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**LEE COUNTY, MISSISSIPPI**  
**AUDITED FINANCIAL STATEMENTS**  
**AND SPECIAL REPORTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**LEE COUNTY**  
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LEE COUNTY

FINANCIAL SECTION

**LEE COUNTY**

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**INDEPENDENT AUDITORS' REPORT**

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, 2008, 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, net assets, 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 previously, the financial statements referred to previously 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, 2008, or the changes in financial position thereof for the year then ended.

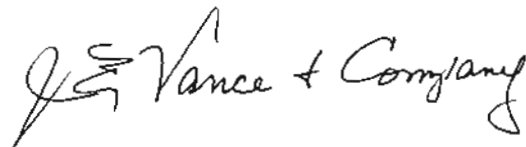
In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, as of September 30, 2008, 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 June 30, 2010, 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 Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the 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  
June 30, 2010



# LEE COUNTY BOARD OF SUPERVISORS

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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, 2008. 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. Although there have been some small increases (less than 5% from the prior year), looking back over the past 9-year period (1999-2008), tax rates are down a little over 9% from the highest rate (1999 & 2000). 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 \$6,158,403, which represents a 3.13% decrease from the prior fiscal year. The County's ending cash balance decreased by \$44,283. This represents a 0.17% decrease from the prior fiscal year.

The County had \$39,346,724 in total revenues. Tax revenues account for \$16,154,947 or 41.06% of total revenues. Revenues in the form of charges for services account for \$4,453,357 or 11.32% of total revenues. Revenue generated by fines and other fees account for \$2,254,912 or 5.73%. State revenues in the form of reimbursements, shared revenue or grants, account for \$3,804,374 or 9.67% of total revenues. Additionally, \$1,532,035, or 3.89%, of total revenues were Federal revenues in the form of grants. Grants from other local jurisdictions amount to \$455,034 or 1.16% of total revenues. Revenue from ad valorem tax fee-in-lieu was \$8,183,214 or 20.80%. Other miscellaneous revenues totaled \$2,508,851 or 6.37% of total revenues.

The County had \$45,505,127 in total expenses, which represents an increase of \$7,266,762 or 19.00% from the prior fiscal year. Expenses in the amount of \$10,837,140 were offset by charges for services, grants, outside contributions or debt being issued. General revenues of \$28,509,584 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$18,829,515 in revenues and \$18,675,127 in expenditures. The General Fund's fund balance decreased \$1,117,506 from the prior year. The Countywide Road Fund had \$4,329,442 in revenues and \$4,410,880 in expenditures. The Countywide Road Fund's fund balance increased \$357,383 from the prior year. The Countywide Bridge Fund had \$2,251,033 in revenues and \$2,629,773 in expenditures. The Countywide Bridge Fund's fund balance decreased \$240,627 from the prior year. The Toyota Fund had \$5,066 in revenues and \$8,412,869 in expenditures. The Toyota Fund's fund balance increased \$226,538 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$6,690,259 or 3.66%. The majority of this decrease was due to depreciation expense related to infrastructure such as roads and bridges.

Long-term liabilities increased by \$8,711,399 or 81.10%

## ***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

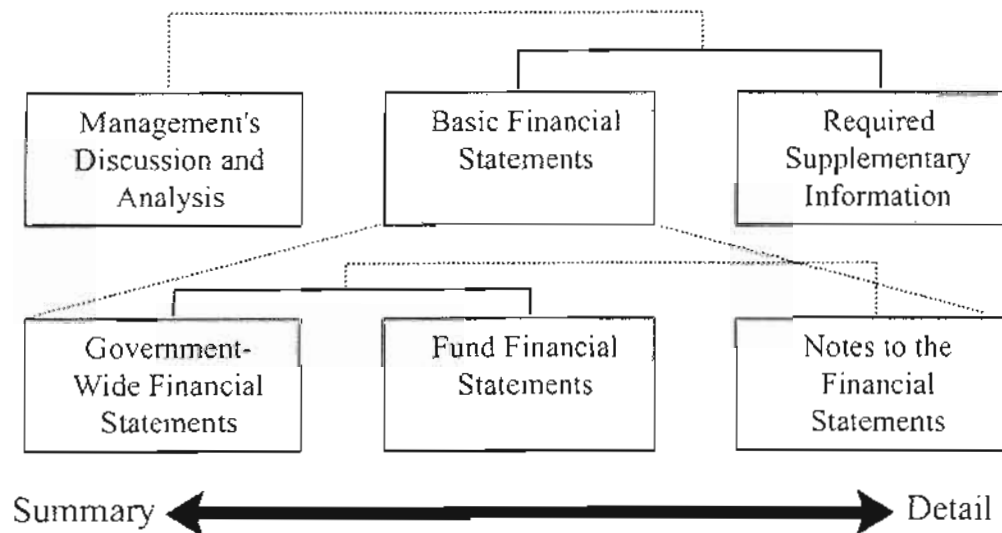


Figure 2 – Major Features of the County's Government-Wide and Fund Financial Statements

	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"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary assets and liabilities</li> </ul>

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
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
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 21-22 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 24 and 26, 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 23 and 25 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 27-29 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 30 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 31-54 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 \$190,689,787 as of September 30, 2008.

By far, the largest portion of the County's net assets (87.42%) 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, 2008.

(in thousands of dollars)

	Governmental		Business-type		Total		Total Percentage Change
	Activities		Activities				
	2007	2008	2007	2008	2007	2008	
Current assets	\$ 41,769	\$ 52,138	\$ 726	\$ 721	\$ 42,495	\$ 52,859	24.39%
Capital assets, net	181,797	175,047	828	888	182,625	175,935	-3.66%
<b>Total assets</b>	<b>223,566</b>	<b>227,185</b>	<b>1,554</b>	<b>1,609</b>	<b>225,120</b>	<b>228,794</b>	<b>1.63%</b>
Current liabilities	17,220	19,702	453	518	17,673	20,220	14.41%
Long-term debt outstanding	8,530	17,313	780	572	9,310	17,885	92.10%
<b>Total liabilities</b>	<b>25,750</b>	<b>37,015</b>	<b>1,233</b>	<b>1,090</b>	<b>26,983</b>	<b>38,105</b>	<b>41.22%</b>
Net assets:							
Invested in capital assets, net of related debt	173,123	166,170	366	537	173,489	166,707	-3.91%
Restricted	13,844	13,261	(45)	-	13,799	13,261	-3.89%
Unrestricted	9,561	10,739	-	(18)	9,561	10,721	12.13%
<b>Total net assets</b>	<b>\$ 196,528</b>	<b>\$ 190,170</b>	<b>\$ 321</b>	<b>\$ 519</b>	<b>\$ 196,849</b>	<b>\$ 190,689</b>	<b>-3.13%</b>

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 \$1,857,793. 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 \$6,690,259.

