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**LEE COUNTY**  
**AUDITED PRIMARY GOVERNMENT FINANCIAL**  
**STATEMENTS AND SPECIAL REPORTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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## **FINANCIAL SECTION**

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

Members of the Board of Supervisors  
Lee County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

The financial statements referred to above include only the primary government of Lee County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the county's legal entity. The financial statements do not include financial data for the county's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the county's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Lee County, Mississippi, as of September 30, 2005, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of Lee County, Mississippi, as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 6, 2006, on our consideration of Lee County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedule and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Tupelo, Mississippi  
October 6, 2006

*J E Vance & Company*



# LEE COUNTY BOARD OF SUPERVISORS

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MEMBER – 2<sup>ND</sup> DISTRICT  
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MEMBER – 1<sup>ST</sup> DISTRICT  
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TUPELO, MISSISSIPPI

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MEMBER - 5<sup>TH</sup> DISTRICT  
PLANTERSVILLE, MISSISSIPPI

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### *INTRODUCTION*

This discussion and analysis of Lee County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2005. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

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

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

### *FINANCIAL HIGHLIGHTS*

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

Lee County continues to grow both economically and in population. Over the past 5-year period (2001-2005), this growth has provided sufficient revenues to sustain and improve services without the need for a tax rate increase. Looking back over the past 7-year period (1999-2005) this growth has resulted in the lowering of tax rates by a little over 13% from the highest rate (1999 & 2000) to the current rate, which has been steady since 2003. This tax rate decrease does not account for funding provided for school purposes that required school tax rates to increase nor does it include the funding of community college programs.

Total net assets decreased \$5,258,229, which represents a 2.45% decrease from the prior fiscal year. The County's ending cash balance decreased by \$3,260,426. This represents a 9.38% decrease from the prior fiscal year.

The County had \$29,766,925 in total revenues. Tax revenues account for \$14,196,294 or 47.69% of total revenues. Revenues in the form of charges for services account for \$4,077,635 or 13.70% of total revenues. Revenue generated by fines and other fees account for \$1,592,845 or 5.35%. State revenues in the form of reimbursements, shared revenue or grants, account for \$4,744,557 or 15.94% of total revenues. Additionally, \$1,962,845, or 6.59%, of total revenues were Federal revenues in the form of grants. Grants from other local jurisdictions amount to \$1,517,997 or 5.10% of total revenues. Other miscellaneous revenues totaled \$1,674,752 or 5.63% of total revenues.

The County had \$35,025,154 in total expenses, which represents an increase of \$336,411 or 0.97% increase from the prior fiscal year. Expenses in the amount of \$12,504,656 were offset by grants, outside contributions or debt being issued. General revenues of \$17,262,269 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$17,296,648 in revenues and \$17,067,250 in expenditures. The General Fund's fund balance decreased \$721,618 from the prior year. The Countywide Road Fund had \$4,058,586 in revenues and \$5,912,445 in expenditures. The Countywide Road Fund's fund balance decreased \$1,412,642 over the prior year. The Countywide Bridge Fund had \$2,757,004 in revenues and \$3,699,187 in expenditures. The Countywide Bridge Fund's fund balance decreased \$1,020,551 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$2,318,561 or 1.21%. The majority of this decrease was due to depreciation expense related to infrastructure such as roads and bridges.

Long-term debt decreased by \$191,901 or 1.80%

## ***OVERVIEW OF THE FINANCIAL STATEMENTS***

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

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

Figure 2 summarizes the major features of the County's financial statements, including the portion of the County's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

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

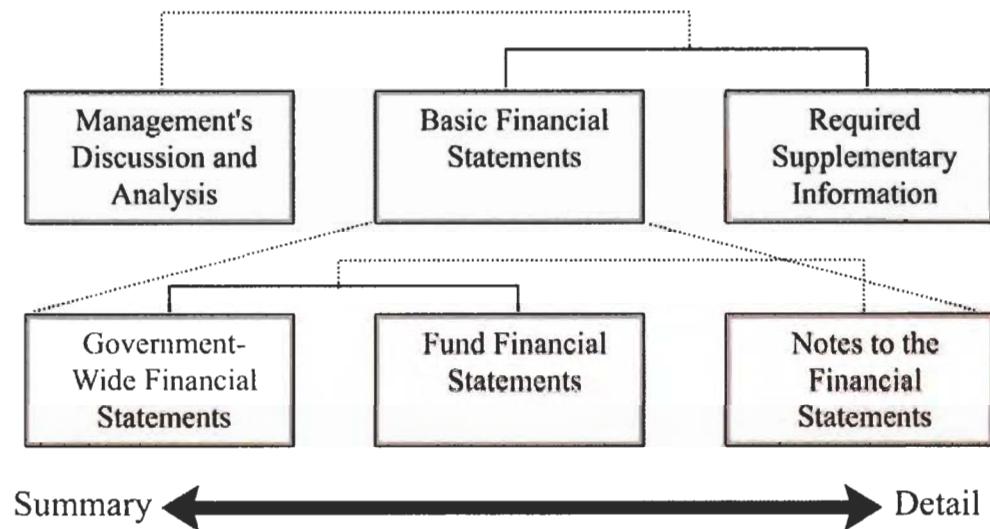


Figure 2 – Major Features of the County's Government-Wide and Fund Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide

financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Net Assets, which can be found on page 29 of this report.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 30-55 of this report.

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

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 57-61 of this report.

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

## ***GOVERNMENT-WIDE FINANCIAL ANALYSIS***

**Net Assets** – Net assets may serve over time as a useful indicator of government's financial position. In the case of Lee County, assets exceeded liabilities by \$209,456,435 as of September 30, 2005.

By far, the largest portion of the County's net assets (85.86%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

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

The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2005.

(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2004	2005	2004	2005	2004	2005	2004-2005
Current assets	\$ 47,652	\$ 45,613	\$ 710	\$ 639	\$ 48,362	\$ 46,252	-4.36%
Capital assets, net	190,959	188,554	595	681	191,554	189,235	-1.21%
<b>Total assets</b>	<b>238,611</b>	<b>234,167</b>	<b>1305</b>	<b>1,320</b>	<b>239,916</b>	<b>235,487</b>	<b>-1.85%</b>
Current liabilities	15,541	16,567	401	421	15,942	16,988	6.56%
Long-term debt outstanding	8,934	8,174	229	869	9,163	9,043	-1.31%
<b>Total liabilities</b>	<b>24,475</b>	<b>24,741</b>	<b>630</b>	<b>1,290</b>	<b>25,105</b>	<b>26,031</b>	<b>3.69%</b>
Net assets:							
Invested in capital assets, net of related debt	180,883	179,472	346	375	181,229	179,847	-0.76%
Restricted	19,740	16,987	329	(345)	20,069	16,642	-17.08%
Unrestricted	13,513	12,967	-	-	13,513	12,967	-4.04%
<b>Total net assets</b>	<b>\$ 214,136</b>	<b>\$ 209,426</b>	<b>\$ 675</b>	<b>\$ 30</b>	<b>\$ 214,811</b>	<b>\$ 209,456</b>	<b>-2.49%</b>

Note: Lee County operates two business-type activities:

#### Solid Waste Collection and Disposal

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

#### Turner Industrial Park Water and Sewer

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

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

- The payment to the City of Tupelo related to the annual delinquent property tax sale decreased. As a result of this, the intergovernmental payables portion of current liabilities decreased by \$585,945.

