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Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Audited Financial Statements
June 30, 2007

J. E. Fortenberry, III, PC
Certified Public Accountant

**Mississippi Department of Employment Security
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FINANCIAL AUDIT REPORT

J.E. FORTENBERRY, III, PC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY SUPPLEMENTARY INFORMATION

Executive Director: Tommye Favre
Mississippi Department of Employment Security

I have audited the accompanying financial statements of the Mississippi Department of Employment Security's Special Revenue Fund – Fund 3671 as of June 30, 2007. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. This fund is the responsibility of the agency's management. My responsibility is to express an opinion on this fund based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the fund is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the agency's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements of the Special Revenue Fund - Fund 3671, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements of the fund. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the financial statements present only the Special Revenue Fund - Fund 3671 and do not purport to, and do not, present fairly the financial position of the Mississippi Department of Employment Security as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements of the Special Revenue Fund - Fund 3671 referred to above present fairly, in all material respects, the financial position of the fund and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 24, 2007 on my consideration of the Mississippi Department of Employment Security's internal control over financial reporting and on my tests of its compliance with other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

AICPA & MSCPA

1929 Spillway Rd., Suite B, Brandon, MS 39047 Telephone 601-992-5292

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

A handwritten signature in black ink, appearing to read 'J.E. Fortenberry, III'.

J.E. Fortenberry, III, PC
September 24, 2007

Certified Public Accountant

FINANCIAL STATEMENTS

Mississippi Department of Employment Security
 Special Revenue Fund - Fund 3671
 Balance Sheet
 June 30, 2007

Exhibit 1

	<u>Special Revenue Fund</u> <u>Employment Services</u> <u>Fund 3671</u>
ASSETS	
Equity in internal investment pool	\$ 1,263,619
Cash and cash equivalents	273,391
Accounts receivable	3,680,613
Due from federal and other governments	1,552,331
Due from other funds	1,805,401
Total Assets	<u>8,575,355</u>
LIABILITIES	
Accounts payable	939,632
Warrants payable	1,054,734
Accrued liabilities	27,350
Due to other funds	526,628
Due to other governments	767,186
Deferred revenue	476,989
Other payables	843,260
Total Liabilities	<u>4,635,779</u>
FUND BALANCE	
Reserved for encumbrances	141,140
Unreserved - undesignated	3,798,436
Total Fund Balance	<u>3,939,576</u>
Total Liabilities and Fund Balance	\$ <u>8,575,355</u>

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

Mississippi Department of Employment Security

Special Revenue Fund - Fund 3671

Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2007

Exhibit 2

	<u>Special Revenue Fund</u>
	<u>Employment Services</u>
	<u>Fund 3671</u>
REVENUES	
Federal government	\$ 70,638,066
Charges for sales and services	374,160
Other	101,969
Total Revenues	<u>71,114,195</u>
EXPENDITURES	
Health and social services	<u>70,485,685</u>
Total Expenditures	<u>70,485,685</u>
Excess of Revenues over (under) Expenditures	<u>628,510</u>
OTHER FINANCING SOURCES (USES)	
Transfers In	1,963,240
Transfers Out	(2,680,092)
Net Other Financing Sources (Uses)	<u>(716,852)</u>
Net Change in Fund Balance	(88,342)
Fund Balance - Beginning	4,027,918
Fund Balance - Ending	\$ <u><u>3,939,576</u></u>

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

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

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Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

Basis of Presentation - The accompanying financial statements of the Mississippi Department of Employment Security (MDES) – Special Revenue Fund - Fund 3671 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the Special Revenue Fund - Fund 3671 are discussed in subsequent sections of this note. The remaining notes are organized to provide explanations, including required disclosures, of the fund's financial activities for the fiscal year ended June 30, 2007.

These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. Since the capital assets and related debt will be properly disclosed in the government-wide financial statements of the State of Mississippi Combined Annual Financial Report (CAFR), the financial statements presented in this report will only include the fund financial statements which are prepared on the modified accrual basis of accounting. MDES' Fund 3671 is a governmental special revenue fund and will be presented as such in these financial statements and in the fund financial statements of the State of Mississippi CAFR.

This fund is the responsibility of MDES' management. Our responsibility is to express an opinion on this fund based on our audit. These financial statements present only the Special Revenue Fund - Fund 3671 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A. FINANCIAL REPORTING ENTITY

MDES is a federally funded state agency. The programs of MDES, under direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the Employment Service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Division comes from Federal Unemployment Tax Act (FUTA) on employers and is allocated to MDES by the U.S. Department of Labor. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

MDES' Fund 3671 is a special revenue fund that account for monies received from the federal government for administering the Unemployment Compensation Act.

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The fund financial statements are maintained on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. The term "available" is considered by the agency to be defined as collectable within sixty days of the fiscal year end.

Federal and State reimbursement type grants are recorded as revenue when related eligible expenditures are met. Expenditures are recorded when the fund liability is incurred. All other revenue items reported in the fund financial statements are considered "available" when the cash is received by the agency.

State revenue sharing and charges for services associated with the current period are considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. When both restricted and unrestricted resources are available for use, it is the agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. EQUITY IN INTERNAL INVESTMENT POOL AND CASH AND CASH EQUIVALENTS

Equity in internal investment pool is cash equity with the Treasurer of the State of Mississippi and consists of pooled demand deposits and investments carried at cost, which approximates fair value. Cash and cash equivalents include bank checking accounts acquired by the State.

D. ACCOUNTS RECEIVABLE

Accounts receivables predominately represent amounts due from various entities as part of the Workforce Investment Act. These amounts represent revenues earned that will be collected in the future.

E. INTERFUND BALANCES

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

Amounts due to and due from other funds represent billings between funds, which are to be repaid within one year.

Interfund transfers are primarily used to move revenues from funds, that are required to collect them, to funds required to expend them, and to transfer revenues collected in other funds to Fund 3671 in accordance with budgetary authorizations.

F. DEFERRED REVENUE

Deferred revenue is recognized when potential revenue meets the "measurable" revenue recognition criteria, but is not yet "available". Deferred revenues reported in the Balance Sheet include revenue that has been deferred because it does not yet meet the revenue recognition criteria.

G. FUND BALANCE

The reserve for encumbrances reported in the Fund Balance section of the Balance Sheet indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use.

2. EQUITY IN INTERNAL INVESTMENT POOL AND CASH AND CASH EQUIVALENTS

Section 27-105-5, Mississippi Code Ann. (1972) authorizes the State Treasurer to implement a statewide collateral pool program, which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972) establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5 1/2 percent primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105 percent of the amount of public funds on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the State's interests.