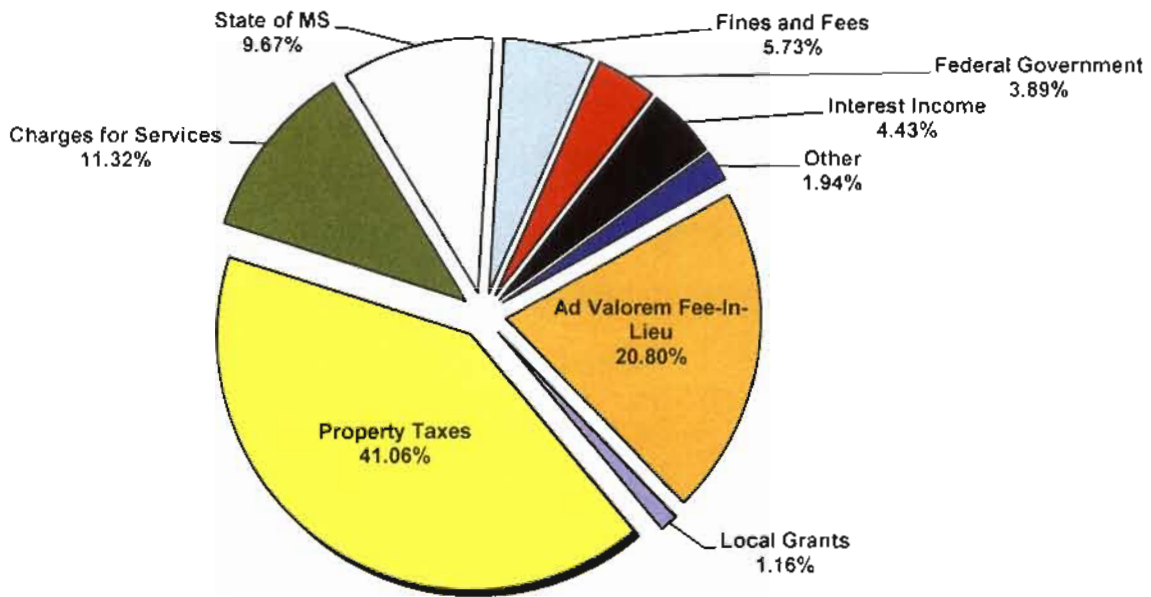
Changes in Net Assets – Lee County's total revenues for the fiscal year ended September 30, 2008 was \$39,346,724. The total cost for all services provided was \$45,505,127. The decrease in net assets was \$6,158,403. The table below presents a summary of the changes in net assets for the fiscal year ended September 30, 2008.

(in thousands of dollars)

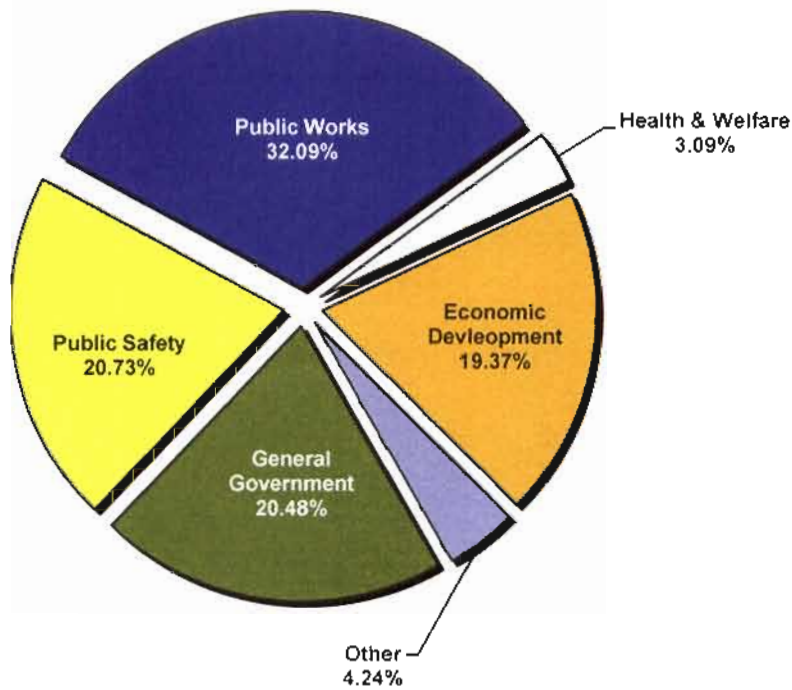
	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2007	2008	2007	2008	2007	2008	2007-2008
<b>Revenues:</b>							
Program revenues							
Charges for services	\$ 2,470	2,450	\$ 2,079	2,003	\$ 4,549	4,459	-2.11%
Fines and fees	2,182	2,255	-	-	2,182	2,255	3.35%
Federal grants	1,784	1,532	-	-	1,784	1,532	-14.13%
State grants	2,420	2,142	74	-	2,494	2,142	-14.11%
Local grants	2,690	455	-	-	2,690	455	-83.09%
General revenues							
Property taxes	14,680	15,195	-	-	14,680	15,195	3.51%
Road & Bridge privilege taxes	945	960	-	-	945	960	1.59%
Other	4,228	12,326	20	28	4,248	12,354	190.82%
<b>Total Revenues</b>	<b>\$ 31,399</b>	<b>37,315</b>	<b>\$ 2,173</b>	<b>2,031</b>	<b>\$ 33,572</b>	<b>39,346</b>	<b>17.20%</b>
<b>Expenses</b>							
General government	8,553	9,320	-	-	8,553	9,320	8.97%
Public safety	9,670	9,436	-	-	9,670	9,436	-2.42%
Public works	14,374	12,516	-	-	14,374	12,516	-12.93%
Health and welfare	1,5269	1,404	-	-	1,526	1,404	-7.99%
Culture and recreation	888	913	-	-	888	913	2.82%
Education	13	13	-	-	13	13	0.00%
Conservation of natural resources	210	249	-	-	210	249	18.57%
Economic development	483	8,816	-	-	483	8,816	1725.26%
Interest on long-term debt	375	754	-	-	375	754	101.07%
Solid waste collection & disposal	-	-	2,046	1,968	2,046	1,968	-3.81%
Turner Ind. Park water & sewer	-	-	101	115	101	115	13.86%
<b>Total Expenses</b>	<b>\$ 36,092</b>	<b>43,421</b>	<b>\$ 2,147</b>	<b>2,083</b>	<b>\$ 38,239</b>	<b>45,504</b>	<b>19.00%</b>
Deficiency before transfers	(4,693)	(6,106)	26	(52)	(4,667)	(6,158)	31.95%
Transfers	(206)	(251)	206	251	-	-	
<b>Decrease in Net Assets</b>	<b>\$ (4,899)</b>	<b>(6,357)</b>	<b>\$ 232</b>	<b>199</b>	<b>\$ (4,667)</b>	<b>(6,158)</b>	<b>31.95%</b>

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
		2007	2008	Change	2007	2008	Change
General Government	\$	8,552,855	9,319,501	8.96%	\$ 5,826,314	6,958,513	19.43%
Public Safety		9,669,684	9,435,447	-2.42%	6,043,185	6,369,497	5.40%
Public Works		14,373,681	12,516,187	-12.92%	12,925,047	10,918,752	-15.52%
Health & Welfare		1,526,218	1,404,426	-7.98%	936,546	1,123,649	19.98%
Economic Development	*	4,753,663	8,929,314	87.84%	382,254	1,599,191	318.36%

\*In the prior year, total costs for Economic Development included \$301,446 in construction costs related to the construction of the Small Business Incubator and \$3,969,280 in construction costs related to TKA Fabco Expansion Phase III. In the current year, total costs for Economic Development includes \$113,563 in construction costs for 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. In addition, Economic Development costs in the current year include \$7,750,000 which was paid to Three Rivers Planning and Development District to finance the PUL Alliance. Bond proceeds were used to finance this payment

## ***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 \$23,024,437, a decrease of \$641,631. 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 \$1,117,506. This decrease in fund balance was primarily due to increases in liabilities associated claims and judgments payable and deferred revenues.

**Business-type funds** – Revenue from the Solid Waste Collection and Disposal Fund decreased by 8.55% to \$1,915,909 and expenses decreased by 4.07% to \$1,968,181. 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 37.45% to \$115,224 and expenses increased by 14.64% to \$115,781.

## ***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, 2008, Lee County's total capital assets was \$294,197,727. 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 \$2,618,533 or 0.90%.

Total accumulated depreciation as of September 30, 2008 was \$118,262,807, including \$9,845,439 of depreciation expense for the year. The balance in total net capital assets was \$175,934,920 at year-end.

Additional information on Lee County's capital assets can be found in note 6 on pages 42-44 of this report.

**Debt Administration** – At September 30, 2008, Lee County had \$19,542,435 in long-term debt outstanding. This includes general obligation bonds, other loans and compensated absences. Of this debt, \$1,567,033 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, 2008, was equal to 1.64% of the latest property assessment, significantly below the 15% limitation.

Additional information on Lee County's long-term debt can be found in note 8 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.

