,109 in construction costs related to the construction of the Small Business Incubator. In the current year, total costs for Economic Development includes \$301,446 in construction costs for the same project and \$3,969,280 in construction costs related to TKA Fabco Expansion Phase III. A Community Development Block Grant (CDBG) and other grants were used toward these capital projects. Construction-in-progress and land acquisition are normally presented as an asset and not shown as a cost. The cost of construction would be recorded over the life of the asset as depreciation expense; however grants related to this construction are reported in this period. Net cost would appear to be negative if construction-in-progress and the donated land "costs" were not included. Management felt that this would be misleading and therefore has included the construction costs and land valuation in the total costs for the purposes of this discussion.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental funds – At the close of the fiscal year, Lee County's governmental funds reported a combined fund balance of \$23,594,589, a decrease of \$1,042,817. The primary reasons for this decrease are highlighted in the Government-Wide Financial Analysis.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year was \$202,910. This decrease in fund balance was primarily due to increases in liabilities associated with claims payable, intergovernmental payables and deferred revenues.

Business-type funds – Revenue from the Solid Waste Collection and Disposal Fund increased by 9.11% to \$2,095,023 and expenses increased by 3.68% to \$2,051,710. Chief factors contributing to these results include a higher fee collection rate from the users and a slight increase in expenditures for materials and supplies. The County's other business-type fund, the Turner Industrial Park Water and Sewer Fund's revenue increased by 17.04% to \$83,828 and expenses increased by 6.97% to \$100,996.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Lee County revised its annual operating budget on several occasions. Amendments were made to correct the estimated beginning fund balances made in the original budget to actual beginning fund balances on October 1.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2007, Lee County's total capital assets was \$291,579,194. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. This amount represents an increase from the previous year of \$6,046,836 or 2.12%.

Total accumulated depreciation as of September 30, 2007 was \$108,954,015, including \$9,613,387 of depreciation expense for the year. The balance in total net capital assets was \$182,625,179 at year-end.

Additional information on Lee County's capital assets can be found in note 7 on pages 42-44 of this report.

Debt Administration – At September 30, 2007, Lee County had \$10,741,036 in long-term debt outstanding. This includes general obligation bonds, other loans and compensated absences. Of this debt, \$1,430,864 is due within one year.

Lee County maintains an "A1" bond rating from Moody's Investors Service. The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. The County's outstanding debt, as of September 30, 2007, was equal to 0.58% of the latest property assessment, significantly below the 15% limitation.

Additional information on Lee County's long-term debt can be found in note 9 on pages 46-48 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

In February 2007, Lee County, along with her PUL Alliance partners Union and Pontotoc Counties, announced that Toyota would be building their next North American Production facility at the Wellspring Site. Monroe, Tippah, Calhoun and Itawamba Counties continue to work with the PUL Alliance as non-voting Associate Members.

Additionally, Lee County, in partnership with the Community Development Foundation, plans to purchase additional lands (1,000 to 2,000 acres) throughout the county to be made available for industrial and commercial development. Lee County will also continue to offer its economic development incentives policy know as "Lee County Plus" to both new and existing industries locating or expanding in the county.

Total budgeted revenues increased for the next fiscal year by \$2,931,125 or 7.51% and total budgeted expenditures increased \$3,998,071 or 9.78%. This is expected to decrease the County's net assets.

Lee County has an unemployment rate of 6.9%. This is higher than the state average rate of unemployment of 6.1%.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the County Administrator's office at P.O. Box 1785, Tupelo, MS 38802-1785 or the Lee County Chancery Clerk's office at P.O. Box 7127, Tupelo, MS 38802-7127.

LEE COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

Lee County
STATEMENT OF NET ASSETS
September 30, 2007

Exhibit I

| | Primary Government | | Total |
|--|----------------------------|-----------------------------|--------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | \$ 26,421,849 | 129,032 | 26,550,881 |
| Accrued interest receivable | 163,710 | | 163,710 |
| Property tax receivable | 11,669,510 | | 11,669,510 |
| Receivables, Net of Allowances for uncollectibles of \$636,911 | | 398,104 | 398,104 |
| Fines receivable, net of allowances for uncollectibles of \$2,953,156 | 2,280,765 | | 2,280,765 |
| Intergovernmental receivables | 970,055 | 37,866 | 1,007,921 |
| Other receivables | 263,117 | 160,629 | 423,746 |
| Capital assets, net | 181,796,874 | 828,305 | 182,625,179 |
| Total Assets | 223,565,880 | 1,553,936 | 225,119,816 |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Claims payable | 1,874,986 | 117,508 | 1,992,494 |
| Intergovernmental payables | 1,714,354 | 4,202 | 1,718,556 |
| Accrued interest payable | 75,735 | 19 | 75,754 |
| Deferred revenue | 11,669,510 | | 11,669,510 |
| Unearned revenue | | 150,916 | 150,916 |
| Claims and judgments | 156,576 | | 156,576 |
| Other payables | 478,226 | | 478,226 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 1,250,341 | 180,523 | 1,430,864 |
| Due in more than one year: | | | |
| Capital debt | 7,423,783 | 281,719 | 7,705,502 |
| Non-capital debt | 1,106,240 | 498,430 | 1,604,670 |
| Total Liabilities | 25,749,751 | 1,233,317 | 26,983,068 |
| NET ASSETS | | | |
| Investment in capital assets net of related debt | 173,122,750 | 366,063 | 173,488,813 |
| Restricted: | | | |
| Expendable: | | | |
| General government | 2,480 | | 2,480 |
| Public Safety | 921,354 | | 921,354 |
| Public works | 7,574,279 | (45,444) | 7,528,835 |
| Other Purposes | 5,346,103 | | 5,346,103 |
| Unrestricted | 10,849,163 | | 10,849,163 |
| Total Net Assets | \$ 197,816,129 | 320,619 | 198,136,748 |

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

Lee County
Statement of Activities
For the year ended September 30, 2007

| Function / Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|---|----------------------|------------------------------------|----------------------------------|---|--------------------------|---------------------|
| | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-type Activities | Total |
| Primary Government | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | \$ 8,552,855 | 167,474 | 479,508 | (5,826,314) | | (5,826,314) |
| Public Safety | 9,669,684 | 640,549 | 415,797 | (6,043,185) | | (6,043,185) |
| Public Works | 14,373,681 | 1,221,089 | 225,615 | (12,925,047) | | (12,925,047) |
| Health & Welfare | 1,526,218 | 589,672 | | (936,546) | | (936,546) |
| Culture & Recreation | 888,293 | | | (888,293) | | (888,293) |
| Education | 13,370 | | | (13,370) | | (13,370) |
| Conservation of Natural Resources | 209,836 | | | (209,836) | | (209,836) |
| Economic Development & Assistance | 482,937 | | 3,154,472 | 2,671,535 | | 2,671,535 |
| Interest | 374,794 | | | (374,794) | | (374,794) |
| Total Governmental-type Activities | 36,091,668 | 2,618,784 | 4,275,392 | (24,545,850) | -0- | (24,545,850) |
| Business-type Activities: | | | | | | |
| Garbage Disposal | 2,045,701 | 73,928 | | | 31,695 | 31,695 |
| Turner Park | 100,996 | | | | (25,948) | (25,948) |
| Total Business-type Activities | 2,146,697 | 73,928 | -0- | -0- | 5,747 | 5,747 |
| Total Primary Government | \$ 38,238,365 | 2,692,712 | 4,275,392 | (24,545,850) | 5,747 | (24,540,103) |
| General Revenues: | | | | | | |
| Property Taxes | | | | 14,680,239 | | 14,680,239 |
| Road & Bridge Privilege taxes | | | | 945,056 | | 945,056 |
| Unrestricted gifts and donations | | | | 219,919 | | 219,919 |
| Unrestricted investment income | | | | 1,879,735 | 9,412 | 1,889,147 |
| Miscellaneous | | | | 2,127,821 | 10,986 | 2,138,807 |
| Transfers | | | | (205,580) | 205,580 | |
| Total General Revenues and Transfers | | | | 19,647,190 | 225,978 | 19,873,168 |
| Change in Net Assets | | | | (4,898,660) | 231,725 | (4,666,935) |
| Net Assets - Beginning | | | | 203,208,726 | 88,894 | 203,297,620 |
| Prior period adjustment | | | | (493,937) | | (493,937) |
| Net Assets - Beginning, as restated | | | | 202,714,789 | 88,894 | 202,803,683 |
| Net Assets - Ending | | | | 197,816,129 | 320,619 | 198,136,748 |

