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LEE COUNTY, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS

For the Year Ended September 30, 2013

M. M. WINKLER & ASSOCIATES, PLLC
Certified Public Accountants
Tupelo, Mississippi

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LEE COUNTY, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Lee County, Mississippi

Report on Financial Statements

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, (the County) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITORS' REPORT

- Continued -

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

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 position, revenues and expenses of the aggregate discretely presented component units is not reasonable determinable.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of Lee County, Mississippi, as of September 30, 2013, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the 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, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Schedules and corresponding notes be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITORS' REPORT

- Continued -

Other Information

The Schedule of Surety Bonds for County Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2014, on our consideration of Lee County, Mississippi's internal control over financial reporting and 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* in considering Lee County, Mississippi's internal control over financial reporting and compliance.

M. M. Winkler & Associates, PLLC

October 1, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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LEE COUNTY BOARD OF SUPERVISORS

BOBBY G. SMITH
MEMBER – 2ND DISTRICT
SALTILLO, MISSISSIPPI

PHIL MORGAN
MEMBER – 1ST DISTRICT
SALTILLO, MISSISSIPPI

TOMMIE LEE IVY
MEMBER – 4TH DISTRICT
SHANNON, MISSISSIPPI

BILL BENSON, CLERK
SHANNON, MISSISSIPPI

DARRELL RANKIN
MEMBER – 3RD DISTRICT
TUPELO, MISSISSIPPI

SEAN P. THOMPSON, ADMINISTRATOR
TUPELO, MISSISSIPPI

BILLY JOE HOLLAND
MEMBER - 5TH DISTRICT
VERONA, MISSISSIPPI

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, 2013. The intent of this discussion and analysis is to look at the County’s performance as a whole; readers should also review the basic financial statements and their accompanying notes 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 2010 census, is 82,910. 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. The tax rate has remained level for the past four years, and looking back over the past sixteen year period (1998-2013), tax rates remain 1.42% lower than the highest rate (1998-2000). 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 position, as restated, decreased \$5,549,366 which represents a 3.55% decrease from the prior fiscal year. The County’s ending cash and investment balance increased by \$2,743,813. This represents a 16.55% increase from the prior fiscal year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

FINANCIAL HIGHLIGHTS - Continued

The County had \$35,833,025 in total revenues. Tax revenues account for \$18,139,876 or 50.62% of total revenues. Revenues in the form of charges for services account for \$4,335,978 or 12.10% of total revenues. Revenue generated by fines and other fees account for \$2,116,939 or 5.91%. State revenues, in the form of reimbursements, shared revenue or grants, account for \$8,160,778 or 22.77% of total revenues. Additionally, \$415,889, or 1.16%, of total revenues were Federal revenues in the form of grants. Grants from other local jurisdictions amount to \$364,096 or 1.02% of total revenues. Revenue from ad valorem tax fee-in-lieu was \$446,357 or 1.25%. Investment and miscellaneous revenues totaled \$1,853,111 or 5.17% of total revenues.

The County had \$41,382,391 in total expenses, which represents an increase of \$641,471 or 1.57% from the prior fiscal year. Expenses in the amount of \$13,426,787 were offset by charges for services, grants, and outside contributions. General revenues of \$22,406,238 were used to provide for expenses.

Among major funds, the General Fund had \$18,691,208 in revenues and \$19,392,086 in expenditures. The General Fund's fund balance decreased \$1,893,469 from the prior year. The Countywide Road Fund had \$7,298,239 in revenues and \$8,149,561 in expenditures. The Countywide Road Fund's fund balance decreased \$443,682 from the prior year. The Countywide Bridge Fund had \$3,238,634 in revenues and \$3,642,467 in expenditures. The Countywide Bridge Fund's fund balance decreased \$403,833 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$1,257,059 or 0.83%. The majority of this decrease was due to depreciation expense related to infrastructure such as roads and bridges.

Long-term liabilities increased by \$5,073,421 or 25.47%

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.

MANAGEMENT’S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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

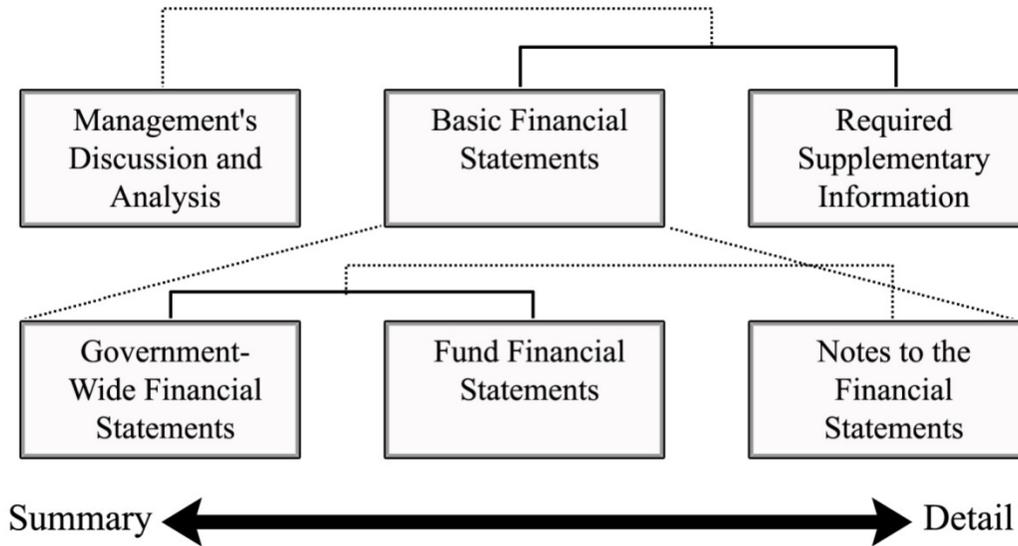


Figure 2 – Major Features of the County’s Government-Wide and Fund Financial Statements

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

MANAGEMENT’S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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

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

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

The **statement of net position** presents information on all County assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Government-wide Financial Statements – Continued

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; conservation of natural resources; 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 27-28 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 30 and 33, respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual*. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Fund Financial Statements – Continued

The basic governmental funds financial statements can be found on pages 29 and 31-32 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 a 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 34-36 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 assets and liabilities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 37 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 39-64 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 schedule has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 67-71 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position may serve over time as a useful indicator of government's financial position. In the case of Lee County, assets exceeded liabilities by \$150,846,777 as of September 30, 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

By far, the largest portion of the County's net position (90.89%) 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 position at September 30, 2013 and 2012.

(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2012-2013
	2012*	2013	2012	2013	2012*	2013	
Current assets	\$ 42,248	46,366	\$ 388	265	\$ 42,636	46,631	9.37%
Capital assets, net	151,358	150,012	982	1,072	152,340	151,084	-0.82%
Total assets	193,606	196,378	1,370	1,337	194,976	197,715	1.40%
Current liabilities	20,199	23,814	369	351	20,568	24,165	17.49%
Long-term debt outstanding	17,671	22,419	341	284	18,012	22,703	26.04%
Total liabilities	37,870	46,233	710	635	38,580	46,868	21.48%
Net Position							
Net investment in							
capital assets	143,020	136,223	741	876	143,761	137,099	-4.63%
Restricted	5,058	7,712	266	281	5,324	7,993	50.13%
Unrestricted	7,658	6,210	(347)	(455)	7,311	5,755	-21.28%
Total net position	\$ 155,736	150,145	\$ 660	702	\$ 156,396	150,847	-3.55%

*As restated; see Note 2 to financial statements for more information

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, which has increased to \$12.50 per month, effective January 2014, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

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) 432-2000.

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

- Depreciable capital assets acquisitions and depreciation associated with existing depreciable capital assets resulted in a decrease in net capital assets of \$1,257,059.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

Changes in Net Position – Lee County's total revenues for the fiscal year ended September 30, 2013 was \$35,833,025. The total cost for all services provided was \$41,382,391. The decrease in net position was \$5,549,366. The table below presents a summary of the changes in net position for the fiscal year ended September 30, 2013 and 2012.