December 18, 2007, Lee County issued \$7,760,000 in Taxable Special Obligation Bonds. The County has entered into a payment in lieu of tax agreement with Toyota as authorized by law. This payment in lieu of taxes will be used to repay the bonded debt principal and interest and should be more than enough to satisfy the debt without a tax levy.

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 decreased for the next fiscal year by \$5,925,931 or 14.21% and total budgeted expenditures decreased \$5,223,649 or 11.64%. This is expected to decrease the County's net assets.

Lee County has an unemployment rate of 8.2%. This is higher than the state average rate of unemployment of 7.4%.

### ***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**

**FINANCIAL STATEMENTS**

Lee County  
Statement of Net Assets  
September 30, 2008

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 7,218,230	169,842	7,388,072
Investments	18,891,988		18,891,988
Cash with fiscal agent	226,538		226,538
Accrued interest receivable	121,057		121,057
Property tax receivable	13,527,303		13,527,303
Receivables, (net of allowance for uncollectibles of \$693,448)		418,282	418,282
Fines receivable, (net of allowance for uncollectibles of 3,357,170)	2,401,401		2,401,401
Intergovernmental receivables	982,709		982,709
Other receivables	199,383	133,103	332,486
Ad valorem tax fee in-lieu receivable, net	8,183,214		8,183,214
Deferred charges	386,579		386,579
Capital assets, land	4,107,191	47,746	4,154,937
Capital assets, net	170,939,652	840,331	171,779,983
Total Assets	227,185,245	1,609,304	228,794,549
<b>LIABILITIES</b>			
Claims payable	1,824,944	176,613	2,001,557
Intergovernmental payables	1,751,781	4,281	1,756,062
Accrued interest payable	172,943	63	173,006
Deferred revenue	13,527,303		13,527,303
Unearned revenue	69,521	155,656	225,177
Claims and judgments	436,256		436,256
Other payables	532,966		532,966
Long-term liabilities			
Due within one year:			
Capital debt	1,375,276	181,353	1,556,629
Non-capital debt	10,404		10,404
Due in more than one year:			
Capital debt	7,501,753	169,956	7,671,709
Non-capital debt	9,811,502	402,191	10,213,693
Total Liabilities	37,014,649	1,090,113	38,104,762
<b>NET ASSETS</b>			
Investment in capital assets net of related debt	166,169,814	536,768	166,706,582
Restricted:			
Expendable:			
General government	4,119		4,119
Public Safety	796,522		796,522
Public works	7,691,035		7,691,035
Economic development	255,884		255,884
Other Purposes	4,514,270		4,514,270
Unrestricted	10,738,952	(17,577)	10,721,375
Total Net Assets	\$ 190,170,596	519,191	190,689,787

The accompanying notes and auditors' reports are integral parts of these statements.

**Lee County**  
**Statement of Activities**  
**For the year ended September 30, 2008**

Function / Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary Government</b>							
<b>Governmental Activities</b>							
General Government	\$ 9,319,501	2,090,283	175,516	95,189	(6,958,513)		(6,958,513)
Public Safety	9,435,447	2,602,213	399,615	64,122	(6,369,497)		(6,369,497)
Public Works	12,516,187	12,838	1,357,121	227,476	(10,918,752)		(10,918,752)
Health & Welfare	1,404,426		280,777		(1,123,649)		(1,123,649)
Culture & Recreation	912,701				(912,701)		(912,701)
Education	13,370				(13,370)		(13,370)
Conservation of Natural Resources	249,422				(249,422)		(249,422)
Economic Development & Assistance	8,815,751			1,529,056	(7,286,695)		(7,286,695)
Interest	754,360				(754,360)		(754,360)
<b>Total Governmental-type Activities</b>	<b>43,421,165</b>	<b>4,705,334</b>	<b>2,213,029</b>	<b>1,915,843</b>	<b>(34,586,959)</b>	<b>-0-</b>	<b>(34,586,959)</b>
<b>Business-type Activities</b>							
Solid Waste	1,968,181	1,897,075				(71,106)	(71,106)
Turner Park	115,781	105,859				(9,922)	(9,922)
<b>Total Business-type Activities</b>	<b>2,083,962</b>	<b>2,002,934</b>	<b>-0-</b>	<b>-0-</b>	<b>-0-</b>	<b>(81,028)</b>	<b>(81,028)</b>
<b>Total Primary Government</b>	<b>\$ 45,505,127</b>	<b>6,708,268</b>	<b>2,213,029</b>	<b>1,915,843</b>	<b>(34,586,959)</b>	<b>(81,028)</b>	<b>(34,667,987)</b>
<b>General Revenues</b>							
Property Taxes					15,195,194		15,195,194
Road & Bridge Privilege taxes					959,753		959,753
Ad valorem tax fee in-lieu					8,183,214		8,183,214
Unrestricted gifts and donations					3,000		3,000
Unrestricted investment income					1,729,801	12,993	1,742,794
Miscellaneous					2,410,423	15,206	2,425,629
Transfers					(251,400)	251,400	-0-
Total General Revenues and Transfers					28,229,985	279,599	28,509,584
Change in Net Assets					(6,356,974)	198,571	(6,158,403)
Net Assets - Beginning					197,816,129	320,620	198,136,749
Prior period adjustment					(1,288,559)		(1,288,559)
Net Assets - Beginning, as restated					196,527,570	320,620	196,848,190
Net Assets - Ending					190,170,596	519,191	190,689,787

The accompanying notes and auditors' reports are integral parts of these statements

Lee County  
Balance Sheet - Governmental Funds  
September 30, 2008

	Major Funds					Total Governmental Funds
	General Fund	County-wide Road Fund	County-wide Bridge & Culvert Fund	Toyota	Other Governmental Funds	
<b>ASSETS</b>						
Cash	5,716,984	1,186,681	120,847		193,718	7,218,230
Investments	11,539,471	4,142,671	2,680,118		529,728	18,891,988
Cash with fiscal agent				226,538		226,538
Accrued interest receivable	59,578	34,640	22,410		4,429	121,057
Property tax receivable	9,344,130	2,015,495	1,663,160		504,518	13,527,303
Fines receivable (net of allowance for uncollectibles)	2,401,401					2,401,401
Intergovernmental receivables	687,914	35,904			257,905	981,723
Other receivables	76,498				122,885	199,383
Due from other funds	986	173,283	77,187		18,659	270,115
Total Assets	29,826,962	7,588,674	4,563,722	226,538	1,631,842	43,837,738
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities						
Claims payable	745,075	720,403	47,680		311,786	1,824,944
Intergovernmental payables	1,482,406	14,623			13,369	1,510,398
Due to other funds	495,862				14,650	510,512
Deferred revenue	11,745,531	2,015,495	1,663,160		504,518	15,928,704
Unearned revenue	69,521					69,521
Claims and judgments	436,256					436,256
Other Payables	532,966					532,966
Total Liabilities	15,507,617	2,750,521	1,710,840	-0-	844,323	20,813,301
Fund Balances						
Reserved for:						
Debt service				226,538		226,538
Other Purposes	4,514,270					4,514,270
Unreserved, reported in:						
General Fund	9,805,075					9,805,075
Special Revenue Funds		4,838,153	2,852,882		787,519	8,478,554
Total Fund Balances	14,319,345	4,838,153	2,852,882	226,538	787,519	23,024,437
Total Liabilities and Fund Balances	29,826,962	7,588,674	4,563,722	226,538	1,631,842	43,837,738

The accompanying notes and auditors' reports are integral parts of these statements.