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

Lee County
Balance Sheet - Governmental Funds
September 30, 2007

Exhibit 3

| | Major Funds | | | | | Total Governmental Funds |
|--|-------------------|--------------------------|---|----------------|--------------------------------|--------------------------------|
| | General Fund | County-wide Road Fund | County-wide Bridge & Culvert Fund | TKA Fabco | Other Governmental Funds | |
| ASSETS | | | | | | |
| Cash and investments | 17,747,827 | 4,586,178 | 3,012,789 | 254,909 | 820,146 | 26,421,849 |
| Accrued interest receivable | 79,976 | 45,962 | 31,868 | | 5,904 | 163,710 |
| Property tax receivable | 7,848,700 | 1,848,500 | 1,527,200 | | 445,110 | 11,669,510 |
| Fines receivable (net of allowance for uncollectibles) | 2,280,765 | | | | | 2,280,765 |
| Intergovernmental receivables | 658,171 | 31,727 | 17,242 | | 261,858 | 968,998 |
| Other receivables | 96,990 | | | | 166,127 | 263,117 |
| Due from other funds | 1,057 | 164,535 | 74,976 | | 20,094 | 260,662 |
| Advances to other funds | 162,500 | | | | | 162,500 |
| Total Assets | <u>28,875,986</u> | <u>6,676,902</u> | <u>4,664,075</u> | <u>254,909</u> | <u>1,719,239</u> | <u>42,191,111</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| Liabilities | | | | | | |
| Claims payable | 812,275 | 334,895 | 43,366 | 448,283 | 236,167 | 1,874,986 |
| Intergovernmental payables | 1,413,525 | 12,737 | | | 27,150 | 1,453,412 |
| Due to other Funds | 520,547 | | | | | 520,547 |
| Advances from other funds | | | | | 162,500 | 162,500 |
| Deferred revenue | 10,129,465 | 1,848,500 | 1,527,200 | | 445,110 | 13,950,275 |
| Claims and judgments | 156,576 | | | | | 156,576 |
| Other Payables | 478,226 | | | | | 478,226 |
| Total Liabilities | <u>13,510,614</u> | <u>2,196,132</u> | <u>1,570,566</u> | <u>448,283</u> | <u>870,927</u> | <u>18,596,522</u> |
| Fund Balances | | | | | | |
| Reserved for: | | | | | | |
| Advances | 162,500 | | | | | 162,500 |
| Other Purposes | 5,183,603 | | | | | 5,183,603 |
| Unreserved, reported in: | | | | | | |
| General Fund | 10,019,269 | 4,480,770 | 3,093,509 | (193,374) | 848,312 | 10,019,269 |
| Special Revenue Funds | 15,365,372 | 4,480,770 | 3,093,509 | (193,374) | 848,312 | 8,229,217 |
| Total Fund Balances | <u>28,875,986</u> | <u>6,676,902</u> | <u>4,664,075</u> | <u>254,909</u> | <u>1,719,239</u> | <u>42,191,111</u> |
| Total Liabilities and Fund Balances | | | | | | |

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

Lee County

Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2007

| | <u>Amount</u> |
|---|-----------------------|
| Total fund balance - governmental funds (Exhibit 3) | \$ 23,594,589 |
| <p>Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:</p> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds net of accumulated depreciation of \$107,952,062 | 181,796,874 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. | 2,280,765 |
| Long term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | |
| Long-term liabilities | (9,780,364) |
| Accrued interest on bonds | <u>(75,735)</u> |
| Net assets of governmental activities | <u>\$ 197,816,129</u> |

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

Lee County
 Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds
 For the year ended September 30, 2007

| | Major Funds | | | | | Total Governmental Funds |
|---|---------------|--------------------------|---------------------------------|-------------|--------------------------------|--------------------------------|
| | General Funds | County-wide Road Fund | County-wide Bridge & Culvert | TKA Fabco | Other Governmental Funds | |
| REVENUES | | | | | | |
| Property taxes | \$ 10,219,560 | 2,215,035 | 1,821,806 | | 423,838 | 14,680,239 |
| Road and bridge privilege taxes | | 945,056 | | | | 945,056 |
| Licenses, commissions and other revenue | 1,362,432 | 20,519 | | | 24,253 | 1,407,204 |
| Fines and forfeitures | 750,307 | | | | 895 | 751,202 |
| Intra-governmental revenues | 3,679,178 | 741,892 | 225,615 | 2,494,000 | 1,363,347 | 8,504,032 |
| Charges for services | 1,254,625 | 1,930 | | | 1,213,298 | 2,469,853 |
| Interest income | 1,339,357 | 303,326 | 193,442 | | 43,610 | 1,879,735 |
| Miscellaneous revenues | 321,883 | | 322 | 89,976 | 132,461 | 544,642 |
| Total Revenues | 18,927,342 | 4,227,758 | 2,241,185 | 2,583,976 | 3,201,792 | 31,181,963 |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| General government | 8,422,277 | | | | 19,488 | 8,441,765 |
| Public safety | 6,866,594 | | | | 2,783,180 | 9,649,774 |
| Public works | | 5,008,724 | | | | 7,372,686 |
| Health and welfare | 1,522,314 | | 2,363,962 | | | 1,522,314 |
| Culture and recreation | 443,698 | | | | 367,165 | 810,863 |
| Conservation of natural resources | 205,937 | | | | 205,937 | 205,937 |
| Economic development and assistance | 145,591 | | | 3,693,280 | 763,949 | 4,602,820 |
| Debt Service | | | | | | |
| Principal | 527,610 | 236,361 | 206,056 | 50,929 | 537,320 | 1,558,276 |
| Interest | 88,482 | 44,298 | 33,449 | 39,047 | 175,963 | 381,239 |
| Total Expenditures | 18,222,503 | 5,289,383 | 2,603,467 | 3,783,256 | 4,647,065 | 34,545,674 |
| Excess (deficiency) of Revenues Over Expenditures | 704,839 | (1,061,625) | (362,282) | (1,199,280) | (1,445,363) | (3,263,711) |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Proceeds of LT Cap Debt | 152,157 | 293,279 | 293,279 | 999,000 | 237,208 | 1,974,923 |
| Proceeds of LT N/C Debt | 249,018 | | | | 250,982 | 500,000 |
| Proceeds from Sale of CA | 36,900 | 13,501 | | | 1,150 | 51,551 |
| Transfers in from Gov. Fds | 60,850 | 300,000 | | | 1,026,094 | 1,386,944 |
| Operating Transfers Out | (1,406,674) | | (125,000) | | (60,850) | (1,592,524) |
| Total Other Financing Sources and Uses | (907,749) | 606,780 | 168,279 | 999,000 | 1,454,584 | 2,320,894 |
| Net Change in Fund Balance | (202,910) | (454,845) | (194,003) | (200,280) | 9,221 | (1,042,817) |
| Fund Balances - Beginning | 15,641,321 | 4,935,615 | 3,287,512 | 6,906 | 839,091 | 24,710,445 |
| Prior period adjustments | (73,039) | | | | | (73,039) |
| Fund Balances-Beginning, as restated | 15,568,282 | 4,935,615 | 3,287,512 | 6,906 | 839,091 | 24,637,406 |
| Fund Balances - Ending | \$ 15,365,372 | 4,480,770 | 3,093,509 | (193,374) | 848,312 | 23,594,589 |

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

Lee County
**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**

Exhibit 4-1

| | <u>Amount</u> |
|--|-----------------------|
| Net changes in fund balances - total governmental funds (Exhibit 4) | \$ (1,042,817) |
| 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 depreciation of \$9,536,454 exceeded capital outlays of \$6,689,037 in the current period. | (2,847,417) |
| In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the gain of \$25,407 and the proceeds from the sale of \$51,551 of capital assets. | (26,144) |
| Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the statement of activities using the full-accrual basis of accounting. | 23,384 |
| Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$1,558,276 differs from debt proceeds \$2,474,923. | (916,647) |
| 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. | (95,464) |
| The amount of decrease in accrued interest payable. | 6,445 |
| Change in net assets of governmental activities (Exhibit 2) | <u>\$ (4,898,660)</u> |

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

Lee County
 Statement of Net Assets - Proprietary Funds
 September 30, 2007

Exhibit 5

| | Business-type Activities- Enterprise Funds | | Totals |
|---|---|----------------|------------------|
| | Solid Waste | Turner Park | |
| ASSETS | | | |
| Current Assets | | | |
| Cash and investments | \$ (72,732) | 201,764 | 129,032 |
| Accounts receivable, Net of Allowances for uncollectibles | 388,221 | 9,883 | 398,104 |
| Intergovernmental receivables | 37,866 | | 37,866 |
| Other receivables | 160,629 | | 160,629 |
| Total Current Assets | <u>513,984</u> | <u>211,647</u> | <u>725,631</u> |
| Noncurrent Assets | | | |
| Capital assets, net of accumulated depreciation of \$695,883 & \$306,070 | 665,496 | 162,809 | 828,305 |
| Total Noncurrent Assets | <u>665,496</u> | <u>162,809</u> | <u>828,305</u> |
| Total Assets | <u>1,179,480</u> | <u>374,456</u> | <u>1,553,936</u> |
| LIABILITIES | | | |
| Current Liabilities | | | |
| Claims Payable | 111,788 | 5,720 | 117,508 |
| Intergovernmental payables | 4,192 | 10 | 4,202 |
| Accrued Interest Payable | | 19 | 19 |
| Unearned revenue | 150,916 | | 150,916 |
| Capital debt: | | | |
| Other long-term liabilities | 172,121 | 8,402 | 180,523 |
| Total Current Liabilities | <u>439,017</u> | <u>14,151</u> | <u>453,168</u> |
| Noncurrent Liabilities | | | |
| Capital debt: | | | |
| Other long-term liabilities | 231,503 | 50,216 | 281,719 |
| Non-capital debt: | | | |
| Compensated Absences payable | 61,934 | | 61,934 |
| Other long-term liabilities | 436,496 | | 436,496 |
| Total Noncurrent Liabilities | <u>729,933</u> | <u>50,216</u> | <u>780,149</u> |
| Total Liabilities | <u>1,168,950</u> | <u>64,367</u> | <u>1,233,317</u> |
| NET ASSETS | | | |
| Investment in Capital Assets, net of related debt | 261,872 | 104,191 | 366,063 |
| Restricted for Public Works | (251,342) | 205,898 | (45,444) |
| Total Net Assets | <u>\$ 10,530</u> | <u>310,089</u> | <u>320,619</u> |