(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2012*	2013	2012	2013	2012*	2013	2012-2013
Revenues:							
Program revenues							
Charges for services	\$ 2,292	2,281	\$ 2,079	2,054	\$ 4,371	4,335	-0.82%
Fines and fees	2,128	2,117	-	-	2,128	2,117	-0.52%
Federal grants	829	416	-	-	829	416	-49.82%
State grants	1,643	8,161	-	-	1,643	8,161	396.71%
Local grants	348	364	-	-	348	364	4.60%
General revenues							
Property taxes	16,902	17,146	-	-	16,902	17,146	1.44%
Road & Bridge privilege taxes	974	994	-	-	974	994	2.05%
Other	3,417	2,296	51	3	3,468	2,299	-33.71%
Total Revenues	\$ 28,533	33,775	\$ 2,130	2,057	\$ 30,663	35,832	16.86%
Expenses:							
General government	9,665	9,669	-	-	9,665	9,669	0.04%
Public safety	9,443	9,497	-	-	9,443	9,497	0.57%
Public works	15,407	16,019	-	-	15,407	16,019	3.97%
Health and welfare	1,104	1,071	-	-	1,104	1,071	-2.99%
Culture and recreation	1,272	1,285	-	-	1,272	1,285	1.02%
Education	13	13	-	-	13	13	0.00%
Conservation of natural resources	251	254	-	-	251	254	1.19%
Economic development	499	342	-	-	499	342	-31.46%
Interest on long-term debt	765	916	-	-	765	916	19.74%
Solid waste collection & disposal	-	-	2,237	2,228	2,237	2,228	-0.40%
Turner Ind. Park water & sewer	-	-	85	88	85	88	3.53%
Total Expenses	\$ 38,419	39,066	\$ 2,322	2,316	\$ 40,741	41,382	1.57%
Deficiency before transfers	(9,886)	(5,291)	(192)	(259)	(10,078)	(5,550)	44.93%
Transfers	(163)	(300)	163	300	-	-	
Increase (Decrease) in Net Position	\$ (10,049)	(5,591)	\$ (29)	41	\$ (10,078)	(5,550)	44.93%

*As restated; see Note 2 to financial statements for more information

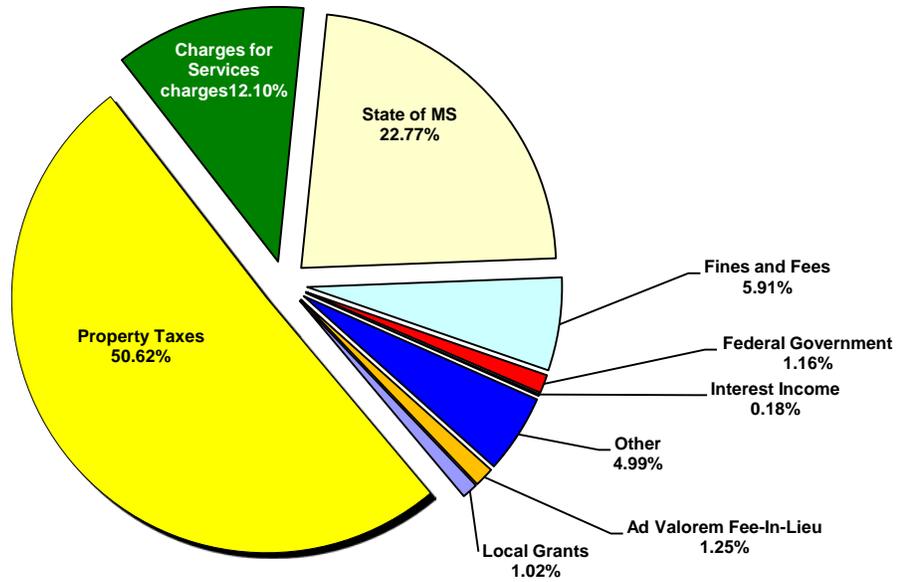
MANAGEMENT'S DISCUSSION AND ANALYSIS

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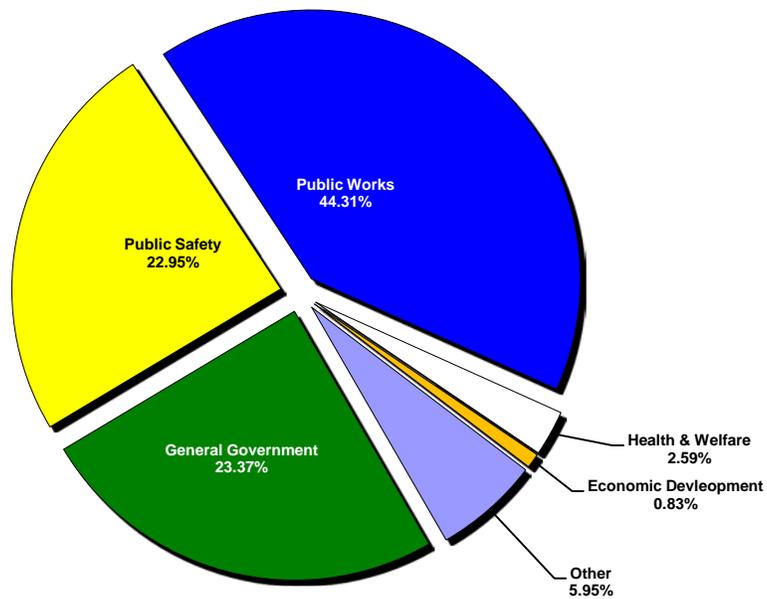
GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Governmental Activities – The following table presents the cost of six major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare, Culture and Recreation, 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
	<u>2012*</u>	<u>2013</u>	<u>Change</u> <u>2012-2013</u>	<u>2012*</u>	<u>2013</u>	<u>Change</u> <u>2012-2013</u>
General Government	\$ 9,664,688	9,668,946	0.04%	\$ 7,037,622	7,292,014	3.61%
Public Safety	9,443,113	9,497,225	0.57%	6,733,106	6,624,328	-1.62%
Public Works	15,407,069	16,019,262	3.97%	14,522,292	10,626,621	-26.83%
Health & Welfare	1,104,308	1,070,674	-3.05%	515,359	492,346	-4.47%
Culture and Recreation	1,272,201	1,285,484	1.04%	1,272,201	1,285,484	1.04%
Economic Development	498,432	341,644	-31.46%	70,170	189,915	170.65%

*As restated; see Note 2 to financial statements for more information

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 \$13,992,916, an increase of \$722,774, from the beginning fund balance, as restated. The primary reason for this increase was the issuance of long-term debt.

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 \$1,893,469. This decrease in fund balance was also due to cash reserves being used to maintain the level of service in a down economic time to avoid a tax rate increase as well as the retirement of debt.

Business-type funds – Revenue from the Solid Waste Collection and Disposal Fund decreased by 3.43% to \$1,945,209 and expenses decreased 0.42% to \$2,228,010. Chief factors contributing to these results include a lower fee collection rate from the users and a slight decrease in expenditures for materials and supplies. The County's other business-type fund, the Turner Industrial Park Water and Sewer Fund's revenue decreased by 3.17% to \$112,048 and expenses increased by 4.10% to \$87,977.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

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 special revenue funds is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2013, Lee County's total capital assets was \$317,694,149. 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 \$8,559,639 or 2.77%.

Total accumulated depreciation as of September 30, 2013 was \$166,611,094, including \$10,374,976 of depreciation expense for the year. The balance in total net capital assets was \$151,083,055 at year-end.

Additional information on Lee County's capital assets can be found in note 7 on pages 53-55 of this report.

Debt Administration – At September 30, 2013, Lee County had \$24,995,228 in long-term debt outstanding. This includes general obligation bonds, other loans and compensated absences. Of this debt, \$2,292,303 is due within one year.

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, 2013, was equal to 1.20% of the latest property assessment, significantly below the 15% limitation.

Additional information on Lee County's long-term debt can be found in note 11 on pages 59-61 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

In November 2011, Lee County, along with PUL Alliance partners Union and Pontotoc Counties, celebrated the start of production of the Toyota Corolla at the Toyota Motor Manufacturing Mississippi (TMMMS) facility located at the Wellspring Site in Blue Springs, MS.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

CURRENT AND FUTURE ITEMS OF IMPACT - Continued

December 18, 2008, 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 known as "Lee County Plus" to both new and existing industries locating or expanding in the county.

Total budgeted revenues increased for the next fiscal year by \$4,638,892 or 13.90% and total budgeted expenditures increased \$9,184,069 or 24.28%. The County expects to have a decrease in net position for the next fiscal year.

As of September 2013, Lee County had an unemployment rate of 8.5%. This was slightly higher than the state average of 8.4%. By February 2014, both Lee County's rate and the state's rate had improved to 7.8% and 8.0%, respectively.

In August 2013, the county issued general obligation bonds, series 2013 in the principal amount of \$7,985,000 to fund a replacement of the countywide emergency radio infrastructure and end-user radios. The bonds will be repaid from the general fund. With the issuance of these bonds, the county found it necessary to increase the millage rate from 38.77 to 40.27 mills for the 2014 year, an increase of 3.87%.

In September 2014, the Lee County enterprise operated as Turner Industrial Park, was sold to the City of Saltillo.

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.

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PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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Lee County, Mississippi
Statement of Net Position
September 30, 2013

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash	\$ 10,729,332	\$ 277,876	\$ 11,007,208
Investments	8,316,395	-0-	8,316,395
Accrued interest receivable	6,408	-0-	6,408
Property tax receivable	14,754,212	-0-	14,754,212
Accounts receivable, (net of allowance for uncollectibles of \$ 1,270,534)	-0-	254,373	254,373
Fines receivable, (net of allowance for uncollectibles of \$ 6,660,346)	662,801	-0-	662,801
Intergovernmental receivables	1,303,504	30,904	1,334,408
Other receivables	214,738	143,715	358,453
Internal balances	456,113	(456,113)	-0-
Ad valorem tax fee in-lieu receivable, net	9,165,783	-0-	9,165,783
Deferred charges - issuance costs	756,807	14,380	771,187
Capital assets:			
Land and construction in progress	8,490,543	47,746	8,538,289
Other capital assets, net	141,520,980	1,023,786	142,544,766
Total Assets	\$ 196,377,616	\$ 1,336,667	\$ 197,714,283
LIABILITIES			
Claims payable	\$ 4,187,553	\$ 110,970	\$ 4,298,523
Intergovernmental payables	1,039,770	38	1,039,808
Accrued interest payable	207,269	-0-	207,269
Deferred revenue	14,770,938	-0-	14,770,938
Unearned revenue	-0-	180,687	180,687
Claims and judgements	466,743	-0-	466,743
Other payables	908,310	-0-	908,310
Long-term liabilities			
Due within one year:			
Capital related debt	1,720,030	40,390	1,760,420
Non-capital related debt	513,094	18,789	531,883
Due in more than one year:			
Capital related debt	12,068,025	155,530	12,223,555
Non-capital related debt	10,350,909	128,461	10,479,370
Total Liabilities	\$ 46,232,641	\$ 634,865	\$ 46,867,506
NET POSITION			
Net investment in capital assets	\$ 136,223,468	\$ 875,612	\$ 137,099,080
Restricted for:			
Expendable:			
General government	747,025	-0-	747,025
Debt service	156,047	-0-	156,047
Public safety	3,836,737	-0-	3,836,737
Public works	2,954,513	281,216	3,235,729
Economic development	17,399	-0-	17,399
Unrestricted	6,209,786	(455,026)	5,754,760
Total Net Position	\$ 150,144,975	\$ 701,802	\$ 150,846,777