Section 27-105-6, Mississippi Code Ann. (1972) establishes a public funds guaranty pool administered by the Guaranty Pool Board and the State Treasurer. The Guaranty Pool Board is composed of the State Treasurer, Commissioner of Banking and Consumer Finance, five members nominated by the Mississippi Bankers Association, one member nominated by the

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

Mississippi Supervisors Association, and one member nominated by the Mississippi Municipal League. The Guaranty Pool Board is responsible for reviewing and recommending criteria to be used by the State Treasurer in order to protect public deposits and the depositories in the guaranty pool program.

Sections 27-105-5 and 27-105-6, Mississippi Code Ann. (1972) establish criteria for a financial institution that has been in existence for three years or more to be approved as a qualified public funds depository and a public funds guaranty pool member. Potential guaranty pool members must submit an application and supply financial information to the State Treasurer as provided to its regulatory authority to verify the institution meets certain financial criteria established in the law. In addition to the requirements in the law, the Guaranty Pool Board has established additional membership requirements pursuant to its statutory authority. Once approved as a member of the public funds guaranty pool, the members must submit quarterly financial information to the State Treasurer. The Guaranty Pool Board uses this information to monitor the financial status of each member and the fiscal soundness of the guaranty pool.

Under the criteria established by the Guaranty Pool Board, an approved guaranty pool member may meet its 105 percent security requirement by depositing eligible collateral with the State Treasurer (or an approved custodian) equal to at least 75 percent of the average daily balance of the public funds on deposit in excess of the portion insured by the FDIC and entering into an agreement of contingent liability with the State Treasurer for the remaining 30 percent. The agreement provides that if a loss to a public depositor in the guaranty pool is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment against other guaranty pool members on a pro rata basis.

Information regarding the collateralization of deposits held by this pool at June 30, 2007 will be presented in the State of Mississippi Combined Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

The carrying amount of MDES funds held in this pool at June 30, 2007 was \$1,263,619.

Custodial Credit Risk. Custodial credit risk is defined as the risk that, in the event of a financial institution failure, the agency's deposits may not be returned to it. As of June 30, 2007, \$1,337,010 of the agency's bank balance of \$1,537,010 was exposed to custodial credit risk.

Uninsured/Collateralized	\$ 1,337,010
Insured	<u>200,000</u>
	<u>\$1,537,010</u>

3. RECEIVABLES

Accounts receivable at June 30, 2007, consisted of the following:

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3671
Notes to the Financial Statements
June 30, 2007

South Delta Planning and Development District	\$	699,966
Mississippi Partnership (TRPDD)		818,330
Central Mississippi Planning and Development		773,526
Twin Districts		1,380,168
Other		<u>8,623</u>
Total	\$	3,680,613

4. DEFINED BENEFIT PENSION PLAN

Plan Description

The Mississippi Department of Employment Security contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit public employee 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. The contribution rate is 10.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State Mississippi Legislature. The Agency's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$2,817,753, \$2,642,954, and \$2,260,531, respectively, which equaled the required contributions for each year.

J.E. FORTENBERRY, III, P.C.
Certified Public Accountant

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*

Executive Director: Tommye Favre
Mississippi Department of Employment Security

I have audited the financial statements of the Mississippi Department of Employment Security's Special Revenue Fund - Fund 3671 as of and for the year ended June 30, 2007, and have issued my report thereon dated September 24, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mississippi Department of Employment Security's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mississippi Department of Employment Security's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Mississippi Department of Employment Security's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Mississippi Department of Employment Security's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Mississippi Department of Employment Security's financial statements that is more than inconsequential will not be prevented or detected by the Mississippi Department of Employment Security's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These are reported in the schedule of findings and questioned costs as findings 2007-1 and 2007-2.

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

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, I believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mississippi Department of Employment Security's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Mississippi Department of Employment Security's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Mississippi Department of Employment Security's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Mississippi Department of Employment Security's director, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "J.E. Fortenberry, III".

J.E. Fortenberry, III, PC
September 24, 2007

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3671
Schedule of Findings and Questioned Costs
June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|--------------|
| 1. | Type of auditor's report issued on the basic financial statements: | Unqualified. |
| 2. | Material noncompliance relating to the basic financial statements? | No. |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No. |
| | b. Significant deficiency identified that is not considered to be material weaknesses? | Yes. |

Section 2: Financial Statements Findings

Finding 2007-1

Subsection 03.50.20 of the Department of Finance and Administration's Agency Accounting Manual prescribes adherence to Generally Accepted Accounting Principles (GAAP). The Mississippi Department of Employment Security utilized a checking account that was not accounted for in the Department's financial records. What was originally intended for limited use is being used to account for the operations of another governmental entity for which MDES has no oversight responsibility.

Recommendation

I recommend that this bank account be closed and the functions transferred to the governmental entity with oversight authorization. If MDES continues to account for this function it is recommended that the function be set up as an Agency program and that the revenues and expenditures from this program be recorded in the Agency's accounting records.

Response

The Agency is considering this response.

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3671
Schedule of Findings and Questioned Costs
June 30, 2007

Finding 2007-2

In order to maintain integrity over the fund's accounts in the Department, a system of internal controls must be monitored and adapted as duties and personnel change. The Mississippi Department of Employment Security lacked segregation of duties in several accounting department functions. Duties performed by one employee included general journal entries and bank reconciliations. Another employee both performed bank reconciliations and also approved payment vouchers pertaining to that bank account. Accounting functions such as authorization, custody, record keeping and reconciliation are duties that should be performed by different employees. By applying this principle the Department will safeguard assets and enhance the accuracy and reliability of its accounting records by the timely discovery of errors or irregularities by employees in their normal course of duties.

Recommendation

The Mississippi Department of Employment Security should have different employees with responsibilities of authorization, custody, record keeping and reconciliation. Also a rotation of employee duties at least once a year is advisable.

Response

The Agency is considering this response.

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Audited Financial Statements
June 30, 2007

J. E. Fortenberry, III, PC
Certified Public Accountant

**Mississippi Department of Employment Security
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FINANCIAL AUDIT REPORT

J.E. FORTENBERRY, III, PC

Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTARY INFORMATION

Executive Director: Tommye Favre
Mississippi Department of Employment Security

I have audited the accompanying financial statements of the Mississippi Department of Employment Security's Special Revenue Fund – Fund 3673 as of June 30, 2007. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. This fund is the responsibility of the agency's management. My responsibility is to express an opinion on this fund based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the fund is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the agency's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements of the Special Revenue Fund - Fund 3673, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements of the fund. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the financial statements present only the Special Revenue Fund - Fund 3673 and do not purport to, and do not, present fairly the financial position of the Mississippi Department of Employment Security as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements of the Special Revenue Fund - Fund 3673 referred to above present fairly, in all material respects, the financial position of the fund and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 1, 2007 on my consideration of the Mississippi Department of Employment Security's internal control over financial reporting and on my tests of its compliance certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance.