- Unearned revenues related to property taxes, also a part of current liabilities, increased by \$465,558. Property taxes, which are recognized as revenue during the year in which they can be legally expended, are reported as both a receivable and a unearned revenue at the end of the fiscal year prior to the year of collection.
- Depreciable capital assets acquisitions and depreciation associated with existing depreciable capital assets resulted in a decrease in capital assets of \$5,245,347.

**Changes in Net Assets** – Lee County's total revenues for the fiscal year ended September 30, 2005 was \$29,766,925. The total cost for all services provided was \$35,025,154. The decrease in net assets was \$5,258,229. The table on the following page presents a summary of the changes in net assets for the fiscal year ended September 30, 2005.

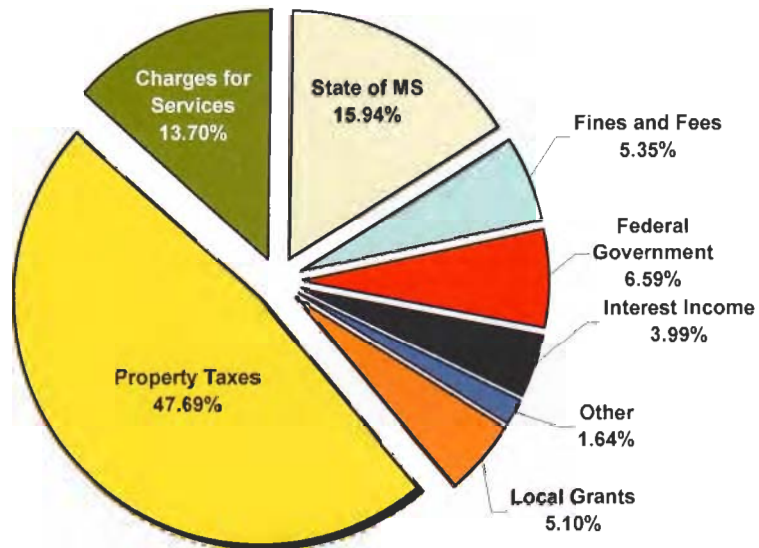
(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2004	2005	2004	2005	2004	2005	2004-2005
Revenues:							
Program revenues							
Charges for services	\$ 2,159	2,433	\$ 1,565	1,645	\$ 3,724	4,078	9.51%
Fines and fees	2,783	1,593	-	-	2,783	1,593	-42.76%
Federal grants	1,635	1,963	-	-	2,211	1,963	20.06%
State grants	3,558	4,717	11	27	3,382	4,744	32.92%
Local grants	267	1,518	-	-	267	1,518	468.54%
General revenues							
Property taxes	12,214	13,271	-	-	12,214	13,271	8.65%
Road & Bridge privilege taxes	917	925	-	-	917	925	0.87%
Other	2,304	1,666	7	9	2,022	1,675	-27.52%
<b>Total Revenues</b>	<b>\$ 25,837</b>	<b>28,086</b>	<b>\$ 1,583</b>	<b>1,681</b>	<b>\$ 27,420</b>	<b>29,767</b>	<b>8.56%</b>
Expenses:							
General government	7,441	7,533	-	-	7,441	7,533	1.24%
Public safety	8,079	7,958	-	-	8,079	7,958	-1.5%
Public works	13,385	13,828	-	-	13,385	13,828	3.31%
Health and welfare	1,540	1,518	-	-	1,540	1,518	-1.43%
Culture and recreation	1,051	813	-	-	1,051	813	-22.65%
Education	16	13	-	-	16	13	-18.75%
Conservation of natural resources	200	223	-	-	200	223	11.50%
Economic development	633	194	-	-	633	194	-69.35%
Interest on long-term debt	408	374	-	-	408	374	-8.33%
Solid waste collection & disposal	-	-	1,842	2,483	1,842	2,483	34.8%
Turner Ind. Park water & sewer	-	-	93	88	93	88	-5.38%
<b>Total Expenses</b>	<b>\$ 32,753</b>	<b>32,454</b>	<b>\$ 1,935</b>	<b>2,571</b>	<b>\$ 34,688</b>	<b>35,025</b>	<b>0.97%</b>
Deficiency before transfers	(6,916)	(4,368)	(352)	(890)	(7,268)	(5,258)	-27.66%
Transfers	(120)	(246)	120	246	-	-	
<b>Decrease in Net Assets</b>	<b>\$ (7,036)</b>	<b>(4,614)</b>	<b>\$ (232)</b>	<b>(644)</b>	<b>\$ (7,268)</b>	<b>(5,258)</b>	<b>-27.66%</b>

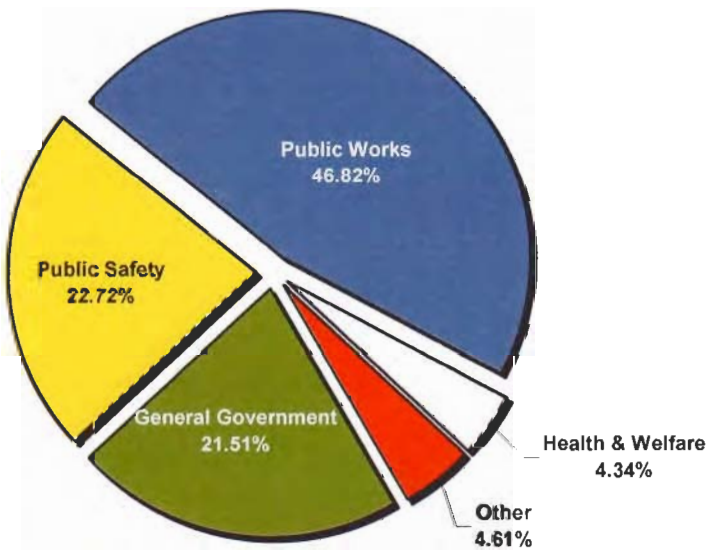


The following charts represent the County's sources of revenue and how those revenues are spent:

### Where The County Gets Its Revenue



### How County Revenues Are Used



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

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

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

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	<u>2004</u>	<u>2005</u>	<u>Change</u>	<u>2004</u>	<u>2005</u>	<u>Change</u>
General Government	\$ 7,440,757	7,533,467	1.25%	\$ 4,283,096	5,961,469	39.19%
Public Safety	8,079,200	7,958,085	-1.50%	5,263,628	4,758,065	-9.60%
Public Works	13,385,057	13,827,477	3.31%	11,144,748	11,557,328	3.70%
Health & Welfare	1,540,538	1,518,356	-1.44%	931,538	813,231	-12.70%
Economic Development *	632,766	3,119,580	393.01%	31,017	64,678	108.52%

\*In the current year, total costs for Economic Development includes \$1,728,103 in construction costs and a donation of land valued at \$1,197,647 related to the construction of the Small Business Incubator. A Community Development Block Grant (CDBG) and other grants were used toward this capital project. Construction-in-progress and land acquisition are normally presented as an asset and not shown as a cost. The cost of construction would be recorded over the life of the asset as depreciation expense; however grants related to this construction are reported in this period. Net cost would appear to be negative if construction-in-progress and the donated land "costs" were not included. Management felt that this would be misleading and therefore has included the construction costs and land valuation in the total costs for the purposes of this discussion. There was no Construction in Progress items at the close of the previous fiscal year.