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

Lee County, Mississippi
Statement of Activities
For the Year Ended September 30, 2013

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 9,668,946	\$ 2,053,932	\$ 323,000	\$ -0-	\$ (7,292,014)	\$ -0-	\$ (7,292,014)
Public safety	9,497,225	2,317,316	434,612	120,969	(6,624,328)	-0-	(6,624,328)
Public works	16,019,262	27,409	1,176,872	4,188,360	(10,626,621)	-0-	(10,626,621)
Health and welfare	1,070,674	-0-	578,328	-0-	(492,346)	-0-	(492,346)
Culture and recreation	1,285,484	-0-	-0-	-0-	(1,285,484)	-0-	(1,285,484)
Education	13,370	-0-	-0-	-0-	(13,370)	-0-	(13,370)
Conservation of natural resources	253,736	-0-	-0-	-0-	(253,736)	-0-	(253,736)
Economic development and assistance	341,644	-0-	-0-	151,729	(189,915)	-0-	(189,915)
Interest on long-term debt	916,063	-0-	-0-	-0-	(916,063)	-0-	(916,063)
Total Governmental Activities	\$ 39,066,404	\$ 4,398,657	\$ 2,512,812	\$ 4,461,058	\$ (27,693,877)	\$ -0-	\$ (27,693,877)
Business-type activities:							
Solid waste	\$ 2,228,010	\$ 1,942,654	\$ -0-	\$ -0-	\$ -0-	\$ (285,356)	\$ (285,356)
Turner Park	87,977	111,606	-0-	-0-	-0-	23,629	23,629
Total Business-type Activities	\$ 2,315,987	\$ 2,054,260	\$ -0-	\$ -0-	\$ -0-	\$ (261,727)	\$ (261,727)
Total Primary Government	\$ 41,382,391	\$ 6,452,917	\$ 2,512,812	\$ 4,461,058	\$ (27,693,877)	\$ (261,727)	\$ (27,955,604)
General revenues:							
Taxes:							
Property taxes					\$ 17,145,637	\$ -0-	\$ 17,145,637
Road & bridge privilege taxes					994,239	-0-	994,239
Ad Valorem tax fee-in-lieu revenue					446,357	-0-	446,357
Grants and contributions not restricted to specific programs					1,966,894	-0-	1,966,894
Unrestricted investment income					63,361	540	63,901
Miscellaneous					1,786,753	2,457	1,789,210
Transfers					(300,456)	300,456	-0-
Total General Revenues					\$ 22,102,785	\$ 303,453	\$ 22,406,238
Changes in Net Position					\$ (5,591,092)	\$ 41,726	\$ (5,549,366)
Net Position - Beginning					\$ 155,652,107	\$ 660,076	\$ 156,312,183
Prior period adjustments					83,960	-0-	83,960
Net Position - Beginning, as restated					\$ 155,736,067	\$ 660,076	\$ 156,396,143
Net Position - Ending					\$ 150,144,975	\$ 701,802	\$ 150,846,777

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

Lee County, Mississippi
Balance Sheet - Governmental Funds
September 30, 2013

Exhibit 3

	Major Funds					Total Governmental Funds
	General Fund	County Wide Road Fund	County Wide Bridge Fund	County Wide Radio system Fund	Other Governmental Funds	
ASSETS						
Cash	\$ 2,848,638	\$ 694,731	\$ 25,588	\$ 6,087,477	\$ 1,072,898	\$ 10,729,332
Investments	6,017,298	1,558,402	740,695	-0-	-0-	8,316,395
Accrued interest receivable	4,449	1,346	613	-0-	-0-	6,408
Property tax receivable	10,267,377	2,064,209	1,728,677	-0-	693,949	14,754,212
Fines receivable (net of allowance for uncollectibles of \$ 6,660,346)	662,801	-0-	-0-	-0-	-0-	662,801
Intergovernmental receivables	699,542	149,614	-0-	-0-	55,537	904,693
Other receivables	97,512	260	-0-	-0-	101,304	199,076
Due from other funds	108,266	101,386	20,519	-0-	523	230,694
Advances to other funds	347,847	-0-	-0-	-0-	-0-	347,847
Total Assets	<u>\$ 21,053,730</u>	<u>\$ 4,569,948</u>	<u>\$ 2,516,092</u>	<u>\$ 6,087,477</u>	<u>\$ 1,924,211</u>	<u>\$ 36,151,458</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 937,977	\$ 303,034	\$ 16,468	\$ 2,792,040	\$ 138,035	\$ 4,187,554
Intergovernmental payables	901,181	19,139	-0-	-0-	48,657	968,977
Due to other funds	193,219	-0-	-0-	-0-	-0-	193,219
Deferred revenue	10,930,178	2,064,209	1,728,677	-0-	710,675	15,433,739
Unearned revenue	-0-	-0-	-0-	-0-	-0-	-0-
Claims and judgments	466,743	-0-	-0-	-0-	-0-	466,743
Other payables	908,310	-0-	-0-	-0-	-0-	908,310
Total Liabilities	<u>\$ 14,337,608</u>	<u>\$ 2,386,382</u>	<u>\$ 1,745,145</u>	<u>\$ 2,792,040</u>	<u>\$ 897,367</u>	<u>\$ 22,158,542</u>
Fund balances:						
Nonspendable:						
Advances	\$ 347,847	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 347,847
Restricted for:						
General government	342,582	-0-	-0-	-0-	404,443	747,025
Public safety	27,138	-0-	-0-	3,295,437	514,162	3,836,737
Public works	-0-	2,183,566	770,947	-0-	-0-	2,954,513
Economic development and assistance	-0-	-0-	-0-	-0-	17,399	17,399
Debt service	-0-	-0-	-0-	-0-	156,047	156,047
Unassigned	5,998,555	-0-	-0-	-0-	(65,207)	5,933,348
Total Fund Balances	<u>\$ 6,716,122</u>	<u>\$ 2,183,566</u>	<u>\$ 770,947</u>	<u>\$ 3,295,437</u>	<u>\$ 1,026,844</u>	<u>\$ 13,992,916</u>
Total Liabilities and Fund Balances	<u>\$ 21,053,730</u>	<u>\$ 4,569,948</u>	<u>\$ 2,516,092</u>	<u>\$ 6,087,477</u>	<u>\$ 1,924,211</u>	<u>\$ 36,151,458</u>

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

Lee County, Mississippi
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2013

Exhibit 3-1

	Amount
Total Fund Balance - Governmental Funds	\$ 13,992,916
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$165,095,329.	150,011,523
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fines receivable	662,801
Deferred charges	756,807
Accrued receivables that are not available to pay for current expenditures and therefore are not record in the funds.	9,580,255
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	
Long-term liabilities	(24,652,058)
Accrued interest on debt	(207,269)
Total Net Position - Governmental Activities	\$ 150,144,975

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

Lee County, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2013

Exhibit 4

	Major Funds					Total Governmental Funds
	General Fund	County Wide Road Fund	County Wide Bridge Fund	County Wide Radio system Fund	Other Governmental Funds	
REVENUES						
Property taxes	\$ 11,994,924	\$ 2,536,212	\$ 2,061,980	\$ -0-	\$ 1,535,853	\$ 18,128,969
Road and bridge privilege taxes	-0-	994,239	-0-	-0-	-0-	994,239
Licenses, commissions and other revenue	1,420,801	5,660	-0-	-0-	25,250	1,451,711
Fines and forfeitures	713,655	-0-	-0-	-0-	14,426	728,081
Intergovernmental revenues	3,336,485	3,723,795	1,166,135	-0-	374,445	8,600,860
Charges for services	798,256	26,406	-0-	-0-	1,309,393	2,134,055
Interest income	44,411	11,871	6,620	-0-	458	63,360
Miscellaneous revenues	382,676	56	3,899	-0-	1,392,607	1,779,238
Total Revenues	<u>\$ 18,691,208</u>	<u>\$ 7,298,239</u>	<u>\$ 3,238,634</u>	<u>\$ -0-</u>	<u>\$ 4,652,432</u>	<u>\$ 33,880,513</u>
EXPENDITURES						
Current:						
General government	\$ 8,866,358	\$ -0-	\$ -0-	\$ -0-	\$ 228,769	\$ 9,095,127
Public safety	7,375,531	-0-	-0-	4,301,251	2,097,693	13,774,475
Public works	-0-	7,934,594	3,528,576	-0-	-0-	11,463,170
Health and welfare	1,068,343	-0-	-0-	-0-	-0-	1,068,343
Culture and recreation	948,007	-0-	-0-	-0-	294,083	1,242,090
Conservation of natural resources	249,836	-0-	-0-	-0-	-0-	249,836
Economic development and assistance	263,091	-0-	-0-	-0-	10,200	273,291
Debt service:						
Principal	108,162	185,020	95,948	-0-	2,626,162	3,015,292
Interest	123,813	29,947	17,943	-0-	633,806	805,509
Issue cost	388,945	-0-	-0-	-0-	-0-	388,945
Total Expenditures	<u>\$ 19,392,086</u>	<u>\$ 8,149,561</u>	<u>\$ 3,642,467</u>	<u>\$ 4,301,251</u>	<u>\$ 5,890,713</u>	<u>\$ 41,376,078</u>
Excess of Revenues over (under) Expenditures	<u>\$ (700,878)</u>	<u>\$ (851,322)</u>	<u>\$ (403,833)</u>	<u>\$ (4,301,251)</u>	<u>\$ (1,238,281)</u>	<u>\$ (7,495,565)</u>