AICPA & MSCPA

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That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.

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

A handwritten signature in black ink, appearing to read 'J.E. Fortenberry, III, PC'.

J.E. Fortenberry, III, PC
October 1, 2007

Certified Public Accountant

FINANCIAL STATEMENTS

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Balance Sheet
June 30, 2007

Exhibit 1

	Special Revenue Fund
	Employment Services
	Fund 3673
ASSETS	
Equity in internal investment pool	\$ 662,729
Accounts receivable	289,344
Due from federal government	6,090,330
Due from other funds	
Total Assets	<u>7,042,403</u>
LIABILITIES	
Warrants payable	53,192
Due to other governments	1,455,334
Deferred revenue	5,866,975
Total Liabilities	<u>7,375,501</u>
FUND BALANCE	
Unreserved - undesignated	<u>(333,098)</u>
Total Fund Balance	<u>(333,098)</u>
Total Liabilities and Fund Balance	<u>\$ 7,042,403</u>

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

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Statement of Revenues, Expenditures, and Changes in Fund Balances
For the Year Ended June 30, 2007

Exhibit 2

		Special Revenue Fund Employment Services Fund 3673
REVENUES		
Federal government	\$	63,865,871
Other		2,442
Total Revenues		<u>63,868,313</u>
EXPENDITURES		
Health and social services		<u>63,241,801</u>
Total Expenditures		<u>63,241,801</u>
Excess of Revenues over (under) Expenditures		<u>626,512</u>
OTHER FINANCING SOURCES (USES)		
Transfers In		859,546
Transfers Out		<u>(1,341,522)</u>
Net Other Financing Sources (Uses)		<u>(481,976)</u>
Net Change in Fund Balance		144,536
Fund Balance - Beginning		<u>(477,634)</u>
Fund Balance - Ending	\$	<u><u>(333,098)</u></u>

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

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Notes to the Financial Statements
June 30, 2007

Mississippi Department of Employment Security
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Special Revenue Fund - Fund 3673
Notes to the Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

Basis of Presentation - The accompanying financial statements of the Mississippi Department of Employment Security (MDES) – Special Revenue Fund - Fund 3673 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the Special Revenue Fund - Fund 3673 are discussed in subsequent sections of this note. The remaining notes are organized to provide explanations, including required disclosures, of the fund's financial activities for the fiscal year ended June 30, 2007.

These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. Since the capital assets and related debt will be properly disclosed in the government-wide financial statements of the State of Mississippi Combined Annual Financial Report (CAFR), the financial statements presented in this report will only include the fund financial statements which are prepared on the modified accrual basis of accounting. MDES' Fund 3673 is a governmental special revenue fund and will be presented as such in these financial statements and in the fund financial statements of the State of Mississippi CAFR.

This fund is the responsibility of MDES' management. Our responsibility is to express an opinion on this fund based on our audit. These financial statements present only the Special Revenue Fund - Fund 3673 and do not purport to, and do not, present fairly the financial position of MDES as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A. FINANCIAL REPORTING ENTITY

MDES is a federally funded state agency. The programs of MDES, under direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the Employment Service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Division comes from Federal Unemployment Tax Act (FUTA) on employers and is allocated to MDES by the U.S. Department of Labor. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

MDES' Fund 3673 is a special revenue fund that account for monies received from the federal government for administering the Unemployment Compensation Act.

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Notes to the Financial Statements
June 30, 2007

B. BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in the fund statements. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The fund financial statements are maintained on the modified accrual basis of accounting. Under this method of accounting, revenues are recognized in the period in which they become measurable and available. The term "available" is considered by the agency to be defined as collectable within sixty days of the fiscal year end.

Federal and State reimbursement type grants are recorded as revenue when related eligible expenditures are met. Expenditures are recorded when the fund liability is incurred. All other revenue items reported in the fund financial statements are considered "available" when the cash is received by the agency.

State revenue sharing and charges for services associated with the current period are considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period.

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. When both restricted and unrestricted resources are available for use, it is the agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. EQUITY IN INTERNAL INVESTMENT POOL AND CASH AND CASH EQUIVALENTS

Equity in internal investment pool is cash equity with the Treasurer of the State of Mississippi and consists of pooled demand deposits and investments carried at cost, which approximates fair value. Cash and cash equivalents include bank checking accounts acquired by the State.

D. ACCOUNTS RECEIVABLE

Accounts receivables predominately represent amounts due from various entities as part of the Workforce Investment Act. These amounts represent revenues earned that will be collected in the future.

E. INTERFUND BALANCES

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Notes to the Financial Statements
June 30, 2007

Amounts due to and due from other funds represent billings between funds, which are to be repaid within one year.

Interfund transfers are primarily used to move revenues from funds that are required to collect them to funds required to expend them, and to transfer revenues collected in other funds to Fund 3673 in accordance with budgetary authorizations.

F. DEFERRED REVENUE

Deferred revenue is recognized when potential revenue meets the "measurable" revenue recognition criteria, but is not yet "available". Deferred revenues reported in the Balance Sheet include revenue that has been deferred because it does not yet meet the revenue recognition criteria.

G. FUND BALANCE

The reserve for encumbrances reported in the Fund Balance section of the Balance Sheet indicates that a portion of the fund balance is not appropriable for expenditure or is legally segregated for a specific future use.

2. EQUITY IN INTERNAL INVESTMENT POOL AND CASH AND CASH EQUIVALENTS

Section 27-105-5, Mississippi Code Ann. (1972) authorizes the State Treasurer to implement a statewide collateral pool program, which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972) establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5 1/2 percent primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105 percent of the amount of public funds on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the State's interests.

Section 27-105-6, Mississippi Code Ann. (1972) establishes a public funds guaranty pool administered by the Guaranty Pool Board and the State Treasurer. The Guaranty Pool Board is composed of the State Treasurer, Commissioner of Banking and Consumer Finance, five members nominated by the Mississippi Bankers Association, one member nominated by the

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Notes to the Financial Statements
June 30, 2007

Mississippi Supervisors Association, and one member nominated by the Mississippi Municipal League. The Guaranty Pool Board is responsible for reviewing and recommending criteria to be used by the State Treasurer in order to protect public deposits and the depositories in the guaranty pool program.