## ***FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS***

**Governmental funds** – At the close of the fiscal year, Lee County's governmental funds reported a combined fund balance of \$28,694,430, a decrease of \$3,103,113. The primary reasons for this decrease are highlighted in the Government-Wide Financial Analysis.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year was \$721,618. This decrease in fund balance was primarily due to increases in liabilities associated with claims payable, intergovernmental payables and deferred revenues.

**Business-type funds** – Revenue from the Solid Waste Collection and Disposal Fund increased by 6.11% to \$1,597,602 and expenses increased by 34.76% to \$2,482,401. Chief factors contributing to these results include a marginally higher fee collection rate from the users, an increase in the cost of materials and supplies. The County's other business-type fund, the Turner Industrial Park Water and Sewer Fund's revenue increased by 6.26% to \$83,095 and expenses decreased by 5.40% to \$88,380.

## ***BUDGETARY HIGHLIGHTS OF MAJOR FUNDS***

Over the course of the year, Lee County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made to correct the estimated beginning fund balances made in the original budget to actual beginning fund balances on October 1.

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

## ***CAPITAL ASSETS AND DEBT ADMINISTRATION***

**Capital Assets** – As of September 30, 2005, Lee County's total capital assets was \$280,098,750. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. This amount represents an increase from the previous year of \$6,884,005 or 2.52%.

Total accumulated depreciation as of September 30, 2005 was \$90,863,513, including \$9,334,036 of depreciation expense for the year. The balance in total net capital assets was \$189,235,237 at year-end.

Additional information on Lee County's capital assets can be found in note 6 on page 43 of this report.

**Debt Administration** – At September 30, 2005, Lee County had \$10,461,080 in long-term debt outstanding. This includes general obligation bonds, obligations under capital lease, other loans and compensated absences. Of this debt, \$1,418,009 is due within one year.

Lee County maintains an "A1" bond rating from Moody's Investors Service. The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. The County's outstanding debt, as of September 30, 2005, was equal to 0.75% of the latest property assessment, significantly below the 15% limitation.

Additional information on Lee County's long-term debt can be found in note 9 on page 49 of this report.

## ***CURRENT AND FUTURE ITEMS OF IMPACT***

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

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

Total budgeted revenues increased for the next fiscal year by \$1,371,148 or 4.10% and total budgeted expenditures increased \$2,984,786 or 8.61%. This is expected to decrease the County's net assets.

Lee County has an unemployment rate of 6.1%. This is lower than the state average rate of unemployment of 9.1%. It should be noted that Hurricane Katrina had a significant adverse impact on the State's average with the three costal counties of Jackson, Harrison and Hancock reporting rates of 16.7%, 21.7% and 22.3% respectively, as well as other counties in the affected region posting rates in excess of 10%. *Note: the County's prior year rate was reported as 6.4%, but was revised upward to 6.6% likewise; the state average was revised upward to 7.0%.*

## ***CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT***

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

## **PRIMARY GOVERNMENT FINANCIAL STATEMENTS**

Lee County  
Statement of Net Assets  
September 30, 2005

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and investments	\$ 31,320,282	168,556	31,488,838
Accrued interest receivable	139,401		139,401
Property tax receivable	10,653,399		10,653,399
Accounts receivable (net of allowance for uncollectibles of \$514,470)		353,912	353,912
Fines receivable, (net of allowance for uncollectibles of \$2,028,057)	1,715,821		1,715,821
Intergovernmental receivables	1,632,131		1,632,131
Other receivables	151,992	116,478	268,470
Capital assets, net	188,554,024	681,213	189,235,237
Total Assets	234,167,050	1,320,159	235,487,209
<b>LIABILITIES</b>			
Claims payable	2,360,098	146,477	2,506,575
Intergovernmental payables	1,610,308		1,610,308
Accrued interest payable	89,090		89,090
Deferred revenue	10,653,399		10,653,399
Unearned revenue		131,352	131,352
Other payables	578,970		578,970
Long-term liabilities			
Due within one year:			
Capital related debt	1,274,825	143,184	1,418,009
Due in more than one year:			
Capital related debt	7,807,365	162,640	7,970,005
Non-capital debt	367,165	705,901	1,073,066
Total Liabilities	24,741,220	1,289,554	26,030,774
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	179,471,834	375,389	179,847,223
Restricted net assets:			
Expendable:			
General government	(2,844)		(2,844)
Debt service	(89,090)		(89,090)
Public safety	827,245		827,245
Public works	9,928,874	(344,784)	9,584,090
Health and welfare	3,938		3,938
Culture and recreation	(120,156)		(120,156)
Economic development	427,985		427,985
Other purposes	6,010,964		6,010,964
Unrestricted	12,967,080		12,967,080
Total Net Assets	\$ 209,425,830	30,605	209,456,435

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

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

[illegible]

Lee County  
Balance Sheet - Governmental Funds  
September 30, 2005

Exhibit 3

	Major Funds				
	General Fund	Countywide Road Fund	Countywide Bridge & Culvert Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and investments	\$ 19,743,834	7,347,986	3,495,486	732,976	31,320,282
Accrued interest receivable	71,718	43,059	24,624		139,401
Property tax receivable	7,048,330	1,749,400	1,451,860	403,809	10,653,399
Fines receivable (net of allowance for uncollectibles of \$2,415,730)	1,715,821				1,715,821
Intergovernmental receivables	843,051	63,089		725,991	1,632,131
Other receivables	56,985			95,007	151,992
Due from other funds	821	164,769	68,197	11,889	245,676
Total Assets	\$ 29,480,560	9,368,303	5,040,167	1,969,672	45,858,702
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 693,912	1,174,035	81,432	410,719	2,360,098
Intergovernmental payables	1,339,441	22,869		18,976	1,381,286
Due to other funds	474,698				474,698
Deferred revenue	8,764,151	1,749,400	1,451,860	403,809	12,369,220
Other payables	578,970				578,970
Total Liabilities	11,851,172	2,946,304	1,533,292	833,504	17,164,272
Fund balances:					
Reserved for:					
Other	6,010,964				6,010,964
Unreserved, reported in:					
General fund	11,618,424				11,618,424
Special revenue funds		6,421,999	3,506,875	1,136,168	11,065,042
Total Fund Balances	17,629,388	6,421,999	3,506,875	1,136,168	28,694,430
Total Liabilities and Fund Balances	\$ 29,480,560	9,368,303	5,040,167	1,969,672	45,858,702

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



**Lee County**Exhibit 3-1**Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2005**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 28,694,430
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and therefore, are not reported in the funds, net of accumulated depreciation of \$89,734,903.	188,554,024
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,715,821
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	
Long-term liabilities	(9,449,355)
Accrued interest on bonds	(89,090)
Total net assets - governmental activities (Exhibit 1)	\$ <u>209,425,830</u>