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

Lee County, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2013
- Continued -

Exhibit 4

	Major Funds					Total Governmental Funds
	General Fund	County Wide Road Fund	County Wide Bridge Fund	County Wide Radio system Fund	Other Governmental Funds	
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued	\$ 8,111,155	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ 8,111,155
Proceeds from sale of capital assets	-0-	346,640	-0-	-0-	-0-	346,640
Compensation for loss of capital assets	-0-	61,000	-0-	-0-	-0-	61,000
Transfers in	-0-	-0-	-0-	7,596,688	1,406,602	9,003,290
Transfers out	(9,303,746)	-0-	-0-	-0-	-0-	(9,303,746)
Total Other Financing Sources and Uses	<u>\$ (1,192,591)</u>	<u>\$ 407,640</u>	<u>\$ -0-</u>	<u>\$ 7,596,688</u>	<u>\$ 1,406,602</u>	<u>\$ 8,218,339</u>
Net Changes in Fund Balances	<u>\$ (1,893,469)</u>	<u>\$ (443,682)</u>	<u>\$ (403,833)</u>	<u>\$ 3,295,437</u>	<u>\$ 168,321</u>	<u>\$ 722,774</u>
Fund Balances - Beginning	\$ 8,609,591	\$ 2,627,248	\$ 1,174,780	\$ -0-	\$ 774,563	\$ 13,186,182
Prior period adjustments	-0-	-0-	-0-	-0-	83,960	83,960
Fund Balances - Beginning, as restated	<u>8,609,591</u>	<u>2,627,248</u>	<u>1,174,780</u>	<u>-0-</u>	<u>858,523</u>	<u>13,270,142</u>
Fund Balances - Ending	<u>\$ 6,716,122</u>	<u>\$ 2,183,566</u>	<u>\$ 770,947</u>	<u>\$ 3,295,437</u>	<u>\$ 1,026,844</u>	<u>\$ 13,992,916</u>

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

Lee County, Mississippi
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, 2013

Exhibit 4-1

Net Changes in Fund Balances - Governmental Funds	\$	722,774
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>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 position differs from the change in fund balances by the amount that depreciation of \$10,231,326 exceeded capital outlays of \$9,464,027 in the current period.</p>		(767,299)
<p>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 position differs from the change in fund balances by the amount of the net loss of \$232,501 and the proceeds from the sale of \$346,640 in the current period.</p>		(579,141)
<p>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.</p>		10,228
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Ad valorem tax fee-in-lieu		(536,976)
Intergovernmental revenue		414,472
<p>Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 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 position differs from the change in fund balances by the amount that debt proceeds of \$8,111,155 and bond issuance and discount amortization cost of \$72,820 exceed debt repayments of \$3,015,292, capitalization of bond issuance cost of \$388,945 and bond premium amortization of \$11,657</p>		(4,768,081)
<p>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 position differs from the change in fund balances by a combination of the following items:</p>		
(Increase)/Decrease in Accrued Interest		(49,391)
(Increase)/Decrease in Compensated Absences		(37,678)
Change in Net Position of Governmental Activities	\$	<u>(5,591,092)</u>

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

Lee County, Mississippi
Statement of Net Position - Proprietary Funds
September 30, 2013

Exhibit 5

	Business - Type Activities Enterprise Funds		
	Solid Waste	Turner Park	Total
	Fund	Fund	
ASSETS			
Current assets:			
Cash	\$ 707	\$ 277,169	\$ 277,876
Accounts receivable, (net of allowance for uncollectibles of \$ 1,270,534)	243,487	10,886	254,373
Intergovernmental receivables	30,904	-0-	30,904
Other receivables	143,715	-0-	143,715
Total Current Assets	<u>\$ 418,813</u>	<u>\$ 288,055</u>	<u>\$ 706,868</u>
Noncurrent assets:			
Deferred charges - bond issuance costs	\$ 14,380	\$ -0-	\$ 14,380
Capital assets:			
Land	47,746	-0-	47,746
Other capital assets, net	911,621	112,165	1,023,786
Total Noncurrent Assets	<u>\$ 973,747</u>	<u>\$ 112,165</u>	<u>\$ 1,085,912</u>
Total Assets	<u>\$ 1,392,560</u>	<u>\$ 400,220</u>	<u>\$ 1,792,780</u>
LIABILITIES			
Current liabilities:			
Claims payable	\$ 104,169	\$ 6,801	\$ 110,970
Intergovernmental payables	-0-	38	38
Due to other funds	108,266	-0-	108,266
Advances from other funds	347,847	-0-	347,847
Unearned revenue	180,687	-0-	180,687
Current portions of long-term capital related debt:			
Other long-term liabilities	36,182	4,208	40,390
Current portions of long-term non-capital related debt:			
Other long-term liabilities	18,789	-0-	18,789
Total Current Liabilities	<u>\$ 795,940</u>	<u>\$ 11,047</u>	<u>\$ 806,987</u>
Noncurrent liabilities:			
Capital related debt:			
Other long-term liabilities	\$ 155,530	\$ -0-	\$ 155,530
Non-capital related debt:			
Compensated absences payable	47,695	-0-	47,695
Other long-term liabilities	80,766	-0-	80,766
Total Noncurrent Liabilities	<u>\$ 283,991</u>	<u>\$ -0-</u>	<u>\$ 283,991</u>
Total Liabilities	<u>\$ 1,079,931</u>	<u>\$ 11,047</u>	<u>\$ 1,090,978</u>
NET POSITION			
Net investment in capital assets	\$ 767,655	\$ 107,957	\$ 875,612
Restricted for public works	-0-	281,216	281,216
Unrestricted	(455,026)	-0-	(455,026)
Total Net Position	<u>\$ 312,629</u>	<u>\$ 389,173</u>	<u>\$ 701,802</u>

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

**Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Year Ended September 30, 2013**

	Business-type Activities Enterprise Funds		
	Solid Waste Fund	Turner Park Fund	Total
Operating Revenues			
Charges for services	\$ 1,942,654	\$ 111,606	\$ 2,054,260
Miscellaneous	2,457	-0-	2,457
Total Operating Revenues	\$ 1,945,111	\$ 111,606	\$ 2,056,717
Operating Expenses			
Personal services	\$ 896,663	\$ 2,351	\$ 899,014
Contractual services	730,312	80,254	810,566
Materials and supplies	396,584	42	396,626
Depreciation expense	142,568	1,082	143,650
Indirect administrative cost	41,744	3,964	45,708
Total Operating Expenses	\$ 2,207,871	\$ 87,693	\$ 2,295,564
Operating Income (Loss)	\$ (262,760)	\$ 23,913	\$ (238,847)
Nonoperating Revenues (Expenses)			
Interest income	\$ 98	\$ 442	\$ 540
Amortization expense	(2,397)	-0-	(2,397)
Interest expense	(17,742)	(284)	(18,026)
Net Nonoperating Revenue (Expenses)	\$ (20,041)	\$ 158	\$ (19,883)
Net Income (Loss) Before Transfers	\$ (282,801)	\$ 24,071	\$ (258,730)
Transfers in	300,456	-0-	300,456
Changes in Net Position	\$ 17,655	\$ 24,071	\$ 41,726
Net Position - Beginning	\$ 294,974	\$ 365,102	\$ 660,076
Net Position - Ending	\$ 312,629	\$ 389,173	\$ 701,802

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

Lee County, Mississippi
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2013