Sections 27-105-5 and 27-105-6, Mississippi Code Ann. (1972) establish criteria for a financial institution that has been in existence for three years or more to be approved as a qualified public funds depository and a public funds guaranty pool member. Potential guaranty pool members must submit an application and supply financial information to the State Treasurer as provided to its regulatory authority to verify the institution meets certain financial criteria established in the law. In addition to the requirements in the law, the Guaranty Pool Board has established additional membership requirements pursuant to its statutory authority. Once approved as a member of the public funds guaranty pool, the members must submit quarterly financial information to the State Treasurer. The Guaranty Pool Board uses this information to monitor the financial status of each member and the fiscal soundness of the guaranty pool.

Under the criteria established by the Guaranty Pool Board, an approved guaranty pool member may meet its 105 percent security requirement by depositing eligible collateral with the State Treasurer (or an approved custodian) equal to at least 75 percent of the average daily balance of the public funds on deposit in excess of the portion insured by the FDIC and entering into an agreement of contingent liability with the State Treasurer for the remaining 30 percent. The agreement provides that if a loss to a public depositor in the guaranty pool is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment against other guaranty pool members on a pro rata basis.

Information regarding the collateralization of deposits held by this pool at June 30, 2007 will be presented in the State of Mississippi Combined Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

The carrying amount of MDES funds held in this pool at June 30, 2007 was \$662,729.

Custodial Credit Risk. Custodial credit risk is defined as the risk that, in the event of a financial institution failure, the agency's deposits may not be returned to it. As of June 30, 2007, none of the agency's bank balance of \$662,729 was exposed to custodial credit risk.

3. RECEIVABLES

Accounts receivable at June 30, 2007, consisted of the following:

WIA Incentive Grant PY 2005	\$	9,997
WIA Katrina NEG PY2005		154,347
WIA Katrina NEG Admin.		<u>125,000</u>
Total	\$	<u>289,344</u>

Mississippi Department of Employment Security
Special Revenue Fund - Fund 3673
Notes to the Financial Statements
June 30, 2007

4. DEFINED BENEFIT PENSION PLAN

Plan Description

The Mississippi Department of Employment Security contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit public employee 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 report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy

PERS members are required to contribute 7.25% of their annual covered salary and the Agency is required to contribute at an actuarially determined rate. As of July 1, 2006, the contribution rate is 11.3% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State Mississippi Legislature. A portion of Fund 3673's employees was accounted for in the Mississippi Department of Employment Security and their PERS contributions were made through Fund 3671. The remainder of Fund 3673's employees was accounted for at the Mississippi Development Authority. These PERS contributions were made through Fund 3420.

J.E. FORTENBERRY, III, P.C.

Certified Public Accountant

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

I have audited the financial statements of Mississippi Department of Employment Security's Special Revenue Fund - Fund 3673 as of and for the year ended June 30, 2007, and have issued my report thereon dated October 1, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Mississippi Department of Employment Security's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mississippi Department of Employment Security's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Mississippi Department of Employment Security's internal control over financial reporting.

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

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Mississippi Department of Employment Security's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Mississippi Department of Employment Security's director, management and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read 'J.E. Fortenberry, III', with a stylized flourish at the end.

J.E. Fortenberry, III, PC
October 1, 2007

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Mississippi Department of Employment Security
Special Revenue Fund – Fund 3673
Schedule of Findings and Questioned Costs
June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|--------------|
| 1. | Type of auditor's report issued on the basic financial statements: | Unqualified. |
| 2. | Material noncompliance relating to the basic financial statements? | No. |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | No. |
| | b. Significant deficiency identified that is not considered to be material weakness? | No. |

Section 2: Financial Statements Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by Government Auditing Standards.

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Audited Financial Statements
June 30, 2007

FINANCIAL AUDIT REPORT

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191

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J.E. Fortenberry, III, PC
Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTARY INFORMATION**

Executive Director: Tommye Farve
Mississippi Department of Employment Security

I have audited the accompanying financial statements of the Mississippi Department of Employment Security's Unemployment Compensation Fund – Fund 8191 as of June 30, 2007. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. This fund is the responsibility of the agency's management. My responsibility is to express an opinion on this fund based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the fund is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the agency's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements of the Unemployment Compensation Fund - Fund 8191, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements of the fund. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the financial statements present only the Unemployment Compensation Fund - Fund 8191 and do not purport to, and do not, present fairly the financial position of the Mississippi Department of Employment Security as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements of the Unemployment Compensation Fund - Fund 8191 referred to above present fairly, in all material respects, the financial position of the fund and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated October 22, 2007 on my consideration of the Mississippi Department of Employment Security's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

AICPA & MSCPA
1292 Spillway Rd. Suite B, Brandon, MS 39047 Telephone (601)992-5292

with Government Auditing Standards and should be considered in assessing the results of my audit.

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

A handwritten signature in black ink, appearing to read 'J.E. Fortenberry, III, PC'.

J.E. Fortenberry, III, PC
October 22, 2007

Certified Public Accountant

FINANCIAL STATEMENTS

Mississippi Department of Employment Security
 Unemployment Compensation Fund 8191
 Statement of Net Assets
 June 30, 2007

Assets

Current Assets:

Cash and cash equivalents	\$ 776,732,761
Accounts receivable, net	5,003,240
Assessments receivable, net	39,389,185
Contributions receivable	19,857,860
Due from other governments	653,499
Due from other funds	547,953
Total Current Assets	<u>842,184,498</u>

Liabilities

Current Liabilities:

Accounts payable and accrued liabilities	2,626,527
Due to other governments	4,032,372
Due to other funds	16,427,589
Total Current Liabilities	<u>23,086,488</u>

Net Assets

Restricted - expendable for unemployment compensation benefits	<u>819,098,010</u>
Total Liabilities and Net Assets	<u>\$ 842,184,498</u>

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

Mississippi Department of Employment Security
 Unemployment Compensation Fund 8191
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2007

Operating Revenues:		
Unemployment insurance premium	\$	133,500,608
Total Operating Revenues		<u>133,500,608</u>
Operating Expenses:		
Subsidies		130,339,089
Total Operating Expense		<u>130,339,089</u>
Operating Income (Loss)		<u>3,161,519</u>
Nonoperating Revenues (Expenses)		
Interest		35,519,981
Transfer to other funds		(5,169,806)
Total Net Nonoperating Revenues (Expenses)		<u>30,350,175</u>
Net Increase (Decrease) in Net Assets		33,511,694
Net Assets		
Net Assets - Beginning of Year		785,586,316
Net Assets - End of Year	\$	<u><u>819,098,010</u></u>