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

**Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds**  
**For the Year Ended September 30, 2005**

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Countywide Road Fund	Countywide Bridge & Culvert Fund		
<b>REVENUES</b>					
Property taxes	\$ 9,019,161	2,115,776	1,747,950	388,533	13,271,420
Road and bridge privilege taxes		924,874			924,874
Licenses, commissions and other revenue	1,108,892	6,407		22,549	1,137,848
Fines and forfeitures	559,242			788	560,030
Intergovernmental revenues	4,081,435	865,613	920,191	2,347,265	8,214,504
Charges for services	1,308,419	1,324		1,122,897	2,432,640
Interest income	917,747	144,560	88,801	26,966	1,178,074
Miscellaneous revenues	301,752	32	62	162,044	463,890
Total Revenues	<u>17,296,648</u>	<u>4,058,586</u>	<u>2,757,004</u>	<u>4,071,042</u>	<u>28,183,280</u>
<b>EXPENDITURES</b>					
Current:					
General government	7,274,442			23,360	7,297,802
Public safety	5,833,545			2,052,288	7,885,833
Public works		5,593,490	3,340,599		8,934,089
Health and welfare	1,522,966				1,522,966
Culture and recreation	396,648			317,543	714,191
Conservation of natural resources	218,927				218,927
Economic development and assistance	1,330,505			1,789,076	3,119,581
Debt service:					
Principal	416,675	280,162	315,499	519,839	1,532,175
Interest	73,542	38,793	43,089	232,867	388,291
Total Expenditures	<u>17,067,250</u>	<u>5,912,445</u>	<u>3,699,187</u>	<u>4,934,973</u>	<u>31,613,855</u>
Excess of Revenues over (under) Expenditures	<u>229,398</u>	<u>(1,853,859)</u>	<u>(942,183)</u>	<u>(863,931)</u>	<u>(3,430,575)</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term capital debt issued	176,753	281,732	79,232		537,717
Proceeds from sale of capital assets	40,047	5,684		5,350	51,081
Compensation for loss of capital assets	1,175	1,401			2,576
Transfers in	26	155,000		1,163,225	1,318,251
Transfers out	(1,169,017)	(2,600)	(157,600)	(234,834)	(1,564,051)
Total Other Financing Sources and Uses	<u>(951,016)</u>	<u>441,217</u>	<u>(78,368)</u>	<u>933,741</u>	<u>345,574</u>
Net Changes in Fund Balances	<u>(721,618)</u>	<u>(1,412,642)</u>	<u>(1,020,551)</u>	<u>69,810</u>	<u>(3,085,001)</u>
Fund Balances - Beginning	18,369,118	7,834,641	4,527,426	1,066,358	31,797,543
Prior period adjustment	(18,112)				(18,112)
Fund Balances - Beginning, as restated	<u>18,351,006</u>	<u>7,834,641</u>	<u>4,527,426</u>	<u>1,066,358</u>	<u>31,779,431</u>
Fund Balances - Ending	\$ <u>17,629,388</u>	<u>6,421,999</u>	<u>3,506,875</u>	<u>1,136,168</u>	<u>28,694,430</u>

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

Lee County

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes  
in Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2005

	Amount
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ (3,085,001)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of \$9,242,781 exceeded capital outlays of \$6,923,184 in the current period.	(2,319,597)
In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the gain of \$1,273 and the proceeds from the sale and loss of \$45,675 in the current period.	(44,402)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the statement of activities using the full-accrual basis of accounting.	(105,033)
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments \$1,532,175 exceeded debt proceeds \$537,717.	994,458
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long- term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The amount of increase in compensated absences.	(68,931)
The amount of decrease in accrued interest payable.	14,561
Change in net assets of governmental activities (Exhibit 2)	\$ (4,613,945)

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

Lee County  
Statement of Net Assets - Proprietary Fund  
September 30, 2005

Exhibit 5

	Business-type Activities - Enterprise Funds		
	Solid Waste	Turner Park	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ (69,234)	237,790	168,556
Accounts receivable (net of allowance for uncollectibles of \$536,696)	348,279	5,633	353,912
Other receivables	116,478		116,478
Total Current Assets	395,523	243,423	638,946
Noncurrent assets:			
Capital assets, net	494,163	187,050	681,213
Total Noncurrent Assets	494,163	187,050	681,213
Total Assets	889,686	430,473	1,320,159
<b>LIABILITIES</b>			
Current liabilities:			
Claims payable	140,695	5,782	146,477
Deferred revenue	131,352		131,352
Capital debt:			
Other long-term liabilities	135,271	7,913	143,184
Total Current Liabilities	407,318	13,695	421,013
Noncurrent liabilities:			
Capital debt:			
Other long-term liabilities	95,915	66,725	162,640
Non-capital debt:			
Compensated absences payable	41,645		41,645
Other long-term liabilities	664,256		664,256
Total Noncurrent Liabilities	801,816	66,725	868,541
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	262,977	112,412	375,389
Restricted for public works	(582,425)	237,641	(344,784)
Total Net Assets	\$ (319,448)	350,053	30,605

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

## Lee County

Exhibit 6

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Year Ended September 30, 2005

	Business-type Activities - Enterprise Funds		
	Solid Waste	Turner Park	Total
Operating Revenues			
Charges for services	\$ 1,568,749	76,247	1,644,996
Total Operating Revenues	1,568,749	76,247	1,644,996
Operating Expenses			
Personal services	830,294		830,294
Contractual services	646,212	71,124	717,336
Materials and supplies	864,943	925	865,868
Depreciation expense	79,135	12,120	91,255
Indirect administrative cost	44,517	1,832	46,349
Total Operating Expenses	2,465,101	86,001	2,551,102
Operating Loss	(896,352)	(9,754)	(906,106)
Nonoperating Revenues			
Interest income	2,153	6,848	9,001
Operating grants	26,700		26,700
Interest expense	(17,300)	(2,379)	(19,679)
Net Nonoperating Revenue	11,553	4,469	16,022
Net Income Before Transfers	(884,799)	(5,285)	(890,084)
Transfers in	245,800		245,800
Changes in Net Assets	(638,999)	(5,285)	(644,284)
Net Assets - Beginning	319,551	355,338	674,889
Net Assets - Ending	\$ (319,448)	350,053	30,605

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

Lee County  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2005

Exhibit 7

	Business-type Activities - Enterprise Funds		
	Solid Waste	Turner Park	Total
Cash Flows From Operating Activities			
Receipts from customers	\$ 1,587,377	75,969	1,663,346
Payments to suppliers	(1,597,922)	(68,476)	(1,666,398)
Payments to employees	(843,204)		(843,204)
Payments to General Fund for indirect costs	(44,517)	(1,832)	(46,349)
Net Cash Provided (Used) by Operating Activities	(898,266)	5,661	(892,605)
Cash Flows From Noncapital Financing Activities			
Operating grants received	26,700		26,700
Cash received from other funds:			
Operating transfers in	245,800		245,800
Net Cash Provided by Noncapital Financing Activities	272,500	-0-	272,500
Cash Flows From Capital and Related Financing Activities			
Proceeds of long-term debt	842,149		842,149
Acquisition and construction of capital assets	(177,893)		(177,893)
Principal paid on long-term debt	(113,067)	(7,665)	(120,732)
Interest paid on debt	(17,300)	(2,379)	(19,679)
Net Cash Provided (Used) by Capital and Related Financing Activities	533,889	(10,044)	523,845
Cash Flows From Investing Activities			
Interest and dividends on investments	2,153	6,848	9,001
Net Cash Provided by Investing Activities	2,153	6,848	9,001
Net Increase (Decrease) in Cash and Cash Equivalents	(89,724)	2,465	(87,259)
Cash and Cash Equivalents at Beginning of Year	20,490	235,325	255,815
Cash and Cash Equivalents at End of Year	\$ (69,234)	237,790	168,556
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating loss	\$ (896,352)	(9,754)	(906,106)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	79,135	12,120	91,255
Provision for uncollectible accounts	22,226		22,226
Changes in assets and liabilities:			
Increase in accounts receivable	(39,699)	(278)	(39,977)
Decrease in other receivables	1,817		1,817
Increase (decrease) in claims payable	(111,886)	3,573	(108,313)
Increase in compensated absences liability	12,209		12,209
Increase in deferred revenue	34,284		34,284
Total Adjustments	(1,914)	15,415	13,501
Net Cash Provided (Used) by Operating Activities	\$ (898,266)	5,661	(892,605)