Exhibit 7

	Business-type Activities Enterprise Funds		
	Solid Waste Fund	Turner Park Fund	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 1,925,918	\$ 107,629	\$ 2,033,547
Payments to suppliers	(1,114,185)	(78,678)	(1,192,863)
Payments to employees	(909,216)	(2,351)	(911,567)
Payments to general fund for indirect costs	(41,744)	(3,964)	(45,708)
Other operating cash receipts	2,457	-0-	2,457
Net Cash Provided (Used) by Operating Activities	\$ (136,770)	\$ 22,636	\$ (114,134)
Cash Flows From Noncapital Financing Activities			
Cash received from other funds:			
Operating transfers in	\$ 300,456	\$ -0-	\$ 300,456
Loans from other funds	222,979	-0-	222,979
Cash paid to other funds:			
Interfund loan repayments	(81,533)	-0-	(81,533)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ 441,902	\$ -0-	\$ 441,902
Cash Flows From Capital and Related Financing Activities			
Acquisition of capital assets	\$ (233,031)	\$ -0-	\$ (233,031)
Principal paid on long-term debt	(54,151)	(9,759)	(63,910)
Interest paid on debt	(17,742)	(284)	(18,026)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (304,924)	\$ (10,043)	\$ (314,967)
Cash Flows From Investing Activities			
Interest and dividends on investments	\$ 98	\$ 442	\$ 540
Net Cash Provided (Used) by Investing Activities	\$ 98	\$ 442	\$ 540
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 306	\$ 13,035	\$ 13,341
Cash and Cash Equivalents at Beginning of Year	401	264,134	264,535
Cash and Cash Equivalents at End of Year	\$ 707	\$ 277,169	\$ 277,876
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (262,760)	\$ 23,913	\$ (238,847)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	\$ 142,568	\$ 1,082	\$ 143,650
Provision for uncollectible accounts	44,711	16,231	60,942
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(29,891)	(20,208)	(50,099)
(Increase) decrease in intergovernmental receivables	(20,740)	-0-	(20,740)
(Increase) decrease in other receivables	1,776	-0-	1,776
Increase (decrease) in claims payable	(2,287)	4,160	1,873
Increase (decrease) in intergovernmental payables	-0-	(2,542)	(2,542)
Increase (decrease) in compensated absences liability	2,445	-0-	2,445
Increase (decrease) in unearned revenue	(12,592)	-0-	(12,592)
Total Adjustments	\$ 125,990	\$ (1,277)	\$ 124,713
Net Cash Provided (Used) by Operating Activities	\$ (136,770)	\$ 22,636	\$ (114,134)

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

Lee County, Mississippi
Statement of Fiduciary Assets and Liabilities
September 30, 2013

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 573,680
Due from other funds	70,791
Other receivables	<u>12,992</u>
Total Assets	<u>\$ 657,463</u>
LIABILITIES	
Intergovernmental payables	\$ <u>657,463</u>
Total Liabilities	<u>\$ 657,463</u>

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

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LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(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 accordance 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, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation

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

Government-wide Financial Statements

The Statement of Net Position 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 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 Position 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 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 as Other Governmental Funds.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

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

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

The county reports the following major governmental funds:

General Fund – This fund is used to account for and report all financial resources not accounted for and reported in another fund.

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

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

Countywide Radio System Fund – This fund is used to account for monies from a specific revenue source that are restricted for the construction of the E-911 radio system.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 Park 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Debt Service Funds – These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Capital Projects Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

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 2012 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, and all certificates of deposit and cash equivalents, which are short-term, highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value.

F. Receivables

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

G. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements, and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as “due to/from other funds.” Noncurrent portions of interfund receivables and payables are reported as “advances to/from other funds.” Advances between funds, as reported in the fund financial statement, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

H. Capital Assets

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

H. Capital Assets (Continued)

historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

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

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

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

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

I. Long-Term Liabilities

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

I. Long-Term Liabilities (continued)

In the government-wide financial statements and in the Proprietary Fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Position. 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 Position and displayed in three components:

Net invested in capital assets – 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 position – Consists of net position 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 position – All other net positions not meeting the definition of “restricted” or “net invested in capital assets.”

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

J. Equity Classifications (continued)

Fund Financial Statements:

Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amount in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. The following are descriptions of fund classifications used by the county.

Nonspendable fund balance includes amounts that cannot be spent. This includes amounts that are either not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds from the collection of those receivable or from the sale of those properties are restricted, committed or assigned) or amounts that are legally or contractually required to be maintained intact, such as principal balance of a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund. The General Fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds if expenditures incurred for specific purposed exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the County's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

K. Property Tax Revenues

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

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

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

L. Intergovernmental Revenues in Governmental Funds

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

M. Compensated Absences

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and 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.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

N. Deferred Revenue

Deferred revenue represents real property tax revenues levied for the ensuing fiscal year.

(2) Prior Period Adjustments

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activites

<u>Explanation</u>	<u>Amount</u>
Intergovernmental receivable adjustment	\$ 83,960
Total	\$ <u>83,960</u>

Exhibit 4 - Statement of Revenues, Expenditures and changes in Fund Balance -
Governmental Funds

<u>Explanation</u>	<u>Amount</u>
Intergovernmental receivable adjustment - IDEA Phase 2	\$ 83,960
Total	\$ <u>83,960</u>

(3) Deposits and Investments

Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2013, was \$11,580,888 and the bank balance was \$14,322,024. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(3) Deposits and Investments (continued)

Deposits (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, 2013, are as follows:

<u>Instrument Type</u>	<u>Maturities</u>		<u>Fair Value</u>	<u>Rating</u>
FNMA REMIC Trust	05/25/34	\$	397,507	AA+
Federal Farm Credit Bank	05/12/14		1,000,340	AA+
Federal Home Ln Bk	06/04/14		1,501,635	AA+
Federal Farm Credit Bank	07/25/14		1,000,420	AA+
Federal National Mtg Assn	01/20/15		1,000,800	AA+
Federal Farm Credit Bank	09/18/15		1,001,020	AA+
U.S. Treasury Notes	00/31/17		1,004,690	AA+
Federal Farm Credit Bank	09/18/17		506,130	AA+
Federal Home Ln Bk	01/30/18		488,128	AA+
U.S. Treasury Security	08/15/21		415,725	AA+
 Total		 \$	 <u><u>8,316,395</u></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.

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. None of the county’s investments were held by the investments’ counterparty on behalf of the county, not in the name of the county.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(4) Interfund Transactions and Balances

The following is a summary of interfund balances at September 30, 2013:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste	\$ 108,266
Countywide Road	General Fund	101,386
Countywide Bridge	General Fund	20,519
Other Governmental Funds	General Fund	523
Agency Funds	General Fund	70,791
Total		<u>\$ 301,485</u>

The receivable in the General Fund represents a temporary loan. The payables from the General Fund are the tax revenues collected but not settled until October 2013. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste	\$ 347,847
Total		<u>\$ 347,847</u>

The advance from the General Fund (Hospital Sale Fund) represents a loan to the Solid Waste Fund for an equipment purchase. The advance is expected to be repaid over the next five years.

C. Transfer In/Out

Transfer In	Transfer Out	Amount
County Wide Radio System	General Fund	7,596,688
Other Governmental Funds	General Fund	1,406,602
Solid Waste	General Fund	300,456
Total		<u>\$ 9,303,746</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, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(5) Intergovernmental Receivables

Intergovernmental receivables at September 30, 2013 consisted of the following:

A. Governmental Activities:

Description	Amount
Governmental Activities:	
Welfare	\$ 61,430
Legislative tag credit	427,846
Reimbursement for State Aid roads	112,062
Reimbursement for the housing of prisoners	95,285
Motor Vehicle Licenses	73,919
Motor Vehicle Fuel Tax	31,151
Other	103,000
Total Governmental Activities - Exhibit 3	\$ 904,693
T.V.A. In Lieu of Tax	267,491
Reimbursement for the housing of prisoners	73,580
Other	57,740
Total Governmental Activities - Exhibit 1	\$ 1,303,504
Business-type Activities:	
Solid waste fees	\$ 30,904

(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, 2001, 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 was made in January, 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.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

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

Ad valorem tax fee in lieu receivable at September 30, 2013, is as follows:

Ad valorem tax fee in-lieu receivable	\$	<u>7,925,387</u>
Due in one to five years	\$	4,166,667
Due in six to ten years		4,166,667
Due in eleven to fifteen years		<u>2,500,000</u>
Total	\$	10,833,334
Less: discount to present value		<u>(2,907,946)</u>
Net receivable	\$	<u>7,925,388</u>

Lee County entered into an Ad Valorem Tax Fee In-Lieu Agreement (Agreement) with the Mississippi Development Authority, the City of Baldwin and Auto Parts Manufacturing Mississippi, Inc. (APMM). The Agreement provides that APMM agrees to make an annual fee-in-lieu payment of \$150,000 to Lee County. The first fee payment was made in January, 2013, and subsequent fee payments shall be made on or before January 31 of each succeeding year for the term of the Fee-In-Lieu, which is 10 years. The Agreement shall expire after the January 2022 payment.