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

Mississippi Department of Employment Security
 Unemployment Compensation Fund 8191
 Statement of Cash Flows
 For the Year Ended June 30, 2007

Cash Flows from Operating Activities	
Cash receipts/premiums from assessments	\$ 119,860,115
Cash payments for claims and benefits	(122,980,905)
Net Cash Used for Operating Activities	<u>(3,120,790)</u>
Cash Flows from Noncapital Financing Activities:	
Transfers out	(5,169,806)
Net Cash Used for Noncapital Financing Activities	<u>(5,169,806)</u>
Cash Flows from Investing Activities:	
Interest received on investments	35,519,981
Net Cash Provided by Investing Activities	<u>35,519,981</u>
Net Increase Cash and Cash Equivalents	27,229,385
Cash and Cash Equivalents - Beginning of the Year	749,503,376
Cash and Cash Equivalents - End of the Yea	\$ <u><u>776,732,761</u></u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating income (loss)	33,511,694
Adjustments to reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in assets and liabilities:	
Accounts receivables, net	889,567
Other receivables, net	(15,055,501)
Due from other governments	877,131
Interfund receivables	(351,690)
Accounts payable and accrued liabilities	6,893
Due to other governments	2,195,987
Interfund payables	5,906,604
Claims and benefits payable	(751,300)
Total adjustments	<u>(6,282,309)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>27,229,385</u></u>

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

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Notes to the Financial Statements
June 30, 2007

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
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June 30, 2007

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Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Notes to the Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

Basis of Presentation - The accompanying financial statements of the Mississippi Department of Employment Security (MDES) – Unemployment Compensation Fund - Fund 8191 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the Unemployment Compensation Fund - Fund 8191 are discussed in subsequent sections of this note. The remaining notes are organized to provide explanations, including required disclosures, of the fund's financial activities for the fiscal year ended June 30, 2007.

These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The financial statements presented are those required for a business-type activity presentation and are prepared using the economic measurement focus and the accrual basis of accounting. MDES's Fund 8191 is a Proprietary fund and will be presented as such in these financial statements and in the financial statements of the State of Mississippi CAFR.

This fund is the responsibility of the MDES's management. My responsibility is to express an opinion on this fund based on my audit. These financial statements present only the Unemployment Compensation Fund - Fund 8191 and do not purport to, and do not, present fairly the financial position of the MDES as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A. FINANCIAL REPORTING ENTITY

The MDES is a federally funded state agency. The programs of the MDES, under direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the Employment Service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Division comes from Federal Unemployment Tax Act (FUTA) on employers and is allocated to MDES by the U.S. Department of Labor. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

The MDES Unemployment Compensation Fund - Fund 8191 accounts for the collection of unemployment insurance assessments from employers and the payment of unemployment

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Notes to the Financial Statements
June 30, 2007

benefits to eligible claimants. Funds are also provided by the federal government and interest income.

B. BASIS OF ACCOUNTING

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mississippi Department of Employment Security (MDES) – Unemployment Compensation Fund - Fund 8191 applies all applicable GASB pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of proprietary funds are classified as operating or non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary operations. All other revenues and expenses are reported as non-operating.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank accounts, petty cash, money market demand accounts, money market mutual funds and certificates of deposit with a maturity date within 90 days of the date acquired by the State.

D. RECEIVABLES

Receivables represent amounts due to the Unemployment Compensation fund – Fund 8191 for revenues earned that will be collected sometime in the future. Receivables are reported net of allowances for uncollectible accounts where applicable.

E. INTERFUND BALANCES

Because the Unemployment Compensation fund – Fund 8191 is only a part of the Mississippi Department of Employment Security, the interfund balances have not been eliminated from the Statement of Net Assets. Amounts due to and due from other funds represent billings between funds.

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Notes to the Financial Statements
June 30, 2007

Interfund transfers are primarily used to move revenues from funds required to collect them to funds required to expend them, and to transfer revenues collected in other funds to Fund 8191 in accordance with budgetary authorizations.

F. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Unemployment Compensation Fund – Fund 8191 reports a current liability for amounts incurred prior to the reporting date.

G. NET ASSETS

The difference between assets and liabilities is net assets. The net assets of the Unemployment Compensation Fund – Fund 8191 are restricted expendable for unemployment compensation benefits.

H. FEDERAL GRANTS

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

2. CASH AND CASH EQUIVALENTS

Section 27-105-5, Mississippi Code Ann. (1972) authorizes the State Treasurer to implement a statewide collateral pool program, which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972) establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5 1/2 percent primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105 percent of the amount of public funds on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the State's interests.

Section 27-105-6, Mississippi Code Ann. (1972) establishes a public funds guaranty pool administered by the Guaranty Pool Board and the State Treasurer. The Guaranty Pool Board is

composed of the State Treasurer, Commissioner of Banking and Consumer Finance, five members nominated by the Mississippi Bankers Association, one member nominated by the Mississippi Supervisors Association, and one member nominated by the Mississippi Municipal League. The Guaranty Pool Board is responsible for reviewing and recommending criteria to be used by the State Treasurer in order to protect public deposits and the depositories in the guaranty pool program.

Sections 27-105-5 and 27-105-6, Mississippi Code Ann. (1972) establish criteria for a financial institution that has been in existence for three years or more to be approved as a qualified public funds depository and a public funds guaranty pool member. Potential guaranty pool members must submit an application and supply financial information to the State Treasurer as provided to its regulatory authority to verify the institution meets certain financial criteria established in the law. In addition to the requirements in the law, the Guaranty Pool Board has established additional membership requirements pursuant to its statutory authority. Once approved as a member of the public funds guaranty pool, the members must submit quarterly financial information to the State Treasurer. The Guaranty Pool Board uses this information to monitor the financial status of each member and the fiscal soundness of the guaranty pool.

Under the criteria established by the Guaranty Pool Board, an approved guaranty pool member may meet its 105 percent security requirement by depositing eligible collateral with the State Treasurer (or an approved custodian) equal to at least 75 percent of the average daily balance of the public funds on deposit in excess of the portion insured by the FDIC and entering into an agreement of contingent liability with the State Treasurer for the remaining 30 percent. The agreement provides that if a loss to a public depositor in the guaranty pool is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment against other guaranty pool members on a pro rata basis.