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

Lee County

Exhibit 6

Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds
For the year ended September 30, 2007

| | Business-type Activities- Enterprise Funds | | Total |
|-----------------------------------|---|-----------------|------------------|
| | Solid Waste | Turner Park | |
| Operating Revenues | | | |
| Charges for Services | \$ 2,003,468 | 75,048 | 2,078,516 |
| Other Revenue | 16,995 | | 16,995 |
| Total Operating Revenues | <u>2,020,463</u> | <u>75,048</u> | <u>2,095,511</u> |
| Operating Expenses | | | |
| Personal services | 810,672 | | 810,672 |
| Contractual services | 794,955 | 79,419 | 874,374 |
| Materials and supplies | 298,528 | 5,602 | 304,130 |
| Depreciation expense | 64,813 | 12,120 | 76,933 |
| Indirect administrative cost | 43,216 | 1,894 | 45,110 |
| Total Operating Expenses | <u>2,012,184</u> | <u>99,035</u> | <u>2,111,219</u> |
| Operating Gain (Loss) | <u>8,279</u> | <u>(23,987)</u> | <u>(15,708)</u> |
| Non-Operating Revenues (Expenses) | | | |
| Interest Earnings | 632 | 8,780 | 9,412 |
| Grants | 73,928 | | 73,928 |
| Other income (expense) | (6,009) | | (6,009) |
| Interest expense | (33,517) | (1,961) | (35,478) |
| Net Non-Operating Revenue | <u>35,034</u> | <u>6,819</u> | <u>41,853</u> |
| Net Income Before Transfers | <u>43,313</u> | <u>(17,168)</u> | <u>26,145</u> |
| Transfers In | 205,580 | | 205,580 |
| Total Transfers | <u>205,580</u> | <u>-0-</u> | <u>205,580</u> |
| Change in Net Assets | 248,893 | (17,168) | 231,725 |
| Net Assets - Beginning | <u>(238,363)</u> | <u>327,257</u> | <u>88,894</u> |
| Net Assets - Ending | <u>\$ 10,530</u> | <u>310,089</u> | <u>320,619</u> |

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

Lee County
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2007

Exhibit 7

| | Business-type Activities - | | Total |
|---|----------------------------|-----------------|------------------|
| | Enterprise Funds | | |
| | Solid Waste | Turner Park | |
| Cash Flows From Operating Activities | | | |
| Receipts from customers | \$ 1,968,722 | 70,779 | 2,039,501 |
| Payments to suppliers | (1,097,211) | (86,517) | (1,183,728) |
| Payments to employees | (818,520) | | (818,520) |
| Payments to General Fund for indirect costs | (43,216) | (1,894) | (45,110) |
| Net Cash Provided (Used) by Operating Activities | <u>9,775</u> | <u>(17,632)</u> | <u>(7,857)</u> |
| Cash Flows From Noncapital Financing Activities | | | |
| Operating grants received | 73,928 | | 73,928 |
| Proceeds of long-term debt | 25,745 | | 25,745 |
| Cash received from other funds: | | | |
| Operating transfers in | 205,580 | | 205,580 |
| Net Cash Provided by Noncapital Financing Activities | <u>305,253</u> | <u>-0-</u> | <u>305,253</u> |
| Cash Flows From Capital and Related Financing Activities | | | |
| Proceeds of long-term debt | 93,676 | | 93,676 |
| Acquisition and construction of capital assets | (93,676) | | (93,676) |
| Proceeds from the disposal of capital assets | 3,850 | | 3,850 |
| Principal paid on long-term debt | (277,538) | (8,102) | (285,640) |
| Interest paid on debt | (33,518) | (1,942) | (35,460) |
| Net Cash (Used) by Capital and Related Financing Activities | <u>(307,206)</u> | <u>(10,044)</u> | <u>(317,250)</u> |
| Cash Flows From Investing Activities | | | |
| Interest and dividends on investments | 632 | 8,780 | 9,412 |
| Net Cash Provided by Investing Activities | <u>632</u> | <u>8,780</u> | <u>9,412</u> |
| Net (Decrease) in Cash and Cash Equivalents | 8,454 | (18,896) | (10,442) |
| Cash and Cash Equivalents at Beginning of Year | (81,186) | 220,660 | 139,474 |
| Cash and Cash Equivalents at End of Year | <u>\$ (72,732)</u> | <u>201,764</u> | <u>129,032</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | |
| Operating gain (loss) | \$ 8,279 | (23,987) | (15,708) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | |
| Depreciation expense | 64,813 | 12,120 | 76,933 |
| Provision for uncollectible accounts | 40,988 | | 40,988 |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | (50,615) | (4,269) | (54,884) |
| (Increase) decrease in other receivables | (46,140) | | (46,140) |
| Increase (decrease) in claims payable | (16,522) | (1,496) | (18,018) |
| Increase in compensated absences liability | 4,946 | | 4,946 |
| Increase in deferred revenue | 4,026 | | 4,026 |
| Total Adjustments | <u>1,496</u> | <u>6,355</u> | <u>7,851</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 9,775</u> | <u>(17,632)</u> | <u>(7,857)</u> |

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

Lee County
Statement of Fiduciary Assets and Liabilities
September 30, 2007

Exhibit 8

Agency Funds

ASSETS

| | |
|-------------------------------|-------------------|
| Cash and investments | \$ 306,511 |
| Intergovernmental receivables | 2,909 |
| Due from other funds | 260,942 |
| Other receivables | 17,232 |
| Total Assets | <u>\$ 587,594</u> |

LIABILITIES

| | |
|------------------------------------|-------------------|
| Amounts held in custody for others | \$ 338,202 |
| Intergovernmental payables | 248,335 |
| Due to other funds | 1,057 |
| Total Liabilities | <u>\$ 587,594</u> |

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

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

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

- Lee-Itawamba Library System
- Cedar Hill Volunteer Fire District
- Pratts-Friendship Volunteer Fire District
- Belden Volunteer Fire District
- Mooreville-Eggville Volunteer Fire District
- Richmond Volunteer Fire District
- Palmetto-Old Union Fire District
- South Lee Volunteer Fire District
- Union Volunteer Fire District
- Unity Volunteer Fire District
- Birmingham Ridge Volunteer Fire District
- Greater Plantersville Volunteer Fire District
- Greater Saltillo Volunteer Fire District
- Greater Verona Volunteer Fire District
- Greater Shannon Volunteer Fire District
- Greater Nettleton Volunteer Fire District

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

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

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

B. Basis of Presentation

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

Government-wide Financial Statements

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

The 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 activity 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 a separate accounting entity. 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

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

C. Measurement Focus and Basis of Accounting (Continued)

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.

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

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

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

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

C. Measurement Focus and Basis of Accounting (Continued)

TKA Fabco – This fund is used to account for monies to expand the manufacturing capacity at TKA Fabco, a local body panel stamping facility.

The county reports the following major proprietary funds:

Solid Waste Fund – This fund is used to account for the county's activities of disposal of solid waste within the county.

Turner Parker Fund – This fund is used to account for the county's sewer and water activities within the Turner Industrial Park.

Additionally, the county reports the following fund types:

Governmental Fund Types

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

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

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

Proprietary Fund 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.

LEE COUNTY
NOTES TO THE 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.

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." Noncurrent portions of interfund receivables and payables are reported as "advances to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. 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 statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

H. Capital Assets (Continued)

historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital asset costs, other than infrastructure, 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.

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 retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980 are reported on the government-wide financial statements. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

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:

**LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

H. Capital Assets (Continued)

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

* Leased property capitalization policy 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 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 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 or 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.”

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

J. Equity Classifications (Continued)

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.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

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 the 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.

(2) Prior Period Adjustment

A summary of significant fund equity adjustments is as follows:

Exhibit 2 Statement of Activities

| <u>Explanation</u> | <u>Amount</u> |
|---|-------------------|
| Revenue accrual - amounts held in custody | \$ 73,039 |
| Capital asset adjustment | (17,353) |
| Capital asset adjustment | 91,663 |
| Capital asset adjustment | 455,726 |
| Capital asset adjustment | (60,135) |
| Capital asset adjustment | (49,003) |
| | <u>\$ 493,937</u> |

Exhibit 4 Statement of Revenues, Expenditures and Changes in Fund Balances

| <u>Explanation</u> | <u>Amount</u> |
|---|------------------|
| Revenue accrual - amounts held in custody | \$ <u>73,039</u> |

(3) Deposits and Investments

Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2007, was \$6,603,310 and the bank balance was \$7,554,453. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(3) Deposits and Investments (Continued)

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

Investments balances at September 30, 2007, are as follows:

| <u>Instrument Type</u> | <u>Maturity</u> | <u>Fair Value</u> | <u>Rating</u> |
|---------------------------------|-----------------|----------------------|---------------|
| Federal Farm Credit Bank | 03/24/09 | \$ 305,254 | AAA |
| Federal Farm Credit Bank | 09/25/09 | 264,727 | AAA |
| Federal Home Ln Bk | 10/10/08 | 492,345 | AAA |
| Federal Home Ln Bk | 12/18/08 | 492,657 | AAA |
| Federal Home Ln Bk | 12/23/08 | 858,038 | AAA |
| Federal Home Ln Bk | 03/30/09 | 827,400 | AAA |
| Federal Home Ln Mtg | 10/25/07 | 1,498,425 | AAA |
| Federal Home Ln Mtg | 08/15/08 | 397,438 | AAA |
| Federal Home Ln Mtg | 11/28/08 | 491,350 | AAA |
| Federal Home Ln Mtg | 06/30/09 | 668,759 | AAA |
| U.S. Treasury Notes | 09/30/08 | 1,005,705 | AAA |
| U.S. Treasury Notes | 11/15/08 | 993,595 | AAA |
| U.S. Treasury Notes | 02/15/09 | 1,185,637 | AAA |
| U.S. Treasury Notes | 07/15/09 | 994,610 | AAA |
| U.S. Treasury Notes | 02/15/10 | 3,052,035 | AAA |
| U.S. Treasury Notes | 05/31/11 | 1,642,504 | AAA |
| U.S. Treasury Notes | 08/15/21 | 250,665 | AAA |
| Transamerica Occidental Annuity | 06/21/12 | 4,832,938 | |
| Total | | \$ <u>20,254,082</u> | |

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.