Lee County

Exhibit 3-1

**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2008**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 23,024,437
Amounts reported for governmental activities in the Statement of Net Assets (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds net of accumulated depreciation of \$117,170,401	175,046,843
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.	
Fines receivable	2,401,401
Deferred charges	386,579
Accrued receivables that are not available to pay for current expenditures and therefore are not recorded in the funds.	8,183,214
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	(18,698,935)
Accrued interest on bonds	(172,943)
Net assets of governmental activities	<u>\$ 190,170,596</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds  
For the year ended September 30, 2008

	Major Funds					Total Governmental Funds
	General Funds	County- wide Road Fund	County- wide Bridge & Culvert	Toyota	Other Governmental Funds	
<b>REVENUES</b>						
Property taxes	\$ 10,594,050	2,279,961	1,869,631		451,552	15,195,194
Road and bridge privilege taxes		959,753				959,753
Licenses, commissions and other revenue	1,375,656	15,486			23,968	1,415,110
Fines and forfeitures	719,165					719,165
Intergovernmental revenues	3,231,179	748,402	204,836		1,610,027	5,794,444
Charges for services	1,342,361	12,838			1,095,224	2,450,423
Interest income	1,225,143	304,687	175,219	5,066	19,686	1,729,801
Miscellaneous revenues	344,169	9,036	3,313		396,228	752,746
Total Revenues	<u>18,831,723</u>	<u>4,330,163</u>	<u>2,252,999</u>	<u>5,066</u>	<u>3,596,685</u>	<u>29,016,636</u>
<b>EXPENDITURES</b>						
Current:						
General government	8,775,384				22,329	8,797,713
Public safety	7,159,355				1,917,905	9,077,260
Public works		4,156,050	2,409,603			6,565,653
Health and welfare	1,402,552					1,402,552
Culture and recreation	448,790				391,147	839,937
Conservation of natural resources	245,521					245,521
Economic development and assistance	140,588			7,750,000	1,314,726	9,205,314
Debt Service						
Principal	444,800	224,614	195,508		703,330	1,568,252
Interest	58,137	30,216	24,662	254,814	275,876	643,705
Bond issue costs				408,055		408,055
Total Expenditures	<u>18,675,127</u>	<u>4,410,880</u>	<u>2,629,773</u>	<u>8,412,869</u>	<u>4,625,313</u>	<u>38,753,962</u>
Excess (deficiency) of Revenues Over Expendit	<u>156,596</u>	<u>(80,717)</u>	<u>(376,774)</u>	<u>(8,407,803)</u>	<u>(1,028,628)</u>	<u>(9,737,326)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Proceeds of LT Cap Debt	133,982	269,894	269,894		1,000	674,770
Proceeds of LT N/C Debt				8,760,000		8,760,000
Proceeds from Sale of CA	3,525	33,206	1,253			37,984
Premium on bond issued				111,098		111,098
Transfers In from Gov Fds		135,000			1,174,859	1,309,859
Operating Transfers Out	(1,411,609)		(135,000)		(14,650)	(1,561,259)
Discount on bonds issued				(236,757)		(236,757)
Total Other Financing Sources and Uses	<u>(1,274,102)</u>	<u>438,100</u>	<u>136,147</u>	<u>8,634,341</u>	<u>1,161,209</u>	<u>9,093,695</u>
Net Change in Fund Balance	<u>(1,117,506)</u>	<u>357,383</u>	<u>(240,627)</u>	<u>226,538</u>	<u>132,581</u>	<u>(641,631)</u>
Fund Balances - Beginning	15,365,372	4,480,770	3,093,509	-0-	654,938	23,594,589
Prior period adjustments	71,479					71,479
Fund Balances-Beginning, as restated	<u>15,436,851</u>	<u>4,480,770</u>	<u>3,093,509</u>	<u>-0-</u>	<u>654,938</u>	<u>23,666,068</u>
Fund Balances - Ending	<u>\$ 14,319,345</u>	<u>4,838,153</u>	<u>2,852,882</u>	<u>226,538</u>	<u>787,519</u>	<u>23,024,437</u>

The accompanying notes and auditors' reports are integral parts of these statements.

**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, 2008**

Exhibit 4-1

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ (641,631)
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 \$9,754,986 exceeded capital outlays of \$3,450,679 in the current period.	(6,304,307)
In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss of \$144,090 and the proceeds from the sale of \$37,984 of capital assets.	(182,074)
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.	120,636
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Ad valorem tax fee in-lieu	8,183,214
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. Also, governmental funds report the effect of bond issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Thus the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$9,309,111 and bond issuance and discount amortization cost of \$29,466 exceed debt repayments of \$1,568,252, deferred amounts of \$408,055 and bond premium amortization of \$16,019.	(7,346,251)
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.	(89,353)
The amount of increase in accrued interest payable.	(97,208)
Change in net assets of governmental activities (Exhibit 2)	\$ <u>(6,356,974)</u>

The accompanying notes and auditors' reports are integral parts of these statements.

## Lee County

Exhibit 5

Statement of Net Assets - Proprietary Funds  
September 30, 2008

	Business-type Activities- Enterprise Funds		Totals
	Solid Waste	Turner Park	
<b>ASSETS</b>			
Current Assets			
Cash	\$ (38,101)	207,943	169,842
Accounts receivable, (net of allowances for uncollectibles \$693,448)	409,588	8,694	418,282
Other receivables	133,103		133,103
Total Current Assets	504,590	216,637	721,227
Noncurrent Assets			
Land	47,746		47,746
Capital assets, net	689,641	150,690	840,331
Total Noncurrent Assets	737,387	150,690	888,077
Total Assets	1,241,977	367,327	1,609,304
<b>LIABILITIES</b>			
Current Liabilities			
Claims Payable	169,111	7,502	176,613
Intergovernmental payables	4,260	21	4,281
Accrued Interest Payable		63	63
Unearned revenue	155,656		155,656
Capital debt:			
Other long-term liabilities	172,696	8,657	181,353
Total Current Liabilities	501,723	16,243	517,966
Noncurrent Liabilities			
Capital debt:			
Other long-term liabilities	128,405	41,551	169,956
Non-capital debt:			
Compensated Absence payable	39,441		39,441
Other long-term liabilities	362,750		362,750
Total Noncurrent Liabilities	530,596	41,551	572,147
Total Liabilities	1,032,319	57,794	1,090,113
<b>NET ASSETS</b>			
Investment in Capital Assets, net of related debt	436,286	100,482	536,768
Restricted for Public Works	(226,628)	209,051	(17,577)
Total Net Assets	\$ 209,658	309,533	519,191

The accompanying notes and auditors' reports are integral parts of these statements.

**Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds**  
**For the year ended September 30, 2008**

	Business-type Activities- Enterprise Funds		Total
	Solid Waste	Turner Park	
Operating Revenues			
Charges for Services	\$ 1,897,075	105,859	2,002,934
Other Revenue	15,206		15,206
Total Operating Revenues	<u>1,912,281</u>	<u>105,859</u>	<u>2,018,140</u>
Operating Expenses			
Personal services	865,152		865,152
Contractual services	694,020	96,524	790,544
Materials and supplies	263,270	3,672	266,942
Depreciation expense	78,333	12,120	90,453
Indirect administrative cost	44,637	1,788	46,425
Total Operating Expenses	<u>1,945,412</u>	<u>114,104</u>	<u>2,059,516</u>
Operating Gain (Loss)	<u>(33,131)</u>	<u>(8,245)</u>	<u>(41,376)</u>
Non-Operating Revenues (Expenses)			
Interest Earnings	3,628	9,365	12,993
Interest expense	(22,769)	(1,676)	(24,445)
Net Non-Operating Revenue	<u>(19,141)</u>	<u>7,689</u>	<u>(11,452)</u>
Net Income Before Transfers	<u>(52,272)</u>	<u>(556)</u>	<u>(52,828)</u>
Transfers In	251,400		251,400
Total Transfers	<u>251,400</u>	<u>-0-</u>	<u>251,400</u>
Change in Net Assets	199,128	(556)	198,572
Net Assets - Beginning	<u>10,530</u>	<u>310,089</u>	<u>320,619</u>
Net Assets - Ending	<u>\$ 209,658</u>	<u>309,533</u>	<u>519,191</u>

The accompanying notes and auditors' reports are integral parts of these statements.