Information regarding the collateralization of deposits held by this pool at June 30, 2007 will be presented in the State of Mississippi Combined Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

Additionally, the Office of the Attorney General, State of Mississippi cites in 1992 WL 6 .3857 (Miss.A.G.) that, referring to Section 71-5-455, Mississippi Code Ann. (Supp.1984), "...the specific collateralization required by this section would supersede the 105% collateral as required by Section 27-105-5(1), Mississippi Code Ann.. Further, this office is of the opinion any of your accounts containing "benefit dollars" would be subject to 110% collateralization and, therefore, be excluded from the state collateral pool." This is the case for the Benefit Refund Overpayment, Clearing, WTE and Benefit accounts.

The carrying amount of the MDES Unemployment Compensation Fund – Fund 8191 deposits are held on investment activities separate from the State Treasurer.

Custodial Credit Risk. Custodial credit risk is defined as the risk that, in the event of a

financial institution failure, the agency's deposits may not be returned to it. As of June 30, 2007, \$4,795 of the agency's bank balance of \$771,849,737 was exposed to custodial credit risk.

Uninsured/Uncollateralized	\$ 4,795
Uninsured/Collateralized	771,842,942
Insured	<u>200,000</u>
	<u>\$772,047,737</u>

3. RECEIVABLES

Accounts receivable at June 30, 2007, consisted of the following:

Accounts receivable	\$ 28,759,807
Assessments receivable	77,917,613
Contributions receivable	<u>19,857,860</u>
Total receivables	126,535,280
Less allowance for uncollectibles:	
Accounts receivables	(23,756,567)
Assessments receivables	<u>(38,528,428)</u>
Total allowance for uncollectibles	(62,284,995)
Total receivables, net	\$ <u>64,250,285</u>

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

October 22, 2007

Executive Director: Tommye Favre

I have audited the financial statements of the MDES's Unemployment Compensation Fund - Fund 8191 as of and for the year ended June 30, 2007, and have issued my report thereon dated October 22, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the MDES's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the MDES's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the MDES's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in conformity with generally accepted accounting principles such that there is a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. I consider the deficiencies noted in Findings 07-1, 07-2, 07-3 and 07-4 to be significant deficiencies in internal control over financial reporting.

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

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider Findings 07-1, 07-2, 07-3 and 07-4 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MDES's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

A handwritten signature in black ink, appearing to read 'J.E. Fortenberry, III, PC', with a stylized flourish at the end.

J.E. Fortenberry, III, PC
October 22, 2007

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Schedule of Findings and Questioned Costs
June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|--------------|
| 1. | Type of auditor's report issued on the basic financial statements: | Unqualified. |
| 2. | Material noncompliance relating to the basic financial statements? | No. |
| 3. | Internal control over financial reporting: | |
| | a. Material weakness identified? | Yes. |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | No. |

Section 2: Financial Statements Findings

The results of my tests disclosed the following material weakness related to the financial statements that are required to be reported by Government Auditing Standards.

Material Weaknesses

Findings:

07-01

Condition: Tax liens receivable and the corresponding revenues were recorded using an estimate, which did not represent a true receivable or revenue for the period with some employer accounts.

Criteria: Only revenues that are valid transactions in the fiscal period should be recorded, and amounts uncollected at the end of the period should be presented as receivables.

Cause: Tax liens receivable and their corresponding revenue are recorded using estimated assessments. The formula used to calculate the assessment computed some of these assessments in excess of the actual amount due.

Effect: The effect on the financial statements is to overstate assets and to overstate revenues. The effect on the ETA581 report (which is sent to the U. S. Department of Labor each quarter) is that it projects MDES to be collecting dollars in delinquent taxes, when in fact MDES is writing off these over assessed account balances in future periods.

Recommendation: We recommend that MDES develop a new formula that yields a more accurate estimate of tax liens receivable for financial statement purposes and reporting of

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Schedule of Findings and Questioned Costs
June 30, 2007

operations to the U. S. Department of Labor.

Agency Response: The agency is considering this response.

07-02

Condition: Cash and Cash Equivalents were misstated on the agency's trial balance

Criteria: Bank statements for each bank account should be reconciled to the agency's financial records monthly.

Cause: A system whereby the reconciled bank account is compared to the financial statements of the fund was not utilized. Accounting is posted to a series of spreadsheets without using double entry accounting. This caused the reconciliation of the bank and trial balance to be cumbersome and unusable by personnel.

Effect: The effect on the financial statements is to understate cash by \$5,976,750.

- a) Reconciled bank statement for Trustmark account # 100-069-1394, Workforce Training, shows a balance of \$12,196,083. The coinciding trial balance account #1101 reported a balance of \$12,709,528. This was an overstatement of \$513,445.
- b) Reconciled bank statement for Trustmark account # 100-158-7013, Benefit Payable reported a balance of \$10,424,407. Coinciding trial balance accounts # 1301, 1302, 1303, 1304, 1305, 1306 and 1307 reflected a balance of \$6,564,348. This was an understatement to cash of \$3,860,059.
- c) BancorpSouth account #6001-564-1, Benefit Payment Refund account had a reconciled bank statement balance of \$2,630,136. There was no coinciding trial balance account for this bank account and also there was no DFA approved account found for this checking account. This resulted in an understatement of \$2,630,136.

Recommendation: We recommend that MDES reconcile all bank statements to agency trial balance and other financial records monthly.

Agency Response: The agency is considering this response.

07-03

Condition: Agency is not using double entry accounting for Fund 8191.

Criteria: Per MAAPP, Mississippi Agency Accounting Policies & Procedures Manual, Section – GAAP Accounting Principles, Subsection – Fund Accounting, page 1 of 3, paragraph 2
“Financial transactions for all state agencies should be recorded in self-balancing groups of

Mississippi Department of Employment Security
Unemployment Compensation Fund - Fund 8191
Schedule of Findings and Questioned Costs
June 30, 2007

accounts established as funds by law or administrative action." Per paragraph 3 – "The self balancing feature of each fund is accomplished through the double entry method of accounting..."

Cause: The accounting records for Fund 8191 are kept on a series of spreadsheets that are not reconciled to each other. Double entry accounting is not used on these spreadsheets.

Effect: The effect was that a misstatement of the financial statements, illustrated in that finding #07-02 and 07-04 could and did occur.

Recommendation: We recommend that MDES adopt a centralized accounting system that uses double entry accounting and is in compliance with MAAPP for the accounting of Fund 8191.

Response: The agency is considering this response.

07-04

Condition: Transactions in Trustmark bank accounts #100-069-1394, Workforce Training, and #100-158-7013, Benefit Payable, and BancorpSouth account #6001-564-1, Benefit Payment Refund were not recorded on the agency's financial records or the GAAP package.