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

**Lee County**  
**Statement of Fiduciary Assets and Liabilities**  
**September 30, 2005**

**Exhibit 8**

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 257,711
Due from other funds	229,843
Other receivables	<u>4,257</u>
Total Assets	<u><u>\$ 491,811</u></u>
<b>LIABILITIES</b>	
Claims payable and other accrued liabilities	111,913
Intergovernmental payables	379,077
Due to other funds	<u>821</u>
Total Liabilities	<u><u>\$ 491,811</u></u>

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(1) Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

Lee County is a political subdivision of the State of Mississippi. The county is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Lee County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

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

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

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

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



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**B. Basis of Presentation**

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

**Government-wide Financial Statements**

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

The Statement of Net Assets presents the financial condition of the governmental activities and business-type activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities and business-type activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants, and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the county.

**Fund Financial Statements**

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

The Government-wide, Proprietary Funds and Fiduciary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the county. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

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

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

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

The county reports the following major governmental funds:

General Fund – This fund is used to account for all activities of the general government for which a separate fund has not been established.

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

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

The county reports the following major proprietary funds:

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

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

Additionally, the county reports the following fund types:

**Governmental Fund Types**

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

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

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

**Proprietary Fund Type**

Enterprise Funds – These funds are used to account for those operations that are financed and operated in a manner similar to private business enterprises or where the county has decided that periodic determination of revenues earned, expenses incurred and/or net income is necessary for management accountability.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

**Fiduciary Fund Type**

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

**D. Account Classifications**

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

**E. Deposits and Investments**

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

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

**F. Receivables**

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**G. Interfund Transactions and Balances**

Transactions between funds that are representative of short-term lending/borrowing arrangements, and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

**H. Capital Assets**

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

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

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**H. Capital Assets (Continued)**

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

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

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

**I. Long-Term Liabilities**

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

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**J. Equity Classifications**

Government-wide Financial Statements:

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

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

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

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

**K. Property Tax Revenues**

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**K. Property Tax Revenues (Continued)**

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

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

**L. Intergovernmental Revenues in Governmental Funds**

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

**M. Compensated Absences**

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and the proprietary funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(2) Changes in Accounting Standards**

For the fiscal year ended September 30, 2005, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*. GASB Statement No. 40 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk and foreign currency risk. The provisions of this new statement have been incorporated into the financial statements and the accompanying notes.

**(3) Prior Period Adjustment**

A summary of significant fund equity adjustments is as follows:

Exhibit 2 Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Revenue accrual adjustments	\$ (54,963)
Capital asset adjustment	(41,200)
	<u>(96,163)</u>

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

<u>Explanation</u>	<u>Amount</u>
Revenue accrual adjustments	\$ (18,112)

**(4) Deposits and Investments**

Deposits

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$10,561,443 and the bank balance was \$11,387,860. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of a failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(4) Deposits and Investments (Continued)**

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the county will not be able to recover deposits or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the county. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the county.

Investments

Investments balances at September 30, 2005, are as follows:

Investment Type	Maturities	Fair Value	Rating
Federal Home Ln Mtg Corp	2/14/2007	982,770	AAA
Federal Home Ln Mtg Corp	10/25/2007	1,473,435	AAA
Federal Home Ln Mtg Corp	9/29/2006	985,180	AAA
Federal Home Ln Banks	3/30/2009	810,995	AAA
Federal Home Ln Banks	12/18/2006	1,121,790	AAA
Federal Home Ln Banks	10/10/2008	480,003	AAA
Federal Home Ln Banks	12/18/2008	482,265	AAA
Federal Natl Mtg Assn	7/15/2007	299,391	AAA
Federal Natl Mtg Assn	2/15/2007	1,947,820	AAA
US Treasury Notes	11/15/2006	993,400	AAA
US Treasury Notes	11/15/2008	976,445	AAA
US Treasury Notes	5/15/2007	491,952	AAA
US Treasury Notes	6/30/2006	743,145	AAA
US Treasury Notes	4/30/2007	1,487,813	AAA
US Treasury Sec Stripped Int	5/15/2008	1,997,738	AAA
Transamerica Occidental Life Annuity	6/21/2012	5,910,964	
Total		<u>\$ 21,185,106</u>	

Interest Rate Risk. The County does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, Section 19-9-29, Miss. Code Ann. (1972), limits the maturity period of any investment to no more than one year.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(4) Deposits and Investments (Continued)**

Credit Risk. State law limits investments to those authorized by Section 19-9-29, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investment choices or one that address credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk.

**(5) Interfund Transactions and Balances**

The following is a summary of interfund balances at September 30, 2005:

**A. Due From/To Other Funds**

Receivable Fund	Payable Fund	Amount
General Fund	Agency Funds	\$ 821
Countywide Road	General Fund	164,769
Countywide Bridge	General Fund	68,197
Other Governmental Funds	General Fund	11,889
Agency Funds	General Fund	229,843
Total		<u>\$ 475,519</u>

The payables from the General Fund represent the tax revenue collected but not settled until October 2005. All interfund balances are expected to be repaid within one year from the date of the financial statements.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(5) Interfund Transactions and Balances (Continued)**

B. Transfers In/Out

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 26
Countywide Road	Countywide Bridge	155,000
Solid Waste	General Fund	240,600
Solid Waste	Countywide Road	2,600
Solid Waste	Countywide Bridge	2,600
Other Governmental Funds	General Fund	928,417
Other Governmental Funds	Other Governmental Funds	234,808
Total		<u>\$ 1,564,051</u>

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

**(6) Intergovernmental Receivables**

Intergovernmental receivables at September 30, 2005 consisted of the following:

Governmental Activities:

Description	Amount
Legislative tag credit	\$ 463,466
Reimbursement for housing prisoners	255,950
Homeland Security grant	95,511
Welfare	43,709
Economic Development Administration grant	542,598
Appalachian Regional Commission grant	52,738
State aid roads	31,591
Community Development Block Grant	21,908
Other	124,660
Total Governmental Activities	<u>1,632,131</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(7) Capital Assets**

The following is a summary of capital assets activity for the year ended September 30, 2005:

Governmental activities:

	Balance Oct. 1, 2004	Additions	Deletions	Adjustments	Balance Sept. 30, 2005
<u>Non-depreciable capital assets</u>					
Land	\$ 3,033,391	1,197,647	(25,000)	(41,200)	4,164,838
Construction in progress	-0-	1,728,103			1,728,103
Total non-depreciable capital assets	<u>3,033,391</u>	<u>2,925,750</u>	<u>(25,000)</u>	<u>(41,200)</u>	<u>5,892,941</u>
<u>Depreciable capital assets</u>					
Infrastructure	236,206,998	3,276,587			239,483,585
Buildings	23,184,071				23,184,071
Improvements other than buildings	593,998				593,998
Mobile equipment	5,810,977	611,759	(150,872)	1,093,138	7,365,002
Furniture and equipment	1,556,214	109,088			1,665,302
Leased property under capital leases	1,197,166			(1,093,138)	104,028
Total depreciable assets	<u>268,549,424</u>	<u>3,997,434</u>	<u>(150,872)</u>	<u>-0-</u>	<u>272,395,986</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	69,661,626	8,124,371			77,785,997
Buildings	4,778,452	453,839			5,232,291
Improvements other than buildings	226,262	23,760			250,022
Mobile equipment	3,843,879	579,999	(131,470)	681,199	4,973,607
Furniture and equipment	1,357,274	42,087			1,399,361
Leased property under capital leases	756,099	18,725		(681,199)	93,625
Total accumulated depreciation	<u>80,623,592</u>	<u>9,242,781</u>	<u>(131,470)</u>	<u>-0-</u>	<u>89,734,903</u>
Total depreciable capital assets, net	<u>187,925,832</u>	<u>(5,245,347)</u>	<u>(19,402)</u>	<u>-0-</u>	<u>182,661,083</u>
Governmental activities capital assets, net	<u>\$ 190,959,223</u>	<u>(2,319,597)</u>	<u>(44,402)</u>	<u>(41,200)</u>	<u>188,554,024</u>

Adjustments were required to reclass capital assets due to payoff of capital leases and adjust value of land for incorrect acreage.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

Business-type activities:

	Balance Oct. 1, 2004	Additions	Deletions	Adjustments	Balance Sept. 30, 2005
<u>Non-depreciable capital assets</u>					
Land	\$ 47,746				47,746
Total non-depreciable capital assets	47,746	-0-	-0-	-0-	47,746
<u>Depreciable capital assets</u>					
Buildings	425,500				425,500
Improvements other than buildings	137,129				137,129
Mobile equipment	1,000,718	177,893			1,178,611
Furniture and equipment	20,837				20,837
Total depreciable assets	1,584,184	177,893	-0-	-0-	1,762,077
<u>Less accumulated depreciation for:</u>					
Buildings	226,527	8,510			235,037
Improvements other than buildings	71,307	5,485			76,792
Mobile equipment	722,840	76,224			799,064
Furniture and equipment	16,681	1,036			17,717
Total accumulated depreciation	1,037,355	91,255	-0-	-0-	1,128,610
Total depreciable capital assets, net	546,829	86,638	-0-	-0-	633,467
Governmental activities capital assets, net	\$ 594,575	86,638	-0-	-0-	681,213

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 198,950
Public safety	340,579
Public works	8,578,545
Health and welfare	3,435
Culture and recreation	104,002
Education	13,370
Conservation of natural resources	<u>3,900</u>
Total governmental activities depreciation expense	<u>\$ 9,242,781</u>
Business-type activities:	
Solid Waste	\$ 79,135
Turner Park	<u>12,120</u>
Total business-type activities depreciation expense	<u>\$ 91,255</u>

Commitments with respect to unfinished capital projects at September 30, 2005, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Small Business Incubator	\$ 1,469,550	Mar-07

**(8) Claims and Judgements**

**Risk Financing**

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(8) Claims and Judgements (Continued)**

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

Unpaid Claims, Beginning of Fiscal Year	\$ 257,596
Plus: Incurred Claims (Including IBNRs)	2,252,262
Less: Claims Payments	<u>(2,210,011)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 299,847</u>



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(9) Capital Leases**

**As Lessee:**

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2005:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ <u>104,028</u>
Total	104,028
Less: Accumulated Depreciation	<u>93,625</u>
Leased Property Under Capital Lease	<u><u>\$ 10,403</u></u>

The following is a schedule by years of the total payments due as of September 30, 2005:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
Year Ending September 30, 2006	\$ <u>3,920</u>	<u>11</u>
Total	<u><u>\$ 3,920</u></u>	<u><u>11</u></u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(10) Long-term Debt**

Debt outstanding as of September 30, 2005, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rates	Final Maturity Date
<b>Governmental Activities:</b>			
A. General Obligation Bonds:			
2001 Refunding Bonds	\$ 5,330,000	3.2-4.5	12/1/13
Total General Obligation Bonds	<u>\$ 5,330,000</u>		
B. Capital Leases:			
(2) International 4700 dump trucks			
(5) HTC truck mounted conveyors	\$ 3,920	6.09	10/5/05
	<u>\$ 3,920</u>		
D. Other Loans:			
Capital improvements revolving loan	\$ 169,358	3.0	3/1/14
Capital improvements revolving loan	898,158	3.0	11/1/18
MS Development Bank promissory note	<u>2,680,754</u>	Variable	2/28/13
	<u>\$ 3,748,270</u>		
<b>Business-type Activities:</b>			
A. Other Loans			
Capital improvements revolving loan	\$ 74,638	3.0	3/1/14
MS Development Bank promissory note	<u>895,442</u>	Variable	4/30/13
	<u>\$ 970,080</u>		

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

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

Governmental Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2006	\$ 485,000	185,415	785,905	175,117
2007	515,000	169,415	582,863	172,847
2008	540,000	151,995	485,024	170,508
2009	560,000	133,015	452,557	168,097
2010	590,000	112,300	392,975	165,614
2011-2015	2,640,000	209,948	802,859	500,532
2016-2020			246,087	12,053
Total	\$ 5,330,000	962,088	3,748,270	1,364,768

Business-type Activities:

Year Ending September 30,	Other Loans	
	Principal	Interest
2006	\$ 143,184	33,035
2007	129,489	32,795
2008	121,915	32,547
2009	139,911	32,291
2010	124,994	32,028
2011-2015	310,587	94,455
Total	\$ 970,080	257,151

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2005, the amount of outstanding debt was equal to 0.75% of the latest property assessments.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2005:

	Balance Oct. 1, 2004	Additions	Reductions	Adjustments	Balance Sept. 30, 2005	Amount due within one year
<b>Governmental Activities:</b>						
Compensated absences	\$ 298,234	68,931			367,165	
General obligation bonds	5,795,000		465,000		5,330,000	485,000
Capital leases	219,613		215,693		3,920	3,920
Other loans	4,062,035	537,717	851,482		3,748,270	785,905
<b>Totals</b>	<b>10,374,882</b>	<b>606,648</b>	<b>1,532,175</b>	<b>-0-</b>	<b>9,449,355</b>	<b>1,274,825</b>
<b>Business-type Activities:</b>						
Compensated absences	\$ 29,436	12,209			41,645	
Other loans	248,663	842,149	120,732		970,080	143,184
<b>Totals</b>	<b>278,099</b>	<b>854,358</b>	<b>120,732</b>	<b>-0-</b>	<b>1,011,725</b>	<b>143,184</b>

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

The following fund reported a deficit in fund balance at September 30, 2005:

Fund	Deficit Amount
Agri-Center/Fair Fund	\$ 120,156

**(12) Contingencies**

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

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

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(12) Contingencies (Continued)**

Lee County Solvent Vault – In 1975, Lee County received a state permit to construct and operate the Lee County Solvent Vault for surrounding industries. The Lee County Solvent Vault is located within the property boundary of the Lee County Landfill. In 1978, Lee County discontinued use of the solvent vault. Following an environmental assessment of the site in 1991 by the Mississippi Department of Environmental Quality, the Lee County Solvent Vault Group (comprised of Lee County and the potentially responsible parties) retained U.S. Griner Corp. to conduct an investigation to document the possible solvent release from the Lee County Solvent Vault.