Lee County  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2008

Exhibit 7

	Business-type Activities - Enterprise Funds		Total
	Solid Waste	Turner Park	
Cash Flows From Operating Activities			
Receipts from customers	\$ 1,907,975	107,048	2,015,023
Payments to suppliers	(900,392)	(98,403)	(998,795)
Payments to employees	(887,152)		(887,152)
Payments to General Fund for indirect costs	(44,637)	(1,788)	(46,425)
Other operating cash receipts	15,206		15,206
Net Cash Provided (Used) by Operating Activities	<u>91,000</u>	<u>6,857</u>	<u>97,857</u>
Cash Flows From Noncapital Financing Activities			
Operating grants received	37,866		37,866
Cash received from other funds:			
Operating transfers in	251,400		251,400
Net Cash Provided by Noncapital Financing Activities	<u>289,266</u>	<u>-0-</u>	<u>289,266</u>
Cash Flows From Capital and Related Financing Activities			
Proceeds of long-term debt	49,768		49,768
Acquisition and construction of capital assets	(150,225)		(150,225)
Principal paid on long-term debt	(226,038)	(8,409)	(234,447)
Interest paid on debt	(22,769)	(1,634)	(24,403)
Net Cash (Used) by Capital and Related Financing Activities	<u>(349,264)</u>	<u>(10,043)</u>	<u>(359,307)</u>
Cash Flows From Investing Activities			
Interest and dividends on investments	3,629	9,365	12,994
Net Cash Provided by Investing Activities	<u>3,629</u>	<u>9,365</u>	<u>12,994</u>
Net (Decrease) in Cash and Cash Equivalents	34,631	6,179	40,810
Cash and Cash Equivalents at Beginning of Year	(72,732)	201,764	129,032
Cash and Cash Equivalents at End of Year	<u>\$ (38,101)</u>	<u>207,943</u>	<u>169,842</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating gain (loss)	\$ (33,131)	(8,245)	(41,376)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	78,333	12,120	90,453
Provision for uncollectible accounts	56,537		56,537
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(77,904)	1,189	(76,715)
(Increase) decrease in other receivables	27,526		27,526
Increase (decrease) in claims payable	57,323	1,782	59,105
Increase (decrease) in intergovernmental payables	68	11	79
Increase in compensated absences liability	(22,493)		(22,493)
Increase in deferred revenue	4,741		4,741
Total Adjustments	<u>124,131</u>	<u>15,102</u>	<u>139,233</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 91,000</u>	<u>6,857</u>	<u>97,857</u>

The accompanying notes and auditors' reports are integral parts of these statements.

**Lee County**  
**Statement of Fiduciary Assets and Liabilities**  
**September 30, 2008**

Exhibit 8

Agency Funds

**ASSETS**

Cash and investments	\$ 435,005
Due from other funds	241,383
Other receivables	9,212
Total Assets	<u>\$ 685,600</u>

**LIABILITIES**

Amounts held in custody for others	\$ 130,539
Intergovernmental payables	554,075
Due to other funds	986
Total Liabilities	<u>\$ 685,600</u>

The accompanying notes and auditors' reports are integral parts of these statements.

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

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

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

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

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

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being 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.

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**C. Measurement Focus and Basis of Accounting (Continued)**

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

Toyota Fund – This fund is used to account for monies received for economic development and debt service purposes.

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.

**PROPRIETARY FUND TYPES**

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 TYPES**

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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." 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 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 have been estimated, and the methods of estimation are not readily available. Donated capital assets are recorded

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**H. Capital Assets (Continued)**

at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards require 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 nonecapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

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

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

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**J. Equity Classifications**

**Government-wide Financial Statements:**

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

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

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

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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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 appropriate 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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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	\$ 71,479
Capital asset adjustment	(263,650)
Long-term debt adjustment	(1,096,388)
	<u>(1,288,559)</u>

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

<u>Explanation</u>	<u>Amount</u>
Revenue accrual - amounts held in custody	\$ 71,479

**(3) Deposits and Investments**

Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2008, was \$7,823,077 and the bank balance was \$8,403,184. 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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(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, 2008, are as follows:

<u>Instrument Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Farm Credit Bank	01/18/12	\$ 397,064	AAA
Federal Farm Credit Bank	04/21/11	734,531	AAA
Federal Home Ln Bk	03/09/12	519,140	AAA
Federal Home Ln Bk	12/10/10	514,610	AAA
Federal Home Ln Mtg	07/07/10	105,010	AAA
Federal Home Ln Mtg	06/30/09	682,979	AAA
U.S. Treasury Notes	11/30/11	898,273	AAA
U.S. Treasury Notes	11/15/08	1,003,515	AAA
U.S. Treasury Notes	08/31/12	738,007	AAA
U.S. Treasury Notes	07/15/09	1,014,295	AAA
U.S. Treasury Notes	02/15/10	3,118,590	AAA
U.S. Treasury Notes	05/31/11	3,248,736	AAA
U.S. Treasury Notes	05/31/12	859,936	AAA
U.S. Treasury Notes	07/31/12	643,032	AAA
U.S. Treasury Security		276,900	
Transamerica Occidental Annuity	06/21/12	4,137,370	
Total		\$ <u>18,891,988</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 Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investment choices or one that address credit risk.

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(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, 2008:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Agency Funds	\$ 986
Countywide Road	General Fund	165,958
Countywide Road	Other Governmental Funds	7,325
Countywide Bridge	General Fund	69,862
Countywide Bridge	Other Governmental Funds	7,325
Other Governmental Funds	General Fund	18,659
Agency Funds	General Fund	241,383
Total		<u>\$ 511,498</u>

The payables from the General Fund are the tax revenues collected but not settled until October 2008. The payables from Other Governmental Funds are to reimburse for expenses paid out of Countywide Road and Countywide Bridge. 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. Transfers In/Out

Transfer In	Transfer Out	Amount
County-Wide Road	County-Wide Bridge	\$ 135,000
Other Governmental Funds	General Fund	1,160,209
Solid Waste	General Fund	251,400
Other Governmental Funds	Other Governmental Funds	14,650
Total		<u>\$ 1,561,259</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.

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(5) Intergovernmental Receivables**

Intergovernmental receivables at September 30, 2008 consisted of the following:

A. Governmental Activities:

Description	Amount
Legislative tag credit	\$ 439,346
Motor Vehicle Licenses	74,436
Reimbursement for the housing of prisoners	105,720
Motor Vehicle Fuel Tax	31,304
Homeland Security grant	43,025
Community Development Block Grant	72,199
Appalachian Regional Commission	68,699
Local economic development	68,699
Other	78,295
<b>Total Governmental Activities</b>	<b>\$ 981,723</b>

**(6) Ad Valorem Tax Fee In-Lieu Receivable**

Pontotoc County, Union County, and Lee County (PUL Alliance) entered into an Ad Valorem Tax Fee In-Lieu Agreement (Agreement) with the Mississippi Development Authority, the Mississippi Major Economic Impact Authority and Toyota Motor Manufacturing Mississippi Inc. (TMMMS). The Agreement provides that beginning in January, 2011, and continuing until the retirement of the Public Bonds, TMMMS agrees to make an annual fee payment of \$2,500,000 to the PUL Alliance. The first fee payment shall be made on or before January 31, 2011 and subsequent fee payments shall be made on or before January 31 of each succeeding year. The fee payment shall expire after the 2026 payment or, if the Public Bonds are retired sooner than 2026, it shall expire in the year of retirement. Lee County's portion of this annual payment is one third or \$833,333.

Ad valorem tax fee in-lieu receivable at September 30, 2008, is as follows:

Ad valorem tax fee in-lieu receivable	<u>\$ 8,183,214</u>
Due in one to five years	\$ 2,500,000.00
Due in six to ten years	4,166,667.00
Due in eleven to fifteen years	4,166,667.00
Due in sixteen to eighteen years	<u>2,500,000.00</u>
Total	\$ 13,333,334.00
Less: Discount to present value	<u>5,150,120.00</u>
Net receivable	<u>\$ 8,183,214.00</u>

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(6) Ad Valorem Tax Fee In-Lieu Receivable (Continued)**

Receivable due in more than one year are discounted to net present value using the County's average interest rate of 5.45% on the bonds issued for the project, which management has determined is an appropriate discount rate commensurate with the risks involved.