Ad valorem tax fee in lieu receivable at September 30, 2013, is as follows:

Ad valorem tax fee in-lieu receivable	\$	<u>1,240,394</u>
Due in one to five years	\$	750,000
Due in six to ten years		<u>600,000</u>
Total	\$	1,350,000
Less: discount to present value		<u>(109,605)</u>
Net receivable	\$	<u>1,240,395</u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(7) Capital Assets

The following is a summary of capital assets activity for the year ended September 30, 2013:

Governmental activities:

	<u>Balance</u> <u>Oct. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustment</u>	<u>Balance</u> <u>Sept. 30, 2013</u>
<u>Non-depreciable capital assets</u>					
Land	\$ 4,189,291	\$ -0-	\$ -0-	\$ -0-	\$ 4,189,291
Construction in progress	388,472	4,354,167	-0-	(441,387)	4,301,252
Total non-depreciable capital assets	<u>\$ 4,577,763</u>	<u>\$ 4,354,167</u>	<u>\$ -0-</u>	<u>\$ (441,387)</u>	<u>\$ 8,490,543</u>
<u>Depreciable capital assets</u>					
Infrastructure	\$ 250,748,833	\$ 3,911,066	\$ -0-	\$ -0-	\$ 254,659,899
Buildings	36,488,332	-0-	(324,500)	441,387	36,605,219
Improvements other than buildings	980,075	-0-	-0-	-0-	980,075
Mobile equipment	11,682,830	914,561	(687,726)	-0-	11,909,665
Furniture and equipment	1,989,609	284,233	(125,193)	-0-	2,148,649
Leased property under capital lease	312,802	-0-	-0-	-0-	312,802
Total depreciable assets	<u>\$ 302,202,481</u>	<u>\$ 5,109,860</u>	<u>\$ (1,137,419)</u>	<u>\$ 441,387</u>	<u>\$ 306,616,309</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	\$ 136,415,416	\$ 8,571,214	\$ -0-	\$ -0-	\$ 144,986,630
Buildings	9,178,686	712,864	(90,860)	-0-	9,800,690
Improvements other than buildings	496,263	31,788	-0-	-0-	528,051
Mobile equipment	7,624,026	754,165	(343,994)	-0-	8,034,197
Furniture and equipment	1,679,738	133,143	(123,424)	-0-	1,689,457
Leased property under capital lease	28,152	28,152	-0-	-0-	56,304
Total accumulated depreciation	<u>\$ 155,422,281</u>	<u>\$ 10,231,326</u>	<u>\$ (558,278)</u>	<u>\$ -0-</u>	<u>\$ 165,095,329</u>
Total depreciable capital assets, net	<u>\$ 146,780,200</u>	<u>\$ (5,121,466)</u>	<u>\$ (579,141)</u>	<u>\$ 441,387</u>	<u>\$ 141,520,980</u>
Governmental activities capital assets, net	<u>\$ 151,357,963</u>	<u>\$ (767,299)</u>	<u>\$ (579,141)</u>	<u>\$ -0-</u>	<u>\$ 150,011,523</u>

Adjustment is for capitalization of construction project.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(7) Capital Assets (Continued)

Business-type activities:

	<u>Balance</u> <u>Oct. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustment</u>	<u>Balance</u> <u>Sept. 30, 2013</u>
<u>Non-depreciable capital assets</u>					
Land	\$ 47,746	\$ -0-	\$ -0-	\$ -0-	\$ 47,746
Total non-depreciable capital assets	<u>\$ 47,746</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 47,746</u>
<u>Depreciable capital assets</u>					
Buildings	\$ 425,500	\$ -0-	\$ -0-	\$ -0-	\$ 425,500
Improvements other than buildings	137,129	-0-	-0-	-0-	137,129
Mobile equipment	1,714,484	222,979	-0-	-0-	1,937,463
Furniture and equipment	29,407	10,052	-0-	-0-	39,459
Total depreciable assets	<u>\$ 2,306,520</u>	<u>\$ 233,031</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 2,539,551</u>
<u>Less accumulated depreciation for:</u>					
Buildings	\$ 289,054	\$ 2,956	\$ -0-	\$ -0-	\$ 292,010
Improvements other than buildings	234,002	-0-	-0-	(124,300)	109,702
Mobile equipment	830,306	134,804	-0-	121,729	1,086,839
Furniture and equipment	18,753	5,890	-0-	2,571	27,214
Total accumulated depreciation	<u>\$ 1,372,115</u>	<u>\$ 143,650</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,515,765</u>
Total depreciable capital assets, net	<u>\$ 934,405</u>	<u>\$ 89,381</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,023,786</u>
Business type activities capital assets, net	<u>\$ 982,151</u>	<u>\$ 89,381</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 1,071,532</u>

Adjustment is for reclassification of prior depreciation amounts.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(7) Capital Assets (Continued)

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 434,235
Public safety	391,291
Public works	9,206,206
Health and welfare	1,820
Culture and recreation	112,151
Education	13,370
Conservation of natural resources	3,900
Economic development and assistance	68,353
Total governmental activities depreciation expense	\$ 10,231,326
Business-type activities:	
Solid Waste	\$ 142,568
Turner Park	1,082
Total business-type activities depreciation expense	\$ 143,650

Commitments with respect to unfinished capital projects at September 30, 2013, consisted of the following:

Description of Commitment	Remaining Financial commitment	Expected Date of Completion
911 Countywide radio system	\$ 3,244,803	November 2014

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(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, 2013, to January 1, 2014. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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 \$60,000, and the aggregate policy covers all submitted claims in excess of \$60,000. 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 2012 and 2013:

	<u>2012</u>	<u>2013</u>
Unpaid Claims, Beginning of Fiscal Year	\$ 204,792	\$ 457,999
Plus: Incurred Claims (Including IBNRs)	3,312,870	3,538,926
Less: Claims Payments	<u>(3,059,663)</u>	<u>(3,530,182)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 457,999</u>	<u>\$ 466,743</u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(9) Operating Leases

As Lessor:

The county receives income from property it leases under noncancellable operating leases. Total income from such leases was \$1,359,331 for the year ended September 30, 2013. The future minimum lease receivables for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 66,552
2015	66,552
2016	66,552
2017	66,552
2018	66,552
2019-2023	332,759
2024-2028	<u>293,937</u>
Total	<u>\$ 959,456</u>

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$243,180 for the year ended September 30, 2013. The future minimum lease payments for these leases are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2014	\$ 243,180
2015	243,180
2016	243,180
2017	<u>222,915</u>
Total	<u>\$ 952,455</u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(10) Capital Leases

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2013:

Class of Property	Governmental Activities
Mobile equipment	\$ <u>312,802</u>
Total	312,802
Less: Accumulated depreciation	<u>56,304</u>
Leased Property Under Capital Leases	<u><u>\$ 256,498</u></u>

The following is a schedule by years of the total payments due as of September 30, 2013:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2014	\$ 55,820	\$ 4,248
2015	57,145	2,922
2016	58,502	1,564
2017	<u>34,765</u>	<u>273</u>
Total	<u><u>\$ 206,232</u></u>	<u><u>\$ 9,007</u></u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(11) Long-term Debt

Debt outstanding as of September 30, 2013, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
2001 Refunding Bonds	\$ 705,000	3.20-4.50	12/1/13
Toyota Bonds	7,630,000	5.00-6.00	7/1/26
GO Bonds Series, 2011	1,483,732	2.00-3.75	10/1/18
911 Bonds, Series 2013	<u>7,985,000</u>	1.50-5.25	8/1/28
Total General Obligation Bonds	<u>\$ 17,803,732</u>		
B. Capital Leases:			
Asphalt paver	<u>\$ 206,232</u>	2.35	4/19/17
D. Other Loans:			
Capital improvements revolving loan	\$ 9,546	3.00	3/1/14
Capital improvements revolving loan	787,439	3.00	5/1/28
Capital improvements revolving loan	11,155	4.27	1/31/14
Capital improvements revolving loan	606,153	2.00	12/1/25
Noncap revolving loan	500,000	0.00	10/15/21
Certificates of participation	2,600,000	3.75	6/1/25
Capital improvements revolving loan	<u>1,456,522</u>	3.00	2/1/33
Total Other Loans	<u>\$ 5,970,815</u>		
Business-type Activities:			
A. General Obligation Bonds:			
GO Bonds Series, 2011	<u>\$ 291,267</u>	2.00-3.75	10/1/18
A. Other Loans			
Capital improvements revolving loan	<u>\$ 4,208</u>	3.00	3/1/14

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(11) Long-term Debt (Continued)

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

Governmental Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2014	\$ 1,850,028	\$ 749,127	\$ 340,087	\$ 175,951
2015	1,178,387	704,615	328,322	164,713
2016	1,211,746	665,638	342,370	153,916
2017	1,255,106	624,019	351,531	142,630
2018	1,303,465	577,837	365,809	131,039
2019-2023	5,605,000	2,188,944	2,507,552	466,313
2024-2028	5,400,000	735,527	1,331,801	146,604
2029-2033	-	-	403,343	27,289
Total	\$ <u>17,803,732</u>	\$ <u>6,245,707</u>	\$ <u>5,970,815</u>	\$ <u>1,408,455</u>

Business-type Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2014	\$ 54,971	\$ 8,219	\$ 4,208	\$ 32
2015	56,613	6,545	-	-
2016	58,254	4,822	-	-
2017	59,894	3,013	-	-
2018	61,535	1,038	-	-
Total	\$ <u>291,267</u>	\$ <u>23,637</u>	\$ <u>4,208</u>	\$ <u>32</u>

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2013, the amount of outstanding debt was equal to 1.20% of the latest property assessments.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(11) Long-term Debt (Continued)

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2013:

	<u>Balance</u> <u>Oct. 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>Sept. 30, 2013</u>	<u>Amount due</u> <u>within one year</u>
Governmental Activities:					
Compensated absences	\$ 802,850	\$ 37,678	\$ -0-	\$ 840,528	\$ -0-
General obligation bonds	11,164,581	7,985,000	1,345,849	17,803,732	1,850,028
Unamortized premiums	12,602	-0-	11,657	945	945
Unamortized discounts	(183,196)	-0-	(13,002)	(170,194)	(13,756)
Capital leases	260,754	-0-	54,522	206,232	55,820
Other loans	7,459,581	126,155	1,614,921	5,970,815	340,087
Totals	<u>\$ 19,517,172</u>	<u>\$ 8,148,833</u>	<u>\$ 3,013,947</u>	<u>\$ 24,652,058</u>	<u>\$ 2,233,124</u>
Business-type Activities:					
Compensated absences	\$ 45,250	\$ 2,445	\$ -0-	\$ 47,695	\$ -0-
General obligation bonds	345,418	-0-	54,151	291,267	54,971
Other loans	13,967	-0-	9,759	4,208	4,208
Totals	<u>\$ 404,635</u>	<u>\$ 2,445</u>	<u>\$ 63,910</u>	<u>\$ 343,170</u>	<u>\$ 59,179</u>

(12) Deficit Fund Balances of Individual Funds

The following funds reported deficit in fund balances at September 30, 2013:

<u>Fund</u>	<u>Deficit</u> <u>Amount</u>
Dare Training	\$ 4,821
Reappraisal Maintenance	\$ 28,424
2012 Bullet Proof Vest	\$ 2,792
LEPC Fund	\$ 644
Greater Shannon Fire	\$ 10,013
Agri-CenterFair Fund	\$ 28,896
TVA Investprep Turner Park	\$ 7,200
IDEA Phase 2	\$ 15,660

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(13) Contingencies

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

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

Solid Waste Revenue Refunding Bonds

Three Rivers Solid Waste Management Authority issued solid waste revenue bonds. 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 \$3,855,000 bonds balance at September 30, 2013, is \$540,471.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(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 2013.