Criteria: Per MAAPP, Mississippi Agency Accounting Policies & Procedures Manual, Section – GAAP Accounting Principles, Subsection – Fund Accounting, page 1 of 3, paragraph 2 "Financial transactions for all state agencies should be recorded..."

Cause: Although the accounts were reconciled, the account balances were not reconciled to the financial statements of the fund.

Effect: Cash was understated by \$6,574,849, as well as MDES Unemployment Insurance Premiums Revenue on Fund 8191's GAAP package.

Recommendation: We recommend that MDES implement and utilize formal accounting policies and procedures, and a formal accounting program be used as recommended in Finding 07-03.

Agency Response: The agency is considering this response.

Mississippi Department of Employment Security
Unemployment Compensation
Federal Employees - Fund 8194
Audited Financial Statements
June 30, 2007

FINANCIAL AUDIT REPORT

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194

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J.E. Fortenberry, III, PC
Certified Public Accountant

**INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY
INFORMATION AND SUPPLEMENTARY INFORMATION**

Executive Director: Tommye Farve
Mississippi Department of Employment Security

I have audited the accompanying financial statements of the Mississippi Department of Employment Security's Unemployment Compensation for Federal Employees - Fund 8194 as of June 30, 2007. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. This fund is the responsibility of the agency's management. My responsibility is to express an opinion on this fund based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the fund is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the agency's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements of the Unemployment Compensation for Federal Employees - Fund 8194, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements of the fund. I believe that my audit provides a reasonable basis for my opinion.

As discussed in Note 1, the financial statements present only the Unemployment Compensation for Federal Employees - Fund 8194 and do not purport to, and do not, present fairly the financial position of the Mississippi Department of Employment Security as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In my opinion, the financial statements of the Unemployment Compensation for Federal Employees - Fund 8194 referred to above present fairly, in all material respects, the financial position of the fund and the changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated October 23, 2007 on my consideration of the Mississippi Department of Employment Security's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

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with Government Auditing Standards and should be considered in assessing the results of my audit.

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

A handwritten signature in black ink, appearing to read "J.E. Fortenberry, III". The signature is stylized with a large initial "J" and "F".

J.E. Fortenberry, III, PC
October 23, 2007

Certified Public Accountant

FINANCIAL STATEMENTS

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees or Ex Military Fund 8194
Statement of Net Assets
June 30, 2007

Assets

Current Assets:

Accounts receivable, net	\$	30,856
Due from other funds		<u>77,726</u>
Total Current Assets		<u>108,582</u>

Liabilities

Current Liabilities:

Accounts payable and accrued liabilities	105,985
Contract federal tax withheld	<u>1,345</u>
Due to other funds	<u>1,252</u>
Total Current Liabilities	<u>108,582</u>

Total Liabilities and Net Assets	\$	<u><u>0</u></u>
----------------------------------	----	-----------------

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

Mississippi Department of Employment Security
 Unemployment Compensation for Federal Employees or Ex Military Fund 8194
 Statement of Revenues, Expenses and Changes in Net Assets
 For the Year Ended June 30, 2007

Operating Revenues:	
Premiums	\$ 4,183,848
Total Operating Revenues	<u>4,183,848</u>
Operating Expenses:	
Subsidies	4,183,848
Total Operating Expense	<u>4,183,848</u>
Operating Income (Loss)	<u>0</u>
Net Increase (Decrease) in Net Assets	0
Net Assets	
Net Assets - Beginning of Year	0
Net Assets - End of Year	\$ <u><u>0</u></u>

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

Mississippi Department of Employment Security
 Unemployment Compensation for Federal Employees Fund 8194
 Statement of Cash Flows
 For the Year Ended June 30, 2007

Cash Flows from Operating Activities	
Cash receipts from federal grants	\$ 4,224,052
Cash payments for claims and benefits	<u>(4,191,166)</u>
Net Cash Used for Operating Activities	<u>32,886</u>
Cash Flows from Noncapital Financing Activities	
Transfers From (To) other funds	<u>(32,886)</u>
Net Cash Used for Noncapital Financing Activities	<u>(32,886)</u>
Net Cash Provided by Investing Activities	<u>0</u>
Net Increase Cash and Cash Equivalents	0
Cash and Cash Equivalents - Beginning of the Year	<u>0</u>
Cash and Cash Equivalents - End of the Year	<u>\$ 0</u>
Reconciliation of Operating Loss to Net Cash Used for Operating Activities	
Operating income (loss)	\$ 0
Adjustments to reconcile Operating Loss to Net Cash Used by Operating Activities:	
Changes in assets and liabilities:	
Accounts receivable	85,204
Accounts payable and accrued liabilities	<u>(52,318)</u>
Total adjustments	<u>32,886</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 32,886</u>

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

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
Notes to the Financial Statements
June 30, 2007

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
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June 30, 2007

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Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
Notes to the Financial Statements
June 30, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

INTRODUCTION

Basis of Presentation - The accompanying financial statements of the Mississippi Department of Employment Security (MDES) – Unemployment Compensation for Federal Employees - Fund 8194 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles.

The accounting and reporting framework and the more significant accounting principles and practices of the Unemployment Compensation for Federal Employees - Fund 8194 are discussed in subsequent sections of this note. The remaining notes are organized to provide explanations, including required disclosures, of the fund's financial activities for the fiscal year ended June 30, 2007.

These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The financial statements presented are those required for a business-type activity presentation and are prepared using the economic measurement focus and the accrual basis of accounting. MDES's Fund 8194 is a Proprietary fund and will be presented as such in these financial statements and in the financial statements of the State of Mississippi CAFR.

This fund is the responsibility of the MDES's management. My responsibility is to express an opinion on this fund based on my audit. These financial statements present only the Unemployment Compensation for Federal Employees - Fund 8194 and do not purport to, and do not, present fairly the financial position of the MDES as of June 30, 2007, the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A. FINANCIAL REPORTING ENTITY

The MDES is a federally funded state agency. The programs of the MDES, under direction of the governor of Mississippi, report to the federal government.

The U.S. Congress appropriates all funds expended to administer employment security programs. Funding for the Employment Service labor exchange functions comes from the federal Wagner-Peyser Act. Funding for the Unemployment Insurance Division comes from Federal Unemployment Tax Act (FUTA) on employers and is allocated to MDES by the U.S. Department of Labor. All federal funds received by MDES are cleared through the state treasury, and authority to expend these funds is granted by the state legislature.