**(7) Capital Assets**

The following is a summary of capital assets activity for the year ended September 30, 2008:

Governmental activities:

	Balance Oct. 1, 2007	Additions	Deletions	Adjustments	Balance Sept. 30, 2008
<u>Non-depreciable capital assets</u>					
Land	\$ 4,203,191		(96,000)		4,107,191
Construction in progress	3,969,280	389,563		(4,358,843)	-0-
Total non-depreciable capital assets	<u>8,172,471</u>	<u>389,563</u>	<u>(96,000)</u>	<u>(4,358,843)</u>	<u>4,107,191</u>
<u>Depreciable capital assets</u>					
Infrastructure	243,988,927	2,165,182			246,154,109
Buildings	26,054,341			4,082,843	30,137,184
Improvements other than buildings	758,998				758,998
Mobile equipment	8,924,466	784,241	(562,357)	(13,236)	9,133,114
Furniture and equipment	1,849,733	111,693	(48,693)	13,915	1,926,648
Total depreciable assets	<u>281,576,465</u>	<u>3,061,116</u>	<u>(611,050)</u>	<u>4,083,522</u>	<u>288,110,053</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	94,314,541	8,335,595			102,650,136
Buildings	6,207,017	603,640		(99,344)	6,711,313
Improvements other than buildings	304,966	31,185			336,151
Mobile equipment	5,797,670	644,282	(480,675)	56,750	6,018,027
Furniture and equipment	1,327,868	140,284	(44,301)	30,923	1,454,774
Total accumulated depreciation	<u>107,952,062</u>	<u>9,754,986</u>	<u>(524,976)</u>	<u>(11,671)</u>	<u>117,170,401</u>
Total depreciable capital assets, net	<u>173,624,403</u>	<u>(6,693,870)</u>	<u>(86,074)</u>	<u>4,095,193</u>	<u>170,939,652</u>
Governmental activities capital assets, net	<u>\$ 181,796,874</u>	<u>(6,304,307)</u>	<u>(182,074)</u>	<u>(263,650)</u>	<u>175,046,843</u>

Adjustments include reclassification of completed construction, correction of prior year construction in progress, and correction of prior depreciation.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(7) Capital Assets (Continued)**

Business-type activities:

	Balance Oct. 1, 2007	Additions	Deletions	Balance Sept. 30, 2008
<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	1,199,046	150,225		1,349,271
Furniture and equipment	20,837			20,837
Total depreciable assets	<u>1,782,512</u>	<u>150,225</u>	<u>-0-</u>	<u>1,932,737</u>
<u>Less accumulated depreciation for:</u>				
Buildings	252,057	8,510		260,567
Improvements other than buildings	87,762	5,485		93,247
Mobile equipment	643,381	76,458		719,839
Furniture and equipment	18,753			18,753
Total accumulated depreciation	<u>1,001,953</u>	<u>90,453</u>	<u>-0-</u>	<u>1,092,406</u>
Total depreciable capital assets, net	<u>780,559</u>	<u>59,772</u>	<u>-0-</u>	<u>840,331</u>
Business type activities capital assets, net	<u>\$ 828,305</u>	<u>59,772</u>	<u>-0-</u>	<u>888,077</u>

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(7) Capital Assets (Continued)**

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 422,678
Public safety	418,333
Public works	8,787,055
Health and welfare	1,820
Culture and recreation	107,830
Education	13,370
Conservation of natural resources	3,900
Total governmental activities depreciation expense	\$ 9,754,986
Business-type activities:	
Solid Waste	\$ 78,333
Turner Park	12,120
Total business-type activities depreciation expense	\$ 90,453

**(8) 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, 2008, to January 1, 2009. 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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(8) 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 2007 and 2008:

	2007	2008
Unpaid Claims, Beginning of Fiscal Year	\$ 280,591	156,576
Plus: Incurred Claims (Including IBNRs)	2,546,609	2,511,614
Less: Claims Payments	<u>(2,670,624)</u>	<u>(3,104,446)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 156,576</u>	<u>(436,256)</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(9) Long-term Debt**

Debt outstanding as of September 30, 2008, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
<b>Governmental Activities:</b>			
A. General Obligation Bonds:			
2001 Refunding Bonds	\$ 3,790,000	3.20-4.50	12/1/13
Toyota Bonds	<u>8,760,000</u>	5.00-6.00	7/1/26
Total General Obligation Bonds	<u>\$ 12,550,000</u>		
D. Other Loans:			
Capital improvements revolving loan	\$ 113,924	3.00	3/1/14
Capital improvements revolving loan	723,307	3.00	11/1/18
Capital improvements revolving loan	986,826	3.00	5/1/28
Capital improvements revolving loan	165,250	4.27	1/31/14
Capital improvements revolving loan	378,077	4.00	10/1/22
Capital improvements revolving loan	235,267	4.00	8/1/22
Capital improvements revolving loan	238,230	5.00	11/1/22
Capital improvements revolving loan	188,213	4.00	8/1/22
Noncap revolving loan	500,000	0.00	10/15/21
MS Development Bank promissory note	<u>2,057,936</u>	Variable	2/28/13
Total Other Loans	<u>\$ 5,587,030</u>		
<b>Business-type Activities:</b>			
A. Other Loans			
Capital improvements revolving loan	\$ 50,208	3.00	3/1/14
MS Development Bank promissory note	<u>663,851</u>	Variable	4/30/13
Total Other Loans	<u>\$ 714,059</u>		

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(9) 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
2009	\$ 560,000	608,315	815,276	190,324
2010	590,000	587,600	758,103	153,466
2011	975,000	565,060	667,347	122,065
2012	1,020,000	519,880	533,561	94,956
2013	1,070,000	472,060	358,340	76,743
2014-2018	3,065,000	1,809,998	1,030,341	255,424
2019-2023	3,030,000	1,117,875	1,135,529	96,509
2024-2028	2,240,000	250,525	288,533	22,041
Total	\$ 12,550,000	5,931,313	5,587,030	1,011,528

Business-type Activities:

Year Ending September 30,	Other Loans	
	Principal	Interest
2009	181,353	30,238
2010	180,102	21,326
2011	168,216	12,744
2012	122,538	5,826
2013	54,636	1,251
2014-2016	7,214	552
Total	\$ 714,059	71,937

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, 2008, the amount of outstanding debt was equal to 1.64% of the latest property assessments.

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(9) Long-term Debt (Continued)**

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2008:

	<u>Balance</u> <u>Oct. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance</u> <u>Sept. 30, 2008</u>	<u>Amount due</u> <u>within one year</u>
<b>Governmental Activities:</b>						
Compensated absences	\$ 606,240	89,353			695,593	
General obligation bonds	4,330,000	8,760,000	540,000		12,550,000	560,000
Unamortized premiums	-0-	111,098	16,019		95,079	20,932
Unamortized discounts	-0-	(236,757)	(7,990)		(228,767)	(10,528)
Other loans	4,844,124	674,770	1,028,252	1,096,388	5,587,030	815,276
<b>Totals</b>	<b>\$ 9,780,364</b>	<b>9,398,464</b>	<b>1,576,281</b>	<b>1,096,388</b>	<b>18,698,935</b>	<b>1,385,680</b>
<b>Business-type Activities:</b>						
Compensated absences	\$ 61,934		22,493		39,441	
Other loans	898,738	49,768	234,447		714,059	181,353
<b>Totals</b>	<b>\$ 960,672</b>	<b>49,768</b>	<b>256,940</b>	<b>-0-</b>	<b>753,500</b>	<b>181,353</b>

**(10) Deficit Fund Balances of Individual Funds**

The following funds reported deficit in fund balances at September 30, 2008:

<u>Fund</u>	<u>Deficit</u> <u>Amount</u>
Agri-Center/Fair Fund	\$ 42,468
GREAT Grant	35,861

**(11) 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 FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(11) Contingencies (Continued)**

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 \$3,785,000 refunding bonds balance at September 30, 2008, is \$530,657.