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 \$46,605 for the support of the district in fiscal year 2013.

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 \$5,875,616 for the support and maintenance of the college in fiscal year 2013.

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 2013.

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 2013 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 \$60,524 for support of the district in fiscal year 2013.

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 2013.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2013

(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.

Funding Policy. At September 30, 2013, PERS members were required to contribute 9% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2013 was 15.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2013, 2012, and 2011, were \$1,686,998, \$1,452,291, and \$1,362,670, respectively, equal to the required contributions for each year.

(16) Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Lee County evaluated the activity of the county through October 1, 2014, (the date the financial statements were available to be issued), and determined that the following subsequent events had occurred requiring disclosure in the notes to the financial statements:

In May 2014, Lee County executed a promissory note in the amount of \$1,000,000 with a zero percent interest rate and due to be repaid in June 2015. The note will be repaid by intergovernmental revenue from storm debris removal reimbursements.

In September 2014, the Lee County enterprise operated as Turner Industrial Park was sold to the City of Saltillo, to be included and operated as part of their Water and Sewer system.

REQUIRED SUPPLEMENTARY INFORMATION

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Lee County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 11,529,676	\$ 12,612,336	\$ 12,612,336	\$ -0-
Licenses, commissions and other revenue	1,303,600	1,435,460	1,435,460	-0-
Fines and forfeitures	667,850	713,664	713,664	-0-
Intergovernmental revenues	2,940,275	3,337,486	3,337,486	-0-
Charges for services	891,400	857,584	857,584	-0-
Interest income	23,317	30,164	30,164	-0-
Miscellaneous revenues	383,856	357,603	357,603	-0-
Total Revenues	<u>\$ 17,739,974</u>	<u>\$ 19,344,297</u>	<u>\$ 19,344,297</u>	<u>\$ -0-</u>
EXPENDITURES				
Current:				
General government	\$ 9,447,917	\$ 9,095,055	\$ 9,095,055	\$ -0-
Public safety	7,490,190	7,395,324	7,395,324	-0-
Health and welfare	1,011,032	949,671	949,671	-0-
Culture and recreation	1,010,500	982,996	982,996	-0-
Conservation of natural resources	272,643	254,146	254,146	-0-
Economic development and assistance	288,986	269,423	269,423	-0-
Debt service:				
Principal	106,735	108,162	108,162	-0-
Interest	78,300	123,813	123,813	-0-
Total Expenditures	<u>\$ 19,706,303</u>	<u>\$ 19,178,590</u>	<u>\$ 19,178,590</u>	<u>\$ -0-</u>
Excess of Revenues over (under) Expenditures	<u>\$ (1,966,329)</u>	<u>\$ 165,707</u>	<u>\$ 165,707</u>	<u>\$ -0-</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	\$ 200	\$ 7,596,055	\$ 7,596,055	\$ -0-
Proceeds from sale of capital assets	4,000	-0-	-0-	-0-
Compensation for loss of capital assets	2,000	-0-	-0-	-0-
Transfers in	977,681	1,575	1,575	-0-
Transfers out	(2,976,948)	(9,303,746)	(9,303,746)	-0-
Total Other Financing Sources and Uses	<u>\$ (1,993,067)</u>	<u>\$ (1,706,116)</u>	<u>\$ (1,706,116)</u>	<u>\$ -0-</u>
Net Change in Fund Balance	(3,959,396)	(1,540,409)	(1,540,409)	-0-
Fund Balances - Beginning	<u>8,033,318</u>	<u>8,049,067</u>	<u>8,049,067</u>	<u>-0-</u>
Fund Balances - Ending	<u><u>\$ 4,073,922</u></u>	<u><u>\$ 6,508,658</u></u>	<u><u>\$ 6,508,658</u></u>	<u><u>\$ -0-</u></u>

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

Lee County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
County Wide Road Fund
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,437,166	\$ 2,630,955	\$ 2,630,955	\$ -0-
Licenses, commissions and other revenue	962,000	997,605	997,605	-0-
Fines and forfeitures	1,000	-0-	-0-	-0-
Intergovernmental revenues	995,000	741,500	741,500	-0-
Charges for services	5,100	27,149	27,149	-0-
Interest income	10,000	(1,016)	(1,016)	-0-
Miscellaneous revenues	1,300	56	56	-0-
Total Revenues	<u>\$ 4,411,566</u>	<u>\$ 4,396,249</u>	<u>\$ 4,396,249</u>	<u>\$ -0-</u>
EXPENDITURES				
Current:				
Public works	\$ 5,016,395	\$ 4,819,915	\$ 4,819,915	\$ -0-
Debt service:				
Principal	130,500	185,020	185,020	-0-
Interest	35,405	38,343	38,343	-0-
Total Expenditures	<u>\$ 5,182,300</u>	<u>\$ 5,043,278</u>	<u>\$ 5,043,278</u>	<u>\$ -0-</u>
Excess of Revenues over (under) Expenditures	<u>\$ (770,734)</u>	<u>\$ (647,029)</u>	<u>\$ (647,029)</u>	<u>\$ -0-</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of long-term capital debt	\$ 100	\$ -0-	\$ -0-	\$ -0-
Proceeds from sale of capital assets	15,000	39,800	39,800	-0-
Compensation for loss of capital assets	1,000	61,000	61,000	-0-
Transfers in	192,780	177,128	177,128	-0-
Total Other Financing Sources and Uses	<u>\$ 208,880</u>	<u>\$ 277,928</u>	<u>\$ 277,928</u>	<u>\$ -0-</u>
Net Change in Fund Balance	\$ (561,854)	\$ (369,101)	\$ (369,101)	\$ -0-
Fund Balances - Beginning	<u>671,199</u>	<u>2,613,901</u>	<u>2,613,901</u>	<u>-0-</u>
Fund Balances - Ending	<u>\$ 109,345</u>	<u>\$ 2,244,800</u>	<u>\$ 2,244,800</u>	<u>\$ -0-</u>

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

Lee County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
County Wide Bridge Fund
For the Year Ended September 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,002,654	\$ 2,139,162	\$ 2,139,162	\$ -0-
Intergovernmental revenue	48,000	140,090	140,090	-0-
Interest income	5,000	1,082	1,082	-0-
Miscellaneous income	550	3,899	3,899	-0-
Total Revenues	<u>\$ 2,056,204</u>	<u>\$ 2,284,233</u>	<u>\$ 2,284,233</u>	<u>\$ -0-</u>
EXPENDITURES				
Current:				
Public works	\$ 1,939,126	\$ 2,324,575	\$ 2,324,575	\$ -0-
Debt service:				
Principal	95,950	95,948	95,948	-0-
Interest	21,945	21,095	21,095	-0-
Total Expenditures	<u>\$ 2,057,021</u>	<u>\$ 2,441,618</u>	<u>\$ 2,441,618</u>	<u>\$ -0-</u>
Excess of Revenues over (under) Expenditures	<u>\$ (817)</u>	<u>\$ (157,385)</u>	<u>\$ (157,385)</u>	<u>\$ -0-</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	\$ 100	\$ -0-	\$ -0-	\$ -0-
Proceeds from sale of capital assets	100	-0-	-0-	-0-
Compensation for loss of capital assets	100	-0-	-0-	-0-
Transfers out	(192,780)	(177,128)	(177,128)	-0-
Total other financing sources (uses)	<u>\$ (192,480)</u>	<u>\$ (177,128)</u>	<u>\$ (177,128)</u>	<u>\$ -0-</u>
Net Change in Fund Balance	\$ (193,297)	\$ (334,513)	\$ (334,513)	\$ -0-
Fund Balances - Beginning	<u>898,872</u>	<u>1,092,964</u>	<u>1,092,964</u>	<u>-0-</u>
Fund Balances - Ending	<u><u>\$ 705,575</u></u>	<u><u>\$ 758,451</u></u>	<u><u>\$ 758,451</u></u>	<u><u>\$ -0-</u></u>

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

LEE COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2013

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 and the Tax Assessor and 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).

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

LEE COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2013

Notes to the Required Supplementary Information – Continued.