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.

**LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

(3) Deposits and Investments (Continued)

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.

(4) Interfund Transactions and Balances

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

A. Due From/To Other Funds

| Receivable Fund | Payable Fund | Amount |
|--------------------------|--------------|-------------------|
| General Fund | Agency Funds | \$ 1,057 |
| Countywide Road | General Fund | 164,535 |
| Countywide Bridge | General Fund | 74,976 |
| Other Governmental Funds | General Fund | 20,094 |
| Agency Funds | General Fund | <u>260,942</u> |
| Total | | <u>\$ 521,604</u> |

The payables from the General Fund are the tax revenues collected but not settled until October 2007. The payable from the Agency Funds is interest earned. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances From/To Other Funds

| Receivable Fund | Payable Fund | Amount |
|-----------------|--------------------------|-------------------|
| General Fund | Other Governmental Funds | \$ <u>162,500</u> |
| Total | | <u>\$ 162,500</u> |

The payable from Other Governmental Funds is funds advanced to the IDEA Center project during fiscal year 2006. The balance is expected to be repaid during fiscal year 2008.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(4) Interfund Transactions and Balances (Continued)

| | | |
|--------------------------|--------------------------|---------------------|
| C. Transfers In/Out | | |
| <u>Transfer In</u> | <u>Transfer Out</u> | <u>Amount</u> |
| General Fund | Other Governmental Funds | \$ 60,850 |
| County-Wide Road | County-Wide Bridge | 125,000 |
| County-Wide Road | General Fund | 175,000 |
| Other Governmental Funds | General Fund | 1,026,094 |
| Enterprise Funds | General Fund | 205,580 |
| Total | | <u>\$ 1,592,524</u> |

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

(5) Intergovernmental Receivables

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

A. Governmental Activities:

| | |
|--|-------------------|
| <u>Description</u> | <u>Amount</u> |
| Legislative tag credit | \$ 420,736 |
| Motor Vehicle Licenses | 77,737 |
| Reimbursement for the housing of prisoners | 68,300 |
| Motor Vehicle Fuel Tax | 48,547 |
| Homeland Security grant | 94,835 |
| Economic Development | 165,000 |
| Other | 93,843 |
| Total Governmental Activities | <u>\$ 968,998</u> |

B. Business-type Activities:

| | |
|--------------------------------|------------------|
| <u>Description</u> | <u>Amount</u> |
| Garbage Collection Fees | \$ 37,866 |
| Total Business-type Activities | <u>\$ 37,866</u> |

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(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 | \$ 4,175,838 | 15,000 | (5,000) | 17,353 | 4,203,191 |
| Construction in progress | 3,116,212 | 4,270,726 | | (3,417,658) | 3,969,280 |
| Total non-depreciable capital assets | <u>7,292,050</u> | <u>4,285,726</u> | <u>(5,000)</u> | <u>(3,400,305)</u> | <u>8,172,471</u> |
| <u>Depreciable capital assets</u> | | | | | |
| Infrastructure | 242,984,420 | 1,004,507 | | | 243,988,927 |
| Buildings | 23,184,071 | | | 2,870,270 | 26,054,341 |
| Improvements other than buildings | 593,998 | 165,000 | | | 758,998 |
| Mobile equipment | 8,032,401 | 1,043,320 | (211,389) | 60,134 | 8,924,466 |
| Furniture and equipment | 1,610,246 | 190,484 | | 49,003 | 1,849,733 |
| Total depreciable assets | <u>276,405,136</u> | <u>2,403,311</u> | <u>(211,389)</u> | <u>2,979,407</u> | <u>281,576,465</u> |
| <u>Less accumulated depreciation for:</u> | | | | | |
| Infrastructure | 86,032,691 | 8,281,850 | | | 94,314,541 |
| Buildings | 5,686,130 | 520,887 | | | 6,207,017 |
| Improvements other than buildings | 273,781 | 31,185 | | | 304,966 |
| Mobile equipment | 5,421,403 | 566,512 | (190,245) | | 5,797,670 |
| Furniture and equipment | 1,191,848 | 136,020 | | | 1,327,868 |
| Total accumulated depreciation | <u>98,605,853</u> | <u>9,536,454</u> | <u>(190,245)</u> | <u>-0-</u> | <u>107,952,062</u> |
| Total depreciable capital assets, net | <u>177,799,283</u> | <u>(7,133,143)</u> | <u>(21,144)</u> | <u>2,979,407</u> | <u>173,624,403</u> |
| Governmental activities capital assets, net | <u>\$ 185,091,333</u> | <u>(2,847,417)</u> | <u>(26,144)</u> | <u>(420,898)</u> | <u>181,796,874</u> |

Adjustments included revaluation of IDEA Center land, reclassification of construction in progress, reclassification of leased property, and prior period adjustments.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(6) Capital Assets (Continued)

Business-type activities:

| | Balance Oct. 1, 2006 | Additions | Deletions | Balance Sept. 30, 2007 |
|--|-------------------------|---------------|-----------------|---------------------------|
| <u>Non-depreciable capital assets</u> | | | | |
| Land | \$ 47,746 | | | 47,746 |
| Total non-depreciable capital assets | <u>47,746</u> | <u>-0-</u> | <u>-0-</u> | <u>47,746</u> |
| <u>Depreciable capital assets</u> | | | | |
| Buildings | 425,500 | | | 425,500 |
| Improvements other than buildings | 137,129 | | | 137,129 |
| Mobile equipment | 1,203,960 | 93,676 | (98,590) | 1,199,046 |
| Furniture and equipment | 20,837 | | | 20,837 |
| Total depreciable assets | <u>1,787,426</u> | <u>93,676</u> | <u>(98,590)</u> | <u>1,782,512</u> |
| <u>Less accumulated depreciation for:</u> | | | | |
| Buildings | 243,547 | 8,510 | | 252,057 |
| Improvements other than buildings | 82,277 | 5,485 | | 87,762 |
| Mobile equipment | 669,174 | 62,938 | (88,731) | 643,381 |
| Furniture and equipment | 18,753 | | | 18,753 |
| Total accumulated depreciation | <u>1,013,751</u> | <u>76,933</u> | <u>(88,731)</u> | <u>1,001,953</u> |
| Total depreciable capital assets, net | <u>773,675</u> | <u>16,743</u> | <u>(9,859)</u> | <u>780,559</u> |
| Business type activities capital assets, net | <u>\$ 821,421</u> | <u>16,743</u> | <u>(9,859)</u> | <u>828,305</u> |

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(6) Capital Assets (Continued)

Depreciation expense was charged to the following functions:

| | Amount |
|---|--------------|
| Governmental Activities: | |
| General government | \$ 342,490 |
| Public safety | 407,433 |
| Public works | 8,661,213 |
| Health and welfare | 3,435 |
| Culture and recreation | 104,613 |
| Education | 13,370 |
| Conservation of natural resources | 3,900 |
| Total governmental activities depreciation expense | \$ 9,536,454 |
| Business-type activities: | |
| Solid Waste | \$ 64,813 |
| Turner Park | 12,120 |
| Total business-type activities depreciation expense | \$ 76,933 |

Commitments with respect to unfinished capital projects at September 30, 2007, consisted of the following:

| Description of Commitment | Remaining Financial Commitment | Expected Date of Completion |
|---------------------------|-----------------------------------|--------------------------------|
| TKA Fabco Construction | \$ 389,563 | April 2008 |

(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.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(7) Claims and Judgments (Continued)

The county finances its exposure to risk of loss relating to employee health and accident coverage through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the county retaining the risk of loss on all claims to which the county is exposed. Premium payments to the pool are determined on an actuarial basis. The county has reinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$40,000, and the aggregate policy covers all submitted claims in excess of \$40,000. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The following table provides changes in the balances of claims liabilities for fiscal years 2006 and 2007:

| | <u>2006</u> | <u>2007</u> |
|---|--------------------|--------------------|
| Unpaid Claims, Beginning of Fiscal Year | \$ 299,847 | 280,591 |
| Plus: Incurred Claims (Including IBNRs) | 2,272,736 | 2,546,609 |
| Less: Claims Payments | <u>(2,291,992)</u> | <u>(2,670,624)</u> |
| Unpaid Claims, End of Fiscal Year | <u>\$ 280,591</u> | <u>156,576</u> |

**LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

(8) Long-term Debt

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

| Description and Purpose | Amount Outstanding | Interest Rates | Final Maturity Date |
|-------------------------------------|-----------------------|-------------------|---------------------------|
| Governmental Activities: | | | |
| A. General Obligation Bonds: | | | |
| 2001 Refunding Bonds | \$ 4,330,000 | 3.2-4.5 | 12/1/13 |
| Total General Obligation Bonds | <u>\$ 4,330,000</u> | | |
| D. Other Loans: | | | |
| Capital improvements revolving loan | \$ 133,005 | 3.0 | 3/1/14 |
| Capital improvements revolving loan | 783,623 | 3.0 | 11/1/18 |
| Capital improvements revolving loan | 999,000 | 3.0 | 5/1/28 |
| Capital improvements revolving loan | 192,537 | 4.3 | 1/31/14 |
| Noncap revolving loan | 500,000 | 0.0 | 10/15/21 |
| MS Development Bank promissory note | <u>2,235,959</u> | Variable | 2/28/13 |
| | <u>\$ 4,844,124</u> | | |
| Business-type Activities: | | | |
| A. Other Loans | | | |
| Capital improvements revolving loan | \$ 58,617 | 3.0 | 3/1/14 |
| MS Development Bank promissory note | <u>840,121</u> | Variable | 4/30/13 |
| | <u>\$ 898,738</u> | | |

**LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

(8) Long-term Debt (Continued)

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

Governmental Activities:

| Year Ending September 30, | General Obligation Bonds | | Other Loans | |
|------------------------------|--------------------------|----------------|------------------|----------------|
| | Principal | Interest | Principal | Interest |
| 2008 | \$ 540,000 | 151,995 | 710,341 | 151,414 |
| 2009 | 560,000 | 133,015 | 722,014 | 138,564 |
| 2010 | 590,000 | 112,300 | 664,801 | 106,127 |
| 2011 | 620,000 | 89,760 | 572,082 | 76,505 |
| 2012 | 645,000 | 65,880 | 291,374 | 51,414 |
| 2013-2017 | 1,375,000 | 54,308 | 686,353 | 154,192 |
| 2018-2022 | | | 851,743 | 73,861 |
| 2023-2027 | | | 302,544 | 30,214 |
| 2028 | | | 42,872 | 1,495 |
| Total | \$ <u>4,330,000</u> | <u>607,258</u> | <u>4,844,124</u> | <u>783,786</u> |

Business-type Activities:

| Year Ending September 30, | Other Loans | |
|------------------------------|-------------------|----------------|
| | Principal | Interest |
| 2008 | \$ 180,523 | 41,968 |
| 2009 | 180,779 | 33,450 |
| 2010 | 165,862 | 24,925 |
| 2011 | 157,396 | 17,120 |
| 2012 | 128,384 | 9,727 |
| 2013-2015 | 85,794 | 3,987 |
| Total | \$ <u>898,738</u> | <u>131,177</u> |

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 0.58% of the latest property assessments.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(8) Long-term Debt (Continued)

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 | Balance Sept. 30, 2007 | Amount due within one year |
|----------------------------------|-------------------------|------------------|------------------|---------------------------|-------------------------------|
| Governmental Activities: | | | | | |
| Compensated absences | \$ 510,776 | 95,464 | | 606,240 | |
| General obligation bonds | 4,845,000 | | 515,000 | 4,330,000 | 540,000 |
| Other loans | 3,412,477 | 2,474,923 | 1,043,276 | 4,844,124 | 710,341 |
| Totals | \$ 8,768,253 | 2,570,387 | 1,558,276 | 9,780,364 | 1,250,341 |
| Business-type Activities: | | | | | |
| Compensated absences | \$ 56,988 | 4,946 | | 61,934 | |
| Other loans | 1,064,957 | 119,421 | 285,640 | 898,738 | 180,523 |
| Totals | \$ 1,121,945 | 124,367 | 285,640 | 960,672 | 180,523 |

(9) Deficit Fund Balances of Individual Funds

The following funds reported deficit in fund balances at September 30, 2007:

| Fund | Deficit Amount |
|-----------------------|-------------------|
| Agri-Center/Fair Fund | \$ 78,117 |
| GREAT Grant | 31,393 |
| TKA Fabco | 193,374 |

(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.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(10) Contingencies (Continued)

Lee County Solvent Vault – In 1975, Lee County received a permit from the State of Mississippi to construct and operate the Lee County Solvent Vault for surrounding industries. The solvent vault is located within the property boundary of the Lee County Landfill. In 1978, Lee County discontinued use of the solvent vault. Following an environmental assessment of the landfill in 1991 by the Mississippi Department of Environmental Quality (MDEQ), the Lee County Solvent Vault Group (comprised of Lee County and other potentially responsible parties identified by historical solvent vault records) retained URS Griner Corp. to conduct a more detailed site investigation to document the possible release of substances from the solvent vault into the surrounding ground or surface water sources.

Following the site investigation, the MDEQ determined that there are substances in the groundwater immediately beneath the landfill that exceed federal clean drinking water standards. As a result, a proposed work plan was developed by Lee County (and approved by MDEQ) that included a series of ground water monitoring wells throughout the landfill as well as the construction of a clay “cap” immediately atop the solvent vault itself (the purpose of the ground water wells being to measure out ward migration of solvent vault substances and the construction of the “cap” to stop rain and surface water from percolating downward through the solvent vault itself). The work plan was funded through the Mississippi Corrective Action Trust Fund, completed by Lee County and approved by the MDEQ, said completion and approval occurred during the 2007 fiscal year. At this time, there is no further work being required by the MDEQ related to the solvent vault and as a result the project is considered closed.

Solid Waste Revenue Refunding Bonds

In 1998, solid waste revenue refunding bonds were issued by the Three Rivers Solid Waste Management Authority for \$8,120,000. As part of a solid waste disposal service agreement between Lee County and Three Rivers Solid Waste Management Authority, the county has agreed to pay its pro rata share of any obligations of the authority that are not covered by fees generated from solid waste disposal services. The county’s pro rata share of the \$4,315,000 refunding bonds balance at September 30, 2007, is \$604,963.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(11) No Commitment Debt (Not included in Financial Statements)

No commitment debt is repaid only by the entities for which the debt was issued and includes debt that either bears the county's name or for which a moral responsibility may exist that is not an enforceable promise to pay. No commitment debt explicitly states the absence of obligation by the county other than possibly an agreement to assist creditors in exercising their rights in the event of default. Because a default may adversely affect the county's own ability to borrow, the principal amount of such debt outstanding at year end is disclosed as follows:

| Description | Balance 9/30/07 |
|--------------------------|--------------------|
| Industrial revenue bonds | \$ 22,999,296 |

(12) Segment Information for Enterprise Funds

The county maintains two Enterprise Funds which provide solid waste services to county residents and commercial entities and water and sewer services to Turner Industrial Park. Summary financial information for each Enterprise Fund is presented for the year ended September 30, 2007:

Condensed Statement of Net Assets

| | Solid Waste Fund | Turner Park Water & Sewer Fund | Total Enterprise Funds |
|--|---------------------|--------------------------------------|------------------------------|
| Assets: | | | |
| Current assets | \$ 513,984 | 211,647 | 725,631 |
| Capital assets | 665,496 | 162,809 | 828,305 |
| Total assets | 1,179,480 | 374,456 | 1,553,936 |
| Liabilities: | | | |
| Current liabilities | 439,017 | 14,151 | 453,168 |
| Noncurrent liabilities | 729,933 | 50,216 | 780,149 |
| Total liabilities | 1,168,950 | 64,367 | 1,233,317 |
| Net assets: | | | |
| Invested in capital assets, net of related debt | 261,871 | 104,192 | 366,063 |
| Restricted for debt service | | 19 | 19 |
| Unrestricted | (251,341) | 205,878 | (45,463) |
| Total net assets | \$ 10,530 | 310,089 | 320,619 |

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(12) Segment Information for Enterprise Funds (Continued)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets

| | Solid Waste Fund | Turner Park Water & Sewer Fund | Total Enterprise Funds |
|----------------------------------|---------------------|--------------------------------------|------------------------------|
| Operating revenues | | | |
| Charges for services | \$ 2,020,463 | 75,048 | 2,095,511 |
| Operating expenses | 1,947,371 | 86,915 | 2,034,286 |
| Depreciation expense | 64,813 | 12,120 | 76,933 |
| Operating gain (loss) | 8,279 | (23,987) | (15,708) |
| Nonoperating revenues (expenses) | | | |
| Other income (expense), net | 67,919 | | 67,919 |
| Interest income | 632 | 8,780 | 9,412 |
| Interest expense | (33,517) | (1,961) | (35,478) |
| Transfers, net | 205,580 | | 205,580 |
| Changes in net assets | 248,893 | (17,168) | 231,725 |
| Total net assets - beginning | (238,363) | 327,257 | 88,894 |
| Total net assets - ending | \$ 10,530 | 310,089 | 320,619 |

Condensed Statement of Cash Flows

| | Solid Waste Fund | Turner Park Water & Sewer Fund | Total Enterprise Funds |
|--|---------------------|--------------------------------------|------------------------------|
| Net cash provided (used) by: | | | |
| Operating activities | \$ 9,775 | (17,632) | (7,857) |
| Noncapital financing activities | 305,253 | | 305,253 |
| Capital and related financing activities | (307,206) | (10,044) | (317,250) |
| Investing activities | 632 | 8,780 | 9,412 |
| Net increase (decrease) | 8,454 | (18,896) | (10,442) |
| Beginning cash and cash equivalents | (81,186) | 220,660 | 139,474 |
| Ending cash and cash equivalents | \$ (72,732) | 201,764 | 129,032 |

(13) Jointly Governed Organizations

The county participates in the following jointly governed organizations:

Three Rivers Solid Waste Management Authority operates in a district composed of the counties of Calhoun, Itawamba, Lafayette, Lee, Monroe, Pontotoc, and Union and the cities of Aberdeen, Amory, Fulton, New Albany, Oxford, Pontotoc and Tupelo. The Lee County Board of Supervisors appoints one of the seven members of the board of directors. The entity is fiscally independent of the members. Members are billed based on the volume of solid waste deposited. The county did not appropriate any funds for the support of the authority in fiscal year 2007.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(13) Jointly Governed Organizations (Continued)

Three Rivers Planning and Development District operates in a district composed of the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union. The Lee County Board of Supervisors appoints five of the forty members of the board of directors. The county appropriated \$46,600 for the support of the district in fiscal year 2007.