**(12) 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 9/30/08
Industrial revenue bonds	\$ 22,999.296

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(13) 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, 2008:

Condensed Statement of Net Assets

	<u>Solid Waste Fund</u>	<u>Turner Park Water &amp; Sewer Fund</u>	<u>Total Enterprise Funds</u>
Assets:			
Current assets	\$ 504,590	216,637	721,227
Capital assets	737,387	150,690	888,077
Total assets	<u>1,241,977</u>	<u>367,327</u>	<u>1,609,304</u>
Liabilities:			
Current liabilities	501,723	16,243	517,966
Noncurrent liabilities	530,596	41,551	572,147
Total liabilities	<u>1,032,319</u>	<u>57,794</u>	<u>1,090,113</u>
Net assets:			
Invested in capital assets, net of related debt	436,286	100,482	536,768
Restricted for Public Works	(226,628)	209,051	(17,577)
Total net assets	<u>\$ 209,658</u>	<u>309,533</u>	<u>519,191</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(13) 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	\$ 1,897,075	105,859	2,002,934
Other revenue	15,206		15,206
Total operating revenues	1,912,281	105,859	2,018,140
Operating expenses	1,867,079	101,984	1,969,063
Depreciation expense	78,333	12,120	90,453
Operating gain (loss)	(33,131)	(8,245)	(41,376)
Nonoperating revenues (expenses)			
Interest income	3,628	9,365	12,993
Interest expense	(22,769)	(1,676)	(24,445)
Transfers, net	251,400		251,400
Changes in net assets	199,128	(556)	198,572
Total net assets - beginning	10,530	310,089	320,619
Total net assets - ending	\$ 209,658	309,533	519,191

Condensed Statement of Cash Flows

	Solid Waste Fund	Turner Park Water & Sewer Fund	Total Enterprise Funds
Net cash provided (used) by:			
Operating activities	\$ 91,000	6,857	97,857
Noncapital financing activities	289,266		289,266
Capital and related financing activities	(349,264)	(10,043)	(359,307)
Investing activities	3,629	9,365	12,994
Net increase (decrease)	34,631	6,179	40,810
Beginning cash and cash equivalents	(72,732)	201,764	129,032
Ending cash and cash equivalents	\$ (38,101)	207,943	169,842

**(14) 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 2008.

**LEE COUNTY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(14) 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 2008.

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 \$5,148,040 for the support and maintenance of the college in fiscal year 2008.

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 2008.

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 \$7,860 in fiscal year 2008 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 2008.

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 2008.

**(15) 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 FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**(15) 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, 2008 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, 2008, 2007, and 2006, were \$1,258,811, \$1,181,499, and \$1,078,357, respectively, equal to the required contributions for each year.

**(16) Subsequent Events**

Subsequent to September 30, 2008, Lee County borrowed the following amounts under the Mississippi Development Bank Loan Program:

Issue Date	Interest Rate	Issue Amount	Source of Financing
11/3/2008	5.0	356,306	Road Fund, Bridge Fund, Solid Waste
1/1/2009	5.0	297,844	General Fund, Road Fund, Bridge Fund, Solid Waste
3/1/2009	5.0	133,930	General Fund, Road Fund, Bridge Fund
4/1/2009	5.0	502,386	General Fund, Road Fund, Bridge Fund
5/1/2009	5.0	524,910	General Fund, Road Fund, Bridge Fund, Solid Waste
9/26/2009	4.5	262,224	Road Fund, Bridge Fund, Solid Waste

**LEE COUNTY**

**REQUIRED SUPPLEMENTARY INFORMATION**

Lee County  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 10,312,400	10,632,219	10,632,219	-0-
Licenses, commissions and other revenue	1,331,100	1,363,460	1,363,460	-0-
Fines and forfeitures	769,350	724,601	724,601	-0-
Intergovernmental revenues	3,218,490	3,271,745	3,271,745	-0-
Charges for services	1,110,200	1,343,002	1,343,002	-0-
Interest income	1,210,100	1,199,130	1,199,130	-0-
Miscellaneous revenues	1,241,100	1,219,563	1,219,563	-0-
Total Revenues	<u>19,192,740</u>	<u>19,753,720</u>	<u>19,753,720</u>	<u>-0-</u>
<b>EXPENDITURES</b>				
Current:				
General government	10,691,461	10,306,841	10,306,841	-0-
Public safety	6,791,079	7,087,501	7,087,501	-0-
Health and welfare	956,710	933,031	933,031	-0-
Culture and recreation	911,611	891,835	891,835	-0-
Conservation of natural resources	244,910	240,111	240,111	-0-
Economic development and assistance	139,486	140,639	140,639	-0-
Debt service:				
Principal	409,420	421,413	421,413	-0-
Interest	88,000	78,093	78,093	-0-
Total Expenditures	<u>20,232,677</u>	<u>20,099,464</u>	<u>20,099,464</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>(1,039,937)</u>	<u>(345,744)</u>	<u>(345,744)</u>	<u>-0-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	200			-0-
Proceeds from sale of capital assets	148,000	3,525	3,525	-0-
Compensation for loss of capital assets	10,000	2,208	2,208	-0-
Transfers in	1,043,300	1,043,300	1,043,300	-0-
Transfers out	(1,418,520)	(1,413,849)	(1,413,849)	-0-
Total Other Financing Sources and Uses	<u>(217,020)</u>	<u>(364,816)</u>	<u>(364,816)</u>	<u>-0-</u>
Net Change in Fund Balance	(1,256,957)	(710,560)	(710,560)	-0-
Fund Balances - Beginning	<u>15,568,282</u>	<u>15,568,282</u>	<u>15,568,282</u>	<u>-0-</u>
Fund Balances - Ending	\$ <u>14,311,325</u>	<u>14,857,722</u>	<u>14,857,722</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 Road Maintenance  
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,217,500	2,284,083	2,284,083	-0-
Licenses, commissions and other revenue	927,500	969,693	969,693	-0-
Fines and forfeitures	5,000			-0-
Intergovernmental revenues	760,000	744,225	744,225	-0-
Charges for services	2,500	12,838	12,838	-0-
Interest income	180,000	301,996	301,996	-0-
Miscellaneous revenues	550	8,315	8,315	-0-
Total Revenues	<u>4,093,050</u>	<u>4,321,150</u>	<u>4,321,150</u>	<u>-0-</u>
<b>EXPENDITURES</b>				
Current:				
Public works	5,176,010	3,507,587	3,507,587	-0-
Debt service:				
Principal	249,140	224,614	224,614	-0-
Interest	59,030	30,216	30,216	-0-
Total Expenditures	<u>5,484,180</u>	<u>3,762,417</u>	<u>3,762,417</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>(1,391,130)</u>	<u>558,733</u>	<u>558,733</u>	<u>-0-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of long-term capital debt	100	1,500	1,500	-0-
Proceeds from sale of capital assets	15,000	33,206	33,206	-0-
Compensation for loss of capital assets	2,500	721	721	-0-
Transfers in	135,000	135,000	135,000	-0-
Total Other Financing Sources and Uses	<u>152,600</u>	<u>170,427</u>	<u>170,427</u>	<u>-0-</u>
Net Change in Fund Balance	(1,238,530)	729,160	729,160	-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>\$ 3,697,085</u>	<u>5,664,775</u>	<u>5,664,775</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, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	1,831,450	1,874,745	1,874,745	-0-
Intergovernmental revenue	305,000	222,079	222,079	-0-
Interest income	115,000	180,580	180,580	-0-
Miscellaneous income	450	1,347	1,347	-0-
Total Revenues	<u>2,251,900</u>	<u>2,278,751</u>	<u>2,278,751</u>	<u>-0-</u>
<b>EXPENDITURES</b>				
Current:				
Public works	1,967,010	2,143,920	2,143,920	-0-
Debt service:				
Principal	202,830	195,508	195,508	-0-
Interest	43,800	24,962	24,962	-0-
Total Expenditures	<u>2,213,640</u>	<u>2,364,390</u>	<u>2,364,390</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>38,260</u>	<u>(85,639)</u>	<u>(85,639)</u>	<u>-0-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	100	1,500	1,500	-0-
Proceeds from sale of capital assets		1,253	1,253	-0-
Compensation for loss of capital assets		1,966	1,966	-0-
Transfers out	(135,000)	(135,000)	(135,000)	-0-
Total other financing sources (uses)	<u>(134,900)</u>	<u>(130,281)</u>	<u>(130,281)</u>	<u>-0-</u>
Net Change in Fund Balance	(96,640)	(215,920)	(215,920)	-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>\$ 3,190,872</u>	<u>3,071,592</u>	<u>3,071,592</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)  
 Toyota Fund  
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>EXPENDITURES</b>				
Current:				
Economic development	7,630,000	7,750,000	7,750,000	-0-
Debt service:				
Bond issue costs	370,000			-0-
Total Expenditures	<u>8,000,000</u>	<u>7,750,000</u>	<u>7,750,000</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>(8,000,000)</u>	<u>(7,750,000)</u>	<u>(7,750,000)</u>	<u>-0-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term noncapital debt issued	8,000,000	7,750,000	7,750,000	-0-
Total other financing sources (uses)	<u>8,000,000</u>	<u>7,750,000</u>	<u>7,750,000</u>	<u>-0-</u>
Net Change in Fund Balance	-0-	-0-	-0-	-0-
Fund Balances - Beginning	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances - Ending	<u>\$ -0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