C. Budget/GAAP Reconciliation – Continued.

	<u>Governmental Fund Types</u>		
	<u>General Fund</u>	<u>County Wide Road Fund</u>	<u>County Wide Bridge Fund</u>
Budget (Cash Basis)	\$ (1,540,409)	\$ (369,101)	\$ (334,513)
Net adjustments for revenue	(139,564)	3,031,702	954,401
Net adjustments for expenditure	<u>(213,496)</u>	<u>(3,106,283)</u>	<u>(1,023,721)</u>
GAAP Basis	<u>\$ (1,893,469)</u>	<u>\$ (443,682)</u>	<u>\$ (403,833)</u>

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OTHER INFORMATION

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Lee County, Mississippi
 Schedule of Surety Bonds For County Officials
 For the Year Ended September 30, 2013
 "UNAUDITED"

NAME	POSITION	COMPANY	BOND
PHIL MORGAN	SUPERVISOR DISTRICT 1	TRAVELER'S	\$ 100,000.00
BOBBY SMITH	SUPERVISOR DISTRICT 2	TRAVELER'S	\$ 100,000.00
THOMAS DARRELL RANKIN	SUPERVISOR DISTRICT 3	TRAVELER'S	\$ 100,000.00
TOMMIE LEE IVY	SUPERVISOR DISTRICT 4	TRAVELER'S	\$ 100,000.00
BILLY JOE HOLLAND	SUPERVISOR DISTRICT 5	TRAVELER'S	\$ 100,000.00
JIMMIE H JOHNSON	SHERIFF	TRAVELER'S	\$ 100,000.00
WILLIAM H BENSON	CHANCERY CLERK	TRAVELER'S	\$ 100,000.00
JOYCE R LOFTIN	CIRCUIT CLERK	TRAVELER'S	\$ 100,000.00
PAT CARR	JUSTICE COURT JUDGE	TRAVELER'S	\$ 50,000.00
JOHN HOYT SHEFFIELD	JUSTICE COURT JUDGE	TRAVELER'S	\$ 50,000.00
SADIE M HOLLAND	JUSTICE COURT JUDGE	TRAVELER'S	\$ 50,000.00
RICKEY W THOMPSON	JUSTICE COURT JUDGE.	TRAVELER'S	\$ 50,000.00
SCOTTY DALE CLARK	CONSTABLE	TRAVELER'S	\$ 50,000.00
TED WOOD	CONSTABLE	TRAVELER'S	\$ 50,000.00
PHIL GANN	CONSTABLE	TRAVELER'S	\$ 50,000.00
TOM HENRY LYLES	CONSTABLE	TRAVELER'S	\$ 50,000.00
MARK G WEATHERS	TAX ASSESSOR	TRAVELER'S	\$ 50,000.00
LEROY E BELK, JR	TAX COLLECTOR	TRAVELER'S	\$ 100,000.00
JAMES D MOORE	COUNTY ATTORNEY	TRAVELER'S	\$ 50,000.00
CARL J SCHERFF	COUNTY SURVEYOR	TRAVELER'S	\$ 10,000.00
SEAN THOMPSON	COUNTY ADMINISTRATOR	TRAVELER'S	\$ 100,000.00
SEAN THOMPSON	PURCHASE CLERK	TRAVELER'S	\$ 75,000.00
MARIAN WEBB	INVENTORY CLERK	OHIO CASUALTY INSURANCE CO	\$ 75,000.00
LISA B BOX	RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 75,000.00
DENISE R FLANAGAN	ASSISSTANT PURCHASE CLERK	TRAVELER'S	\$ 50,000.00
TAMMY COWARD	ASSISSTANTT INVENTORY CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
TIMOTHY J ALLRED	ROAD MANAGER	TRAVELER'S	\$ 50,000.00
TAMMY RODGERS	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
JOYCE LOFTIN	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
KIM LOYD	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
DORIS CANTRELL	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
BRAD C BARNETT	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
MISTY HARTLINE	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
MARK WEATHERS	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
ROBBIE MONTGOMERY	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
JATARA S WOFFORD	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
JOHN A HALL	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
KAMISHA MCKINION	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
WILLIAM B KILGORE	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
AMY J SWAN	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
CASSANDRA J RUFF	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
KAREN BALINT	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
JANET CLARK	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
RICKEY D SMITH	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
L SEALS	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
SUSAN O CARR	ASSISSTANT RECEIVING CLERK	OHIO CASUALTY INSURANCE CO	\$ 50,000.00
MELANIE M WILSON	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
MACKENZIE BROWN	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
ROBERT A KOMAREC	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
JUDY THOMPSON	ASSISSTANT RECEIVING CLERK	TRAVELER'S	\$ 50,000.00
ELISE WILLIAMS	PAYROLL/BILL/PROCESS	OHIO CASUALTY INSURANCE CO	\$ 25,000.00

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SPECIAL REPORTS

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M. M. WINKLER & ASSOCIATES, PLLC

Certified Public Accountants

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

Members of the Board of Supervisors
Lee County, Mississippi

We have audited, in accordance with the 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, 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, 2013, and the related notes to the financial statements, which collectively comprise the county's basic financial statements and have issued our report thereon dated October 1, 2014. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the reporting entity that include the financial data for its component units.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lee County, Mississippi's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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 Lee County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the Schedule of Findings and Responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Responses as 2013-1 to be a material weakness.

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

- Continued -

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain immaterial instances of noncompliance which we have reported to the management of Lee County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated October 1, 2014, included within this document.

Lee County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. Lee County's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

M. M. Winkler & Associates, PLLC

October 1, 2014

M. M. WINKLER & ASSOCIATES, PLLC

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

Members of the Board of Supervisors
Lee County, Mississippi

We have examined Lee County, Mississippi's (the County) compliance with 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) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2013. The Board of Supervisors of Lee County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. 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. The instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses is disclosed below:

Inventory Control Clerk

Finding

As reported in prior year, section 31-7-107, Miss. Code Ann. (1972), requires inventory reports to be filed with the Board of Supervisors, in triplicate, with copies forwarded to the Office of State Auditor no later than October 15th of each year. The required reports were not filed timely.

Recommendation

The Inventory Control Clerk should file the inventory report as required each year.

Inventory Control Clerk's Response

We will comply.

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

-Continued-

Inventory Control Clerk

Finding

As reported in prior year, section 31-7-107, Miss. Code Ann. (1972), requires the county to establish and maintain an inventory control system. During our test of expenditures it was noted that some immaterial equipment purchases were not added to the fixed asset inventory records.

Recommendation

The County should establish procedures to insure all required fixed assets purchases are added to the fixed asset inventory records.

Inventory Control Clerk's Response

We will comply.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Lee County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2013.

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 examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

Lee County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

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.

M. M. Winkler & Associates, PLLC

October 1, 2014

LEE COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
For the Year Ended September 30, 2013

Schedule 1

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

LEE COUNTY, MISSISSIPPI
SCHEDULE OF EMERGENCY PURCHASES
For the Year Ended September 30, 2013

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
02/20/13	Bridge Repair	\$ 14,000	McBride Co.	Bridge Repair

LEE COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE
SOURCE

For the Year Ended September 30, 2013

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
11/29/2012	Printing and mailing of tax bills	\$ 15,900	Delta Computer Systems, Inc
07/02/2013	Fleet Management Software	\$ 15,624	Fleetmind

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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, 2013, 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 October 1, 2014, 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 the internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

This report is intended solely for the information and use of management, 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 specified parties. However, this report is a matter of public record and distribution is not limited.

M. M. Winkler & Associates, PLLC

October 1, 2014

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SCHEDULE OF FINDINGS AND RESPONSES

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LEE COUNTY, MISSISSIPPI
SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended September 30, 2013

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the government financial statements: | |
| | Governmental activities | Unmodified |
| | Business-type activities | Unmodified |
| | Aggregate discretely presented component units | Adverse |
| | Major funds: | |
| | General Fund | Unmodified |
| | County Wide Road Fund | Unmodified |
| | County Wide Bridge Fund | Unmodified |
| | County Wide Radio System Fund | Unmodified |
| | Aggregate remaining fund information | Unmodified |
| 2. | Internal control over financial reporting: | |
| | a. Material weakness(es) identified? | Yes |
| | b. Significant deficiency(ies) identified? | None Reported |
| 3. | Noncompliance material to the financial statements? | No |

Section 2: Financial Statement Findings

2013-1 Design Deficiency - Segregation of Duties (Material Weakness)

Condition: As reported in prior years, lack of segregation of duties within the payroll department.

Criteria: Management is responsible for establishing and maintaining effective internal controls to prevent and detect misstatements that could have a material effect on the financial statements.

Cause of Condition: The County only has one employee that performs all of the payroll functions.

Effect of Condition: This lack of segregation of duties in the payroll function increases the risk that a misstatement could occur and go undetected.

Recommendation: We recommend the county segregate duties of the payroll department, or implement some compensating controls in order to improve internal controls in this area.

Response: Due to the limited number of employees in the Payroll Department, we feel that implementing additional internal controls utilizing employees other than the payroll clerk will mitigate the risk of loss or material misstatement in the most economically feasible manner. We have previously stated these controls would be implemented beginning with the fiscal year ending September 30, 2012; however, due to changes in personnel, these controls will not be implemented until the fiscal year ending September 30, 2014.

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