The Department of Environmental Quality has determined that there is hazardous material in the groundwater immediately under the Lee County Landfill which exceeds clean drinking water standards. A proposed work plan to delineate the extent of the problem has been proposed and is being implemented with the Mississippi Department of Environmental Quality.

Future assessment costs included in the closing of the Lee County Solvent Vault are dependent upon the results of testing completed at each phase of the work plan developed by U.S. Griner Corp. These costs are not reasonably estimable and are, therefore, not included in the closing costs of the Lee County Landfill. It is anticipated and hoped that a substantial portion of the costs of clean up can be paid through the Mississippi Corrective Action Trust Fund. However, a possible liability exists for Lee County as a member of the Lee County Solvent Vault Group.

Solid Waste Revenue Refunding Bonds

In 1998, solid waste revenue refunding bonds were issued by the Three Rivers Solid Waste Management Authority for \$8,210,000. As part of a solid waste disposal service agreement between Lee County and Three Rivers Solid Waste Management Authority, the county has agreed to pay its pro rata share of any obligations of the authority that are not covered by fees generated from solid waste disposal services. The county's pro rata share of the \$5,305,000 refunding bonds balance at September 30, 2005, is \$743,761.

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(13) No Commitment Debt (Not included in Financial Statements)**

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

<u>Description</u>	<u>Balance 9/30/05</u>
Industrial revenue bonds	\$ 48,026,106

**(14) Segment Information for Enterprise Funds**

The county maintains two Enterprise Funds which provide solid waste services to county residents and commercial entities and water and sewer services to Turner Industrial Park. Summary financial information for each Enterprise Fund is presented for the year ended September 30, 2005:

Condensed Statement of Net Assets

	<u>Solid Waste Fund</u>	<u>Turner Park Water &amp; Sewer Fund</u>	<u>Total Enterprise Funds</u>
Assets:			
Current assets	\$ 395,523	243,423	638,946
Capital assets	494,163	187,050	681,213
Total assets	<u>889,686</u>	<u>430,473</u>	<u>1,320,159</u>
Liabilities:			
Current liabilities	407,318	13,695	421,013
Noncurrent liabilities	801,816	66,725	868,541
Total liabilities	<u>1,209,134</u>	<u>80,420</u>	<u>1,289,554</u>
Net assets:			
Invested in capital assets, net of related debt	262,977	112,412	375,389
Unrestricted	(582,425)	237,641	(344,784)
Total net assets	<u>(319,448)</u>	<u>350,053</u>	<u>30,605</u>

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(14) Segment Information for Enterprise Funds (Continued)**

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

	Solid Waste Fund	Turner Park Water & Sewer Fund	Total Enterprise Funds
Operating revenues			
Charges for services	\$ 1,568,749	76,247	1,644,996
Operating expenses	2,385,966	73,881	2,459,847
Depreciation expense	79,135	12,120	91,255
Operating loss	(896,352)	(9,754)	(906,106)
Nonoperating revenues (expenses)			
Operating grants	26,700		26,700
Interest income	2,153	6,848	9,001
Interest expense	(17,300)	(2,379)	(19,679)
Transfers in	245,800		245,800
Changes in net assets	(638,999)	(5,285)	(644,284)
Total net assets - beginning	319,551	355,338	674,889
Total net assets - ending	(319,448)	350,053	30,605

Condensed Statement of Cash Flows

	Solid Waste Fund	Turner Park Water & Sewer Fund	Total Enterprise Funds
Net cash provided (used) by:			
Operating activities	\$ (898,266)	5,661	(892,605)
Noncapital financing activities	272,500		272,500
Capital and related financing activities	533,889	(10,044)	523,845
Investing activities	2,153	6,848	9,001
Net increase (decrease)	(89,724)	2,465	(87,259)
Beginning cash and cash equivalents	20,490	235,325	255,815
Ending cash and cash equivalents	(69,234)	237,790	168,556

**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(15) Jointly Governed Organizations**

The county participates in the following jointly governed organizations:

Three Rivers Solid Waste Management Authority operates in a district composed of the counties of Calhoun, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union and the cities of Aberdeen, Amory, Fulton, New Albany, Oxford, Pontotoc and Tupelo. The Lee County Board of Supervisors appoints one of the seven members of the board of directors. The entity is fiscally independent of the members. Members are billed based on the volume of solid waste deposited. The county did not appropriate any funds for the support of the authority in fiscal year 2005.

Three Rivers Planning and Development District operates in a district composed of the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union. The Lee County Board of Supervisors appoints five of the forty members of the board of directors. The county appropriated \$42,369 for the support of the district in fiscal year 2005.

Itawamba Community College operates in a district composed of the counties of Chickasaw, Itawamba, Lee, Monroe and Pontotoc. The Lee County Board of Supervisors appoints six of the thirty members of the college board of trustees. The county appropriated \$4,842,660 for the support and maintenance of the college in fiscal year 2005.

Northeast Mental Health-Mental Retardation Commission operates in a district composed of the counties of Benton, Itawamba, Lee, Chickasaw, Pontotoc, Monroe and Union. The Lee County Board of Supervisors appoints one of the seven members of the board of commissioners. The county appropriated \$96,630 for support of the commission in fiscal year 2005.

Lift, Inc. operates in a district composed of the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Monroe, Pontotoc and Union. The Lee County Board of Supervisors appoints two of the twenty-four members of the board of directors. The county appropriated \$6,963 in fiscal year 2005 to the organization.

Northeast Mississippi Emergency Medical Services serves the counties of Calhoun, Chickasaw, Itawamba, Lafayette, Lee, Marshall, Pontotoc, Tishomingo and Union. The Lee County Board of Supervisors appoints four of the thirty-six members of the board of directors. Lee County appropriated \$53,029 for support of the district in fiscal year 2005.

Pontotoc-Union-Lee Alliance (PUL) is an alliance among Pontotoc, Union and Lee counties. The Lee County Board of Supervisors appoints two of the nine members of the board of directors. The county did not appropriate any funds for the support of the alliance in fiscal year 2005.



**LEE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**(16) Defined Benefit Pension Plan**

Plan Description. Lee County, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The current rate is 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2005, 2004, and 2003, were \$939,281, \$865,517, and \$859,782, respectively, equal to the required contributions for each year.