Itawamba Community College operates in a district composed of the counties of Chickasaw, Itawamba, Lee, Monroe and Pontotoc. The Lee County Board of Supervisors appoints six of the thirty members of the college board of trustees. The county appropriated \$5,112,340 for the support and maintenance of the college in fiscal year 2007.

Northeast Mental Health-Mental Retardation Commission operates in a district composed of the counties of Benton, Itawamba, Lee, Chickasaw, Pontotoc, Monroe and Union. The Lee County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$96,630 for support of the commission in fiscal year 2007.

Lift, Inc. operates in a district composed of the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union. The Lee County Board of Supervisors appoints two of the twenty-four members of the board of directors. The county appropriated \$9,010 in fiscal year 2007 to the organization.

Northeast Mississippi Emergency Medical Services serves the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Marshall, Pontotoc, Tishomingo and Union. The Lee County Board of Supervisors appoints four of the thirty-six members of the board of directors. Lee County appropriated \$53,029 for support of the district in fiscal year 2007.

Pontotoc-Union-Lee Alliance (PUL) is an alliance among Pontotoc, Union and Lee counties. The Lee County Board of Supervisors appoints two of the nine members of the board of directors. The county did not appropriate any funds for the support of the alliance in fiscal year 2007.

(14) Defined Benefit Pension Plan

Plan Description. Lee 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.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(14) Defined Benefit Pension Plan (Continued)

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The 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 \$1,181,499, \$1,078,357, and \$939,281, respectively, equal to the required contributions for each year.

(15) Subsequent Events

Subsequent to September 30, 2007, Lee County borrowed the following amounts under the Mississippi Development Bank Loan Program:

| Issue Date | Interest Rate | Issue Amount | Source of Financing |
|---------------|------------------|-----------------|---|
| 2/29/2008 | 5.0 | \$ 190,252 | General Fund, Road Fund, Bridge Fund, Solid Waste |
| 5/31/2008 | 5.0 | 125,368 | Road Fund, Bridge Fund |
| 8/31/2008 | 5.0 | 238,235 | Road Fund, Bridge Fund, Solid Waste |
| 9/2/2008 | 4.5 | 169,983 | Road Fund, Bridge Fund |
| 10/22/2008 | 5.0 | 356,306 | Road Fund, Bridge Fund, Solid Waste |

Subsequent to September 30, 2007, Lee County approved Special Obligation Bonds in the amount of \$8,760,000.

Lee County partnered with Union and Pontotoc County through the PUL Alliance to locate a major automotive manufacturing facility in the industrial development site known as Wellspring. Monroe, Tippah, Calhoun, and Itawamba Counties later joined the PUL Alliance as non-voting Associate Members.

In February 2007, Toyota announced that it would locate a facility in Wellspring. The \$892 million facility is known as Toyota Motor Manufacturing Mississippi (TMMMS).

As a result of the announcement by Toyota, Lee County approved the above mentioned Special Obligation Bonds in the amount of \$8,760,000. The proceeds of the bonds will be used to reimburse the Three Rivers Planning and Development District for its costs in acquiring and improving the property on which the Toyota facility will be located. The bond issue is dated December 1, 2007. Repayment of the bonds will be made from the Toyota Fund through use of fee-in-lieu payments made by Toyota to Lee County.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

(15) Subsequent Events (Continued)

Due to the steep decline of the U.S. auto market, Toyota announced on December, 15, 2008 that it was suspending preparations for its Mississippi plant. Toyota has committed to go ahead and finish the building which at the date of the announcement was 90 percent complete. Toyota's total investment to date in the region is approximately \$300 million. Production will be delayed for an indefinite period of time. The fee-in-lieu agreement has provisions in it whereby Toyota will make payments regardless of their production capacity. These payments will be sufficient to meet the debt obligations of Lee County related to the above mentioned bond issue.

Subsequent to September 30, 2007, Sheila Shumpert prevailed in a suit against Lee County for violation of her first amendment rights. The jury awarded Ms. Shumpert \$34,000. The County has motions outstanding yet to be ruled upon by the Court.

LEE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

Lee 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 | \$ 10,084,950 | 10,127,943 | 10,127,943 | -0- |
| Licenses, commissions and other revenue | 1,225,600 | 1,354,375 | 1,354,375 | -0- |
| Fines and forfeitures | 732,650 | 752,010 | 752,010 | -0- |
| Intergovernmental revenues | 3,621,310 | 3,555,235 | 3,555,235 | -0- |
| Charges for services | 1,255,100 | 1,243,058 | 1,243,058 | -0- |
| Interest income | 1,029,876 | 1,020,996 | 1,020,996 | -0- |
| Miscellaneous revenues | 1,226,875 | 1,200,028 | 1,200,028 | -0- |
| Total Revenues | 19,176,361 | 19,253,645 | 19,253,645 | -0- |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 9,617,768 | 9,592,537 | 9,592,537 | -0- |
| Public safety | 6,508,947 | 6,502,303 | 6,502,303 | -0- |
| Health and welfare | 1,421,620 | 1,389,571 | 1,389,571 | -0- |
| Culture and recreation | 448,776 | 442,029 | 442,029 | -0- |
| Conservation of natural resources | 232,440 | 206,125 | 206,125 | -0- |
| Economic development and assistance | 142,806 | 145,491 | 145,491 | -0- |
| Debt service: | | | | |
| Principal | 394,600 | 527,728 | 527,728 | -0- |
| Interest | 110,520 | 88,363 | 88,363 | -0- |
| Total Expenditures | 18,877,477 | 18,894,147 | 18,894,147 | -0- |
| Excess of Revenues over (under) Expenditures | 298,884 | 359,498 | 359,498 | -0- |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | 200 | | | -0- |
| Proceeds from sale of capital assets | 105,000 | 37,400 | 37,400 | -0- |
| Compensation for loss of capital assets | 14,000 | 2,603 | 2,603 | -0- |
| Transfers in | 1,092,500 | 928,820 | 928,820 | -0- |
| Transfers out | (2,268,731) | (2,274,644) | (2,274,644) | -0- |
| Total Other Financing Sources and Uses | (1,057,031) | (1,305,821) | (1,305,821) | -0- |
| Net Change in Fund Balance | (758,147) | (946,323) | (946,323) | -0- |
| Fund Balances - Beginning | 15,568,282 | 15,568,282 | 15,568,282 | -0- |
| Fund Balances - Ending | \$ 14,810,135 | 14,621,959 | 14,621,959 | -0- |

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

Lee County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Countywide Road Maintenance
For the Year Ended September 30, 2007

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|---------------------|--------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 2,187,850 | 2,279,606 | 2,279,606 | -0- |
| Licenses, commissions and other revenue | 954,000 | 895,134 | 895,134 | -0- |
| Fines and forfeitures | 5,000 | | | -0- |
| Intergovernmental revenues | 928,600 | 764,736 | 764,736 | -0- |
| Charges for services | 2,500 | 1,930 | 1,930 | -0- |
| Interest income | 200,000 | 191,322 | 191,322 | -0- |
| Miscellaneous revenues | 400 | | - | -0- |
| Total Revenues | <u>4,278,350</u> | <u>4,132,728</u> | <u>4,132,728</u> | <u>-0-</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | 5,129,200 | 5,562,138 | 5,562,138 | -0- |
| Debt service: | | | | |
| Principal | 224,740 | 236,360 | 236,360 | -0- |
| Interest | 59,270 | 44,659 | 44,659 | -0- |
| Total Expenditures | <u>5,413,210</u> | <u>5,843,157</u> | <u>5,843,157</u> | <u>-0-</u> |
| Excess of Revenues over (under) Expenditures | <u>(1,134,860)</u> | <u>(1,710,429)</u> | <u>(1,710,429)</u> | <u>-0-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds of long-term capital debt | 100 | | | -0- |
| Proceeds from sale of capital assets | 15,000 | 13,501 | 13,501 | -0- |
| Compensation for loss of capital assets | 2,500 | | | -0- |
| Capital outlay; other expense | (68,500) | (49,997) | (49,997) | -0- |
| Transfers in | 300,000 | 300,000 | 300,000 | -0- |
| Transfers out | | | | -0- |
| Total Other Financing Sources and Uses | <u>249,100</u> | <u>263,504</u> | <u>263,504</u> | <u>-0-</u> |
| Net Change in Fund Balance | (885,760) | (1,446,925) | (1,446,925) | -0- |
| Fund Balances - Beginning | <u>4,935,615</u> | <u>4,935,615</u> | <u>4,935,615</u> | <u>-0-</u> |
| Fund Balances - Ending | <u>\$ 4,049,855</u> | <u>3,488,690</u> | <u>3,488,690</u> | <u>-0-</u> |

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

Lee County
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Countywide Bridge and Culvert Fund
 For the Year Ended September 30, 2007