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, 2008

#### Notes to the Required Supplementary Information

##### 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, 2008**

**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	Toyota Fund
Budget (Cash Basis)	\$ (710,560)	729,160	(215,920)	-0-
Increase (Decrease)				
Net adjustments for revenue accruals	(952,722)	276,685	240,675	889,407
Net adjustments for expenditure accruals	545,776	(648,462)	(265,382)	(662,869)
GAAP Basis	<u>\$ (1,117,506)</u>	<u>357,383</u>	<u>(240,627)</u>	<u>226,538</u>

**LEE COUNTY**

**SUPPLEMENTAL INFORMATION**

Lee County  
Schedule of Expenditures of Federal Awards  
September 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture Passed-through Three Rivers Planning and Development District Child and adult care food program	10.558	712-U-581A	8,006
Total U.S. Department of Agriculture			8,006
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	1124-07-041-ED-01	435,043
Community development block grants/state's program	14.228	1222-05-041-ED-01	2,500
Community development block grants/state's program	14.228	1122-05-041-PF-01	204,554
Total U. S. Department of Housing and Urban Development			642,097
U.S. Department of Justice Direct programs Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	2006DDBX0512	154,944
Passed-through the State of Mississippi Department of Public Safety Violence against women formula grants	16.588	04SP1411	41,910
Public safety partnership and community policing grants	16.710	2005CKWX0110	7,300
Total U.S. Department of Justice			204,154
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-181A	33,658
Total U.S. Department of Labor			33,658

**Lee County**  
**Schedule of Expenditures of Federal Awards**  
**September 30, 2008**

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Agency or Pass-Through Number</b>	<b>Federal Expenditures</b>
U.S. Department of Transportation Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	N/A	<u>23,320</u>
Total U.S. Department of Transportation			<u>23,320</u>
Appalachian Regional Commission Passed-through the Mississippi Department of Economic and Community Development Appalachian Area Development	23.002		<u>249,370</u>
Total Appalachian Regional Commission			<u>249,370</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-181A	18,720
Special programs for the aging-Title III, Part C-Nutrition services	93.045	712-R-281A	43,602
Special programs for the aging-Title III, Part C-Nutrition services	93.045	712-R-381A	73,013
Nutrition service incentive program	93.053	712-R-281A	11,727
Nutrition service incentive program	93.053	712-R-381A	19,288
Nutrition service incentive program	93.053	712-R-281A	<u>746</u>
Total Aging Cluster			<u>167,096</u>
Social services block grant	93.667	712-V-281A	<u>131,033</u>
			<u>131,033</u>
Total U.S. Department of Health and Human Services			<u>298,129</u>

Lee County  
 Schedule of Expenditures of Federal Awards  
 September 30, 2008

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-Through Number</u>	<u>Federal Expenditures</u>
U.S. Department of Homeland Security			
Passed-through the Mississippi Department of Public Safety			
Homeland Security Cluster			
Homeland Security Grant Program	97.067	06HS041	6,557
Homeland Security Grant Program	97.067	06HS041R	50,920
Homeland Security Grant Program	97.067	07HS041	<u>8,710</u>
Total Homeland Security Cluster			<u>66,187</u>
Total U.S. Department of Homeland Security			<u>66,187</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>1,524,921</u></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.

**LEE COUNTY**

**SPECIAL REPORTS**

# **J.E. VANCE & COMPANY, P.A.**

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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 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, 2008, which collectively comprise the county's basic financial statements and have issued our report thereon dated June 30, 2010. 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 financial 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 as 08-1, 08-2, and 08-3 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 or material weaknesses. However, of the significant deficiencies described above, we consider Items 08-1, 08-2, and 08-3 to be material weaknesses.

#### Compliance and Other Matters

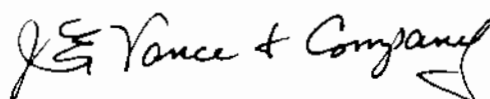
As part of obtaining reasonable assurance about whether Lee County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and 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 instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 08-2.

We also noted certain instances of noncompliance which we have reported to management of Lee County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated June 30, 2010, included within this document.

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

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, 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  
June 30, 2010



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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, 2008. 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, 2008.

### 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 the 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, the Board of Supervisors, others within the entity, 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  
June 30, 2010



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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, 2008. 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.

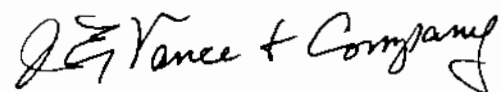
In our opinion, except as explained in the third paragraph an except for the noncompliance referred to in the preceding paragraph, Lee County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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.

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

This report is intended 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  
June 30, 2010



**Lee County**  
**Schedule of Purchases Not Made From the Lowest Bidder**  
**For the Year Ended September 30, 2008**

**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, 2008**

**Schedule 2**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
10/23/2007	Steel pilings	8,304	Skyline Steel	Emergency bridge repairs
10/23/2007	Remove asphalt drive; piling recap & recheck	30,000	Dye Construction	Emergency bridge repairs
3/3/2008	Steel beams	23,607	Skyline Steel	Emergency bridge repairs
3/3/2008	Remove asphalt; replace beams	43,500	Dye Construction	Emergency bridge repairs
7/21/2008	Chiller	178,247	Trane	Emergency replacement of chiller at Library

**Lee County**  
**Schedule of Purchases Made Noncompetitively from a Sole Source**  
**for the Year Ended September 30, 2008**

**Schedule 3**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
12/6/2007	Printing & mailing of tax bills	\$ 13,849	Delta Computer Systems, Inc.
1/28/2008	Fans (6)	31,200	Big Ass Fans
2/12/2008	TR3 Arena Drag & Ground Tool	5,957	Absolute Innovations
5/5/2008	Software licenses & installation service	2,700	LSI, Inc.

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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, 2008, we considered Lee County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to 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 June 30, 2010, 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, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these parties. However, this report is a matter of public record and its distribution is not limited.

Tupelo, Mississippi  
June 30, 2010



**LEE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**LEE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**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:  |               |
| Toyota Fund   | 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?        | No            |

**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, 2008**

**Section 1: Summary of Auditors' Results (Continued)**

7. Federal programs identified as major programs:
- a. Aging Cluster CFDA #93.044, 93.045, 93.053.
  - b. Community development block grants/state's program #14.228.
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**

Payroll Clerk

Material Weakness

08-1 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.
- h. 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

**LEE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2008**

**Section 2: Financial Statement Findings (Continued)**

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

08-2 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'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.

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

**Section 2: Financial Statement Findings (Continued)**

Board of Supervisors

Material Weakness

08-03 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 discretely presented component units.

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.