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
Notes to the Financial Statements
June 30, 2007

The MDES Unemployment Compensation for Federal Employees - Fund 8194 accounts for the collection of unemployment insurance assessments from employers and the payment of unemployment benefits to eligible claimants. Funds are also provided by the federal government and interest income.

B. BASIS OF ACCOUNTING

Proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Mississippi Department of Employment Security (MDES) – Unemployment Compensation for Federal Employees - Fund 8194 applies all applicable GASB pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of proprietary funds are classified as operating or non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's primary operations. All other revenues and expenses are reported as non-operating.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include bank accounts, petty cash, money market demand accounts, money market mutual funds and certificates of deposit with a maturity date within 90 days of the date acquired by the State.

D. RECEIVABLES

Receivables represent amounts due to the Unemployment Compensation for Federal Employees – Fund 8194 for revenues earned that will be collected sometime in the future. Receivables are reported net of allowances for uncollectible accounts where applicable.

E. INTERFUND BALANCES

Because the Unemployment Compensation for Federal Employees – Fund 8194 is only a part of the Mississippi Department of Employment Security, the interfund balances have not been eliminated from the Statement of Net Assets. Amounts due to and due from other funds represent billings between funds.

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
Notes to the Financial Statements
June 30, 2007

Interfund transfers are primarily used to move revenues from funds required to collect them to funds required to expend them, and to transfer revenues collected in other funds to Fund 8194 in accordance with budgetary authorizations.

F. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The Unemployment Compensation for Federal Employees – Fund 8194 reports a current liability for amounts incurred prior to the reporting date.

G. NET ASSETS

The difference between assets and liabilities is net assets. The net assets of the Unemployment Compensation for Federal Employees – Fund 8194 are restricted expendable for unemployment compensation benefits.

H. FEDERAL GRANTS

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

2. CASH AND CASH EQUIVALENTS

Section 27-105-5, Mississippi Code Ann. (1972) authorizes the State Treasurer to implement a statewide collateral pool program, which secures all state and local public funds deposits through a centralized system of pledging securities to the State Treasurer. The program requires the State Treasurer as pledgee of all public funds to monitor the security portfolios of approved financial institutions and ensure public funds are adequately secured.

Section 27-105-5, Mississippi Code Ann. (1972) establishes the requirements for a financial institution to be approved as a qualified public funds depository. Generally, financial institutions make annual application to the State Treasurer for state funds by signing a contract and supplying the financial report as provided to its regulatory authority to assure the statutory required 5 1/2 percent primary capital to total assets ratio. When so approved by the State Treasurer, the financial institution is required to place on deposit with the State Treasurer collateral equal to at least 105 percent of the amount of public funds on deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC). Collateral may be held by a third party custodian, with approval of the State Treasurer, if conditions are met which protect the State's interests.

Section 27-105-6, Mississippi Code Ann. (1972) establishes a public funds guaranty pool administered by the Guaranty Pool Board and the State Treasurer. The Guaranty Pool Board is

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
Notes to the Financial Statements
June 30, 2007

composed of the State Treasurer, Commissioner of Banking and Consumer Finance, five members nominated by the Mississippi Bankers Association, one member nominated by the Mississippi Supervisors Association, and one member nominated by the Mississippi Municipal League. The Guaranty Pool Board is responsible for reviewing and recommending criteria to be used by the State Treasurer in order to protect public deposits and the depositories in the guaranty pool program.

Sections 27-105-5 and 27-105-6, Mississippi Code Ann. (1972) establish criteria for a financial institution that has been in existence for three years or more to be approved as a qualified public funds depository and a public funds guaranty pool member. Potential guaranty pool members must submit an application and supply financial information to the State Treasurer as provided to its regulatory authority to verify the institution meets certain financial criteria established in the law. In addition to the requirements in the law, the Guaranty Pool Board has established additional membership requirements pursuant to its statutory authority. Once approved as a member of the public funds guaranty pool, the members must submit quarterly financial information to the State Treasurer. The Guaranty Pool Board uses this information to monitor the financial status of each member and the fiscal soundness of the guaranty pool.

Under the criteria established by the Guaranty Pool Board, an approved guaranty pool member may meet its 105 percent security requirement by depositing eligible collateral with the State Treasurer (or an approved custodian) equal to at least 75 percent of the average daily balance of the public funds on deposit in excess of the portion insured by the FDIC and entering into an agreement of contingent liability with the State Treasurer for the remaining 30 percent. The agreement provides that if a loss to a public depositor in the guaranty pool is not covered by deposit insurance and the proceeds from the sale of securities pledged by the defaulting depository, the difference will be provided by an assessment against other guaranty pool members on a pro rata basis.

Information regarding the collateralization of deposits held by this pool at June 30, 2007 will be presented in the State of Mississippi Combined Annual Financial Report (CAFR) for the fiscal year ended June 30, 2007.

The carrying amount of the MDES Unemployment Compensation for Federal Employees – Fund 8194 deposits are held on investment activities separate from the State Treasurer.

3. RECEIVABLES

Accounts receivable at June 30, 2007, consisted of the following:

Department of Labor	\$	30,856
Unemployment Insurance		
Total receivables, net	\$	<u>30,856</u>

J.E. Fortenberry, III, PC

Certified Public Accountant

**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**

Executive Director: Tommye Farve
Mississippi Department of Employment Security

I have audited the financial statements of the Mississippi Department of Employment Security's Unemployment Compensation for Federal Employees - Fund 8194 as of and for the year ended June 30, 2007, and have issued my report thereon dated October 23, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the MDES's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the MDES's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the MDES's internal control over financial reporting.

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

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

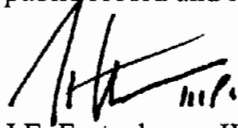
My consideration of the internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MDES's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any instances of noncompliance that are required to be reported under Government Auditing Standards.

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



J.E. Fortenberry, III, PC
October 23, 2007

Certified Public Accountant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Mississippi Department of Employment Security
Unemployment Compensation for Federal Employees - Fund 8194
Schedule of Findings and Questioned Costs
June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|--|--------------|
| 1. | Type of auditor's report issued on the basic financial statements: | Unqualified. |
| 2. | Material noncompliance relating to the basic financial statements? | No. |
| 3. | Internal control over financial reporting: | |
| a. | Material weakness identified? | No. |
| b. | Significant deficiencies identified that are not considered to be material weaknesses? | No. |

Section 2: Financial Statements Findings

The results of my tests disclosed no material weaknesses related to the financial statements that are required to be reported by Government Auditing Standards.