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|---------------------|------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | 1,809,280 | 1,812,802 | 1,812,802 | -0- |
| Intergovernmental revenue | 358,000 | 208,373 | 208,373 | -0- |
| Interest income | 120,000 | 113,421 | 113,421 | -0- |
| Miscellaneous income | 300 | 322 | 322 | -0- |
| Total Revenues | <u>2,287,580</u> | <u>2,134,918</u> | <u>2,134,918</u> | <u>-0-</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | 1,901,800 | 2,022,674 | 2,022,674 | -0- |
| Debt service: | | | | |
| Principal | 193,950 | 206,056 | 206,056 | -0- |
| Interest | 42,120 | 33,449 | 33,449 | -0- |
| Total Expenditures | <u>2,137,870</u> | <u>2,262,179</u> | <u>2,262,179</u> | <u>-0-</u> |
| Excess of Revenues over (under) Expenditures | <u>149,710</u> | <u>(127,261)</u> | <u>(127,261)</u> | <u>-0-</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | 100 | | | -0- |
| Capital outlay; other expense | (68,500) | (45,334) | (45,334) | -0- |
| Transfers out | (125,000) | (125,000) | (125,000) | -0- |
| Total other financing sources (uses) | <u>(193,400)</u> | <u>(170,334)</u> | <u>(170,334)</u> | <u>-0-</u> |
| Net Change in Fund Balance | (43,690) | (297,595) | (297,595) | -0- |
| Fund Balances - Beginning | <u>3,287,512</u> | <u>3,287,512</u> | <u>3,287,512</u> | <u>-0-</u> |
| Fund Balances - Ending | <u>\$ 3,243,822</u> | <u>2,989,917</u> | <u>2,989,917</u> | <u>-0-</u> |

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

Lee County
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
TKA Fabco
For the Year Ended September 30, 2007

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------------------|---|
| REVENUES | | | | |
| Intergovernmental revenue | 560,000 | 395,000 | 395,000 | -0- |
| Miscellaneous income | 287,940 | 164,985 | 164,985 | -0- |
| Total Revenues | 847,940 | 559,985 | 559,985 | -0- |
| EXPENDITURES | | | | |
| Current: | | | | |
| Economic Development | 3,660,000 | 3,244,997 | 3,244,997 | -0- |
| Debt service: | | | | |
| Principal | 157,620 | 114,584 | 114,584 | -0- |
| Interest | 129,930 | 50,400 | 50,400 | -0- |
| Total Expenditures | 3,947,550 | 3,409,981 | 3,409,981 | -0- |
| Excess of Revenues over (under) Expenditures | (3,099,610) | (2,849,996) | (2,849,996) | -0- |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | 3,100,000 | 3,098,000 | 3,098,000 | -0- |
| Total other financing sources (uses) | 3,100,000 | 3,098,000 | 3,098,000 | -0- |
| Net Change in Fund Balance | 390 | 248,004 | 248,004 | -0- |
| Fund Balances - Beginning | 6,906 | 6,906 | 6,906 | -0- |
| Fund Balances - Ending | \$ 7,296 | 254,910 | 254,910 | -0- |

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

LEE 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, the Tax Assessor and the Tax 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).

LEE COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2007

C. Budget/GAAP Reconciliation (Continued)

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

| | Governmental Fund Types | | | |
|--|-------------------------|----------------------------|--|------------------|
| | General Fund | Countywide Road Fund | Countywide Bridge & Culvert Fund | TKA Fabco |
| Budget (Cash Basis) | \$ (946,323) | (1,446,925) | (297,595) | 248,004 |
| Increase (Decrease) | | | | |
| Net adjustments for revenue accruals | 71,768 | 388,308 | 399,547 | (75,008) |
| Net adjustments for expenditure accruals | 671,645 | 603,772 | (295,955) | (373,276) |
| GAAP Basis | <u>\$ (202,910)</u> | <u>(454,845)</u> | <u>(194,003)</u> | <u>(200,280)</u> |

LEE COUNTY

SUPPLEMENTAL INFORMATION

Lec County
 Schedule of Expenditures of Federal Awards
 September 30, 2007

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-Through Number | Federal Expenditures |
|---|---------------------------|-------------------------------------|-------------------------|
| Major Programs: | | | |
| Department of Homeland Security | | | |
| Homeland Security Cluster | | | |
| Passed-through the Mississippi Department of Public Safety | | | |
| State domestic preparedness equipment support program | 97.004 | 04IIS041R | \$ 166,780 |
| State domestic preparedness equipment support program | 97.004 | 04LE041 | 2,819 |
| State domestic preparedness equipment support program | 97.004 | 04CC041 | 2,753 |
| Homeland Security Grant Program | 97.067 | 05HS041 | 25,918 |
| Homeland Security Grant Program | 97.067 | 05HS041R | 164,938 |
| Homeland Security Grant Program | 97.067 | 05LE041 | 1,571 |
| Homeland Security Grant Program | 97.067 | 05CC041 | 500 |
| Homeland Security Grant Program | 97.067 | 06IIS041R | 39,079 |
| Homeland Security Grant Program | 97.067 | 06LE041 | <u>26,742</u> |
| Total passed-through Mississippi Department of Public Safety | | | <u>431,100</u> |
| Total Homeland Security Cluster | | | <u>431,100</u> |
| Total Department of Homeland Security | | | <u>431,100</u> |
| U.S. Department of Housing and Urban Development | | | |
| Passed-through the Mississippi Department of Economic and Community Development | | | |
| Community development block grants/state's program | 14.228 | 1121-04-041-ED-01 | 3,253 |
| Community development block grants/state's program | 14.228 | 1222-05-041-ED-01 | 276,000 |
| Community development block grants/state's program | 14.228 | 1122-05-041-PF-01 | 6,500 |
| Community development block grants/state's program | 14.228 | 1122-05-041-ED-02 | <u>191,995</u> |
| Total U. S. Department of Housing and Urban Development | | | <u>477,748</u> |
| U.S. Department of Commerce Economic Development Administration | | | |
| Grants for public works and economic development facilities | 11.300 | | <u>162,500</u> |
| Total U.S. Department of Commerce Economic Development | | | <u>162,500</u> |
| Total Major Programs | | | \$ <u>1,071,348</u> |

Lee County
 Schedule of Expenditures of Federal Awards
 September 30, 2007

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-Through Number | Federal Expenditures |
|---|---------------------------|-------------------------------------|-------------------------|
| Other Programs | | | |
| U.S. Department of Agriculture | | | |
| Passed-through Three Rivers Planning and Development District Child and adult care food program | 10.558 | 712-U-571A | \$ <u>7,832</u> |
| Total U.S. Department of Agriculture | | | <u>7,832</u> |
| U.S. Department of Justice | | | |
| Direct programs | | | |
| Gang resistance education and training | 16.737 | | 36,867 |
| Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program | 16.580 | | 274,134 |
| Passed-through the State of Mississippi Department of Public Safety | | | |
| Violence against women formula grants | 16.588 | 04SP1411 | 20,221 |
| Public safety partnership and community policing grants | 16.710 | 2005CKWX0110 | <u>192,996</u> |
| Total U.S. Department of Justice | | | <u>524,218</u> |
| U.S. Department of Labor | | | |
| Passed-through the Mississippi Council of Aging Passed-through Three Rivers Planning and Development District | | | |
| Title V - senior community service employment program | 17.235 | 712-U-171A | 13,065 |
| Title V - senior community service employment program | 17.235 | 712-U-181A | <u>5,038</u> |
| Total U.S. Department of Labor | | | \$ <u>18,103</u> |

Lee County
Schedule of Expenditures of Federal Awards
September 30, 2007

| Federal Grantor/ Pass-Through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-Through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|----------------------------|
| U.S. Department of Transportation | | | |
| Passed-through the Mississippi Department of Transportation Highway planning and construction | 20.205 | N/A | \$ <u>3,380</u> |
| Total Passed-through the Mississippi Department of Transportation | | | <u>3,380</u> |
| Passed-through the Mississippi Department of Public Safety | | | |
| Occupant Protection | 20.602 | 07-OP-141-1 | <u>9,594</u> |
| Total Passed-through the Mississippi Department of Public Safety | | | <u>9,594</u> |
| Total U.S. Department of Transportation | | | <u>12,974</u> |
| U.S. Department of Health and Human Services | | | |
| Passed-through the Mississippi Council of Aging | | | |
| Passed-through Three Rivers Planning and Development District | | | |
| Aging Cluster | | | |
| Special programs for the aging-Title III, Part B-Grants for supportive services and senior centers | 93.044 | 712-R-171A | 18,721 |
| Special programs for the aging-Title III, Part C-Nutrition services | 93.045 | 712-R-271A | 42,040 |
| Special programs for the aging-Title III, Part C-Nutrition services | 93.045 | 712-R-371A | 70,886 |
| Nutrition service incentive program | 93.053 | 712-R-271A | 11,767 |
| Nutrition service incentive program | 93.053 | 712-R-371A | 19,485 |
| Nutrition service incentive program | 93.053 | 712-R-271A | <u>817</u> |
| Total Aging Cluster | | | 163,716 |
| Social services block grant | 93.667 | 712-V-271A | <u>130,906</u> |
| | | | 130,906 |
| Total U.S. Department of Health and Human Services | | | <u>294,622</u> |
| Total Other Programs | | | 857,749 |
| Total Expenditures of Federal Awards | | | \$ <u>1,929,097</u> |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A: Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

SPECIAL REPORTS

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

Members of the Board of Supervisors
Lee 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 Lee County, Mississippi, as of and for the year ended September 30, 2007, which collectively comprise the county's basic government financial statements and have issued our report thereon dated January 20, 2009. 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 Lee 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 the county's internal control over financial reporting. Accordingly, we do not express an opinion of 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 and questioned costs (Items 07-2 and 07-3) 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.

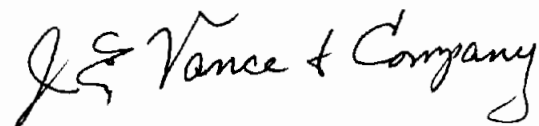
Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items 07-2, 07-3, and 07-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee 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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 07-1.

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

Tupelo, Mississippi
January 20, 2009



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

Members of the Board of Supervisors
Lee County, Mississippi

Compliance

We have audited the compliance of Lee County, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2007. Lee County, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lee County, Mississippi's management. Our responsibility is to express an opinion on Lee County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lee County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lee County, Mississippi's compliance with those requirements.

In our opinion, Lee County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

Internal Control Over Compliance

The management of Lee County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lee County, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

A control deficiency in a county's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Tupelo, Mississippi
January 20, 2009

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

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

Members of the Board of Supervisors
Lee County, Mississippi

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

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk

Finding

Capital asset control procedures were inadequate for maintaining accurate inventory documenting the valuation and completeness of capital assets. We noted the following deficiencies in the capital assets records:

- a. The Inventory Control Clerk did not add all purchases to the capital assets records.
- b. The Inventory Control Clerk did not add the correct amount of several purchases to the capital assets records.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to ascertain the historical and/or estimated cost of capital assets and to maintain accurate inventory records documenting the valuation and completeness of capital assets. Capital asset purchases should be reconciled monthly to the county's cash disbursement records. In addition, the Inventory Control Clerk should review the minutes of the meetings of the Board of Supervisors monthly to ensure that all transactions related to capital assets are reflected in the records.

Inventory Control Clerk Response

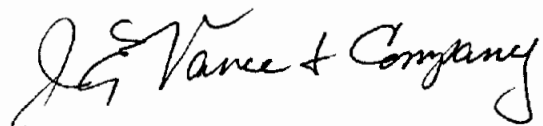
We will put controls in place to ensure that all transactions related to capital assets are reflected in the county's records at the correct amount. As a result of these controls, the board minutes will be reviewed monthly to ensure that all capital asset transactions have been accounted for. In addition, a monthly reconciliation will be prepared that compares the county's capital asset records to the cash disbursement records. We will have these controls in place by March, 2009.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Lee 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 Lee County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Tupelo, Mississippi
January 20, 2009



Lee 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.

**Lee County
Schedule of Emergency Purchases
For the Year Ended September 30, 2007**

Schedule 2

| <u>Date</u> | <u>Item Purchased</u> | <u>Amount Paid</u> | <u>Vendor</u> | <u>Reason for Emergency Purchase</u> |
|-------------|-----------------------------------|--------------------|-----------------------|--|
| 1/16/2007 | Labor & Machinery | 52,000 | Dye Construction Co. | Emergency bridge repairs |
| 1/16/2007 | Steel | 5,203 | Tigrett Steel | Emergency bridge repairs |
| 1/16/2007 | Steel | 9,720 | Skyline Steel | Emergency bridge repairs |
| 6/8/2007 | Chiller rental and startup | 17,500 | Trane, Inc. | Emergency replacement of chiller at Justice Center |
| 6/8/2007 | Installation of temporary chiller | 10,000 | Conditioned Air, Inc. | Emergency replacement of chiller at Justice Center |
| 6/8/2007 | Chiller | 165,000 | Trane, Inc. | Emergency replacement of chiller at Justice Center |
| 9/18/2007 | Install steel piling | 22,000 | Skyline Steel | Emergency bridge repairs |
| 9/18/2007 | Steel piling | 26,675 | Skyline Steel | Emergency bridge repairs |

Lee County
Schedule of Purchases Made Noncompetitively from a Sole Source
for the Year Ended September 30, 2007

Schedule 3

| <u>Date</u> | <u>Item Purchased</u> | <u>Amount Paid</u> | <u>Vendor</u> |
|-------------|-------------------------------|--------------------|------------------------------|
| 10/17/2006 | IA remittance software | \$ 10,598 | Delta Computer Systems, Inc. |
| 1/3/2007 | Printing Tax Statements | 13,475 | Delta Computer Systems, Inc. |
| 5/16/2007 | Protocol Card Sets | 23,024 | Priority Dispatch Corp |
| 6/6/2007 | EOD/IEDD Protective Equipment | 19,918 | Med-Eng Systems, Inc. |
| 9/24/2007 | EFD/EPD Software Protcols | 64,672 | Priority Dispatch Corp |

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Lee County, Mississippi

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

In addition, for areas not considered material to Lee 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 January 20, 2009, on the financial statements of Lee County, Mississippi.

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

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

Tupelo, Mississippi
January 20, 2009



SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Section 1: Summary of Auditors' Results

Financial Statements:

- | | |
|---|---------------|
| 1. Type of auditors' report issued on the financial statements: | |
| Governmental activities | Unqualified |
| Business-type activities | Unqualified |
| Aggregate discretely presented component units | Adverse |
| Major Funds: | |
| General Fund | Unqualified |
| TKA FABCO | Unqualified |
| County-wide Road Maintenance | Unqualified |
| County-wide Bridge Maintenance | Unqualified |
| Aggregate remaining funds | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | Yes |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material relating to the primary government financial statements? | Yes |

Federal Awards:

- | | |
|---|-------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Significant deficiencies identified that are not considered to be material weaknesses? | No |
| 5. Type of auditors' report issued on compliance for major federal programs: | Unqualified |
| 6. Any audit findings reported as required by section __.510(a) of OMB Circular A-133? | No |

**LEE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Section 1: Summary of Auditors' Results (Continued)

7. Federal programs identified as major programs:
- a. Homeland Security Cluster, CFDA #97.004 and 97.067.
 - b. Community development block grants/state's program #14.228.
 - c. Grants for public works and economic development facilities, CFDA #11.300.
8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? No
10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

Chancery Clerk

Material Noncompliance

07-1 Finding

As reported in the past eight audit reports, Section 19-9-29(c), Miss. Code Ann. (1972), authorizes counties to invest surplus funds in, among other securities, direct obligations of the United States of America. At September 30, 2007, the county had investments that were backed by the Federal government, but were not direct obligations of the United States of America. The total of the investments was \$9,181,454.

Recommendation

As the county's trustee, the clerk of the Board of Supervisors should ensure that surplus funds are invested in legal securities.

Chancery Clerk's Response

All investments are backed by the Federal Government and comply with the state investment statute. We are currently attempting to amend the county statute to comply with the state statute. Additionally, recent action

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Section 2: Financial Statement Findings (Continued)

by Congress has made it clear that these investments are now direct obligations of the United States of America.

Payroll Clerk

Material Weakness

07-2 Finding

As reported in the prior year audit report, Irregularities were noted in the administration of the County's Cafeteria Plan under IRS Code Section 125. Control procedures were inadequate to ensure compliance with Section 125. We noted the following deficiencies:

- a. In two instances employees were receiving exemptions for which they were not entitled.
- b. In several instances employees were not receiving exemptions for which they were entitled.

Recommendation

The Payroll Clerk should institute controls that ensure that the correct amount for the exemption is entered into the computer database for all employees

Payroll Clerk's Response

The County will work with its software developers to create an internal control check that will ensure benefits and withholdings under the cafeteria plan are automatically reconciled.

Inventory Control Clerk

Material Weakness

07-3 Finding

Capital asset control procedures were inadequate for maintaining accurate inventory documenting the valuation and completeness of capital assets. We noted the following deficiencies in the capital assets records:

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Section 2: Financial Statement Findings (Continued)

- a. The Inventory Control Clerk did not add all purchases to the capital assets records.
- b. The Inventory Control Clerk did not add the correct amount of several purchases to the capital assets records.

Recommendation

The Inventory Control Clerk should establish adequate control procedures to ascertain the historical and/or estimated cost of capital assets and to maintain accurate inventory records documenting the valuation and completeness of capital assets. Capital asset purchases should be reconciled monthly to the county's cash disbursement records. In addition, the Inventory Control Clerk should review the minutes of the meetings of the Board of Supervisors monthly to ensure that all transactions related to capital assets are reflected in the records.

Inventory Control Clerk's Response

We will put controls in place to ensure that all transactions related to capital assets are reflected in the county's records at the correct amount. As a result of these controls, the board minutes will be reviewed monthly to ensure that all capital asset transactions have been accounted for. In addition, a monthly reconciliation will be prepared that compares the county's capital asset records to the cash disbursement records. We will have these controls in place by March, 2009.

Board of Supervisors

Material Weakness

07-04 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 the component units. The financial statements do not include the financial data for the county's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discreetly presented component units.

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Section 2: Financial Statement Findings (Continued)

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for inclusion in the county's financial statements.

Board of Supervisors' Response

Lee County's legally separate component units consist of The Lee-Itawamba Library System and 15 volunteer fire districts listed in Note 1 to the financial statements. Lee County has not included the financial data of these component units because it is not economically feasible to include that information. In addition, we do not feel that the financial statements are misleading without the financial data for the component units. Because of these reasons, we do not have any plans to incorporate that information into our financial statements in the foreseeable future.

Section 3: Federal Awards Findings and Questioned Costs

The results of our tests did not disclose any findings and questioned costs related to federal awards.