**(17) Subsequent Events**

Subsequent to September 30, 2005, Lee County borrowed the following amounts under the Mississippi Development Bank Loan Program:

Issue Date	Interest Rate	Issue Amount	Source of Financing
3/17/2006	3.5	232,850	General Fund, Road Fund, Bridge Fund and Solid Waste
6/21/2006	3.5	578,437	General Fund, Road Fund, Bridge Fund and Solid Waste
8/5/2006	3.5	105,928	Road Fund, Bridge Fund and Solid Waste

## **REQUIRED SUPPLEMENTARY INFORMATION**

**Lee County**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**General Fund**  
**For the Year Ended September 30, 2005**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 8,855,250	8,862,441	8,862,441	-0-
Licenses, commissions and other revenue	1,156,600	1,189,363	1,189,363	-0-
Fines and forfeitures	683,100	561,504	561,504	-0-
Intergovernmental revenues	2,812,800	2,841,056	2,841,056	-0-
Charges for services	1,092,400	1,147,694	1,147,694	-0-
Interest income	1,475,585	936,950	936,950	-0-
Miscellaneous revenues	1,174,838	1,117,580	1,117,580	-0-
Total Revenues	17,250,573	16,656,588	16,656,588	-0-
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	8,393,080	8,131,904	8,131,904	-0-
Public safety	5,635,855	5,728,426	5,728,426	-0-
Health and welfare	1,004,485	934,393	934,393	-0-
Culture and recreation	890,323	839,314	839,314	-0-
Conservation of natural resources	371,163	218,313	218,313	-0-
Economic development and assistance		132,983	132,983	-0-
<b>Debt service:</b>				
Principal		416,709	416,709	-0-
Interest		73,508	73,508	-0-
Total Expenditures	16,294,906	16,475,550	16,475,550	-0-
Excess of Revenues over (under) Expenditures	955,667	181,038	181,038	-0-
<b>OTHER FINANCING SOURCES (USES)</b>				
Long-term capital debt issued	100			-0-
Proceeds from sale of capital assets	418,500	40,048	40,048	-0-
Compensation for loss of capital assets	10,000	12,340	12,340	-0-
Transfers in	795,449	787,497	787,497	-0-
Transfers out	(1,933,326)	(1,939,760)	(1,939,760)	-0-
Total Other Financing Sources and Uses	(709,277)	(1,099,875)	(1,099,875)	-0-
Net Change in Fund Balance	246,390	(918,837)	(918,837)	-0-
Fund Balances - Beginning	19,627,738	18,839,429	18,839,429	-0-
Fund Balances - Ending	\$ 19,874,128	17,920,592	17,920,592	-0-

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

**Lee County**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**Countywide Road Maintenance**  
**For the Year Ended September 30, 2005**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 2,128,750	2,104,192	2,104,192	-0-
Road and bridge privilege taxes	930,000	916,850	916,850	-0-
Licenses, commissions and other revenue	3,500	6,407	6,407	-0-
Fines and forfeitures	7,500			-0-
Intergovernmental revenues	845,000	802,524	802,524	-0-
Charges for services	1,500	1,324	1,324	-0-
Interest income	230,000	160,502	160,502	-0-
Miscellaneous revenues	400	32	32	-0-
Total Revenues	<u>4,146,650</u>	<u>3,991,831</u>	<u>3,991,831</u>	<u>-0-</u>
<b>EXPENDITURES</b>				
Current:				
Public works	4,274,060	4,339,415	4,339,415	-0-
Debt service:				
Principal	289,950	280,162	280,162	-0-
Interest	30,970	38,793	38,793	-0-
Total Expenditures	<u>4,594,980</u>	<u>4,658,370</u>	<u>4,658,370</u>	<u>-0-</u>
Excess of Revenues over (under) Expenditures	<u>(448,330)</u>	<u>(666,539)</u>	<u>(666,539)</u>	<u>-0-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of long-term capital debt	100			-0-
Proceeds from sale of capital assets	10,000	5,684	5,684	-0-
Compensation for loss of capital assets	10,000	1,401	1,401	-0-
Transfers in	155,000	155,000	155,000	-0-
Transfers out	(2,600)	(2,600)	(2,600)	-0-
Total Other Financing Sources and Uses	<u>172,500</u>	<u>159,485</u>	<u>159,485</u>	<u>-0-</u>
Net Change in Fund Balance	(275,830)	(507,054)	(507,054)	-0-
Fund Balances - Beginning	6,923,201	7,940,790	7,940,790	-0-
Fund Balances - Ending	<u>\$ 6,647,371</u>	<u>7,433,736</u>	<u>7,433,736</u>	<u>-0-</u>

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

**Lee County**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**Countywide Bridge and Culvert Fund**  
**For the Year Ended September 30, 2005**

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	1,734,000	1,737,629	1,737,629	-0-
Intergovernmental revenue	120,000	98,424	98,424	-0-
Interest income	150,000	88,960	88,960	-0-
Miscellaneous income	300	62	62	-0-
Total Revenues	2,004,300	1,925,075	1,925,075	-0-
<b>EXPENDITURES</b>				
Current:				
Public works	2,035,060	2,380,631	2,380,631	-0-
Debt service:				
Principal	346,100	315,498	315,498	-0-
Interest	33,830	43,090	43,090	-0-
Total Expenditures	2,414,990	2,739,219	2,739,219	-0-
Excess of Revenues over (under) Expenditures	(410,690)	(814,144)	(814,144)	-0-
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of long-term capital debt	100			-0-
Transfers out	(157,600)	(157,600)	(157,600)	-0-
Total other financing sources (uses)	(157,500)	(157,600)	(157,600)	-0-
Net Change in Fund Balance	(568,190)	(971,744)	(971,744)	-0-
Fund Balances - Beginning	4,203,068	4,518,725	4,518,725	-0-
Fund Balances - Ending	\$ 3,634,878	3,546,981	3,546,981	-0-

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

**LEE COUNTY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**A. Budgetary Information**

Statutory requirements dictate how and when the county's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the county, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff, the Tax Assessor and the Tax Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The county's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

**B. Basis of Presentation**

The Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (Non-GAAP Basis) and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major special revenue fund. The Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

**C. Budget/GAAP Reconciliation**

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

**LEE COUNTY**  
**NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**C. Budget/GAAP Reconciliation (Continued)**

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

	Governmental Fund Types		
	General Fund	Countywide Road Fund	Countywide Bridge & Culvert Fund
Budget (Cash Basis)	(918,837)	(507,054)	(971,744)
Increase (Decrease)			
Net adjustments for revenue accruals	88,530	66,755	10,161
Net adjustments for expenditure accruals	108,689	(972,343)	(58,968)
GAAP Basis	<u>(721,618)</u>	<u>(1,412,642)</u>	<u>(1,020,551)</u>

## **SUPPLEMENTAL INFORMATION**



Lee County  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>MAJOR FEDERAL AWARDS</b>			
U.S. Department of Justice			
Passed-through the Mississippi Emergency Management Agency			
State domestic preparedness equipment support program	16.007	3SUP-103	16,000
U.S. Department of Justice			16,000
Department of Homeland Security			
Passed-through the Mississippi Emergency Management Agency			
State domestic preparedness equipment support program	97.004	1DPG-002	1,845
State domestic preparedness equipment support program	97.004	2DPG-82	24,990
State domestic preparedness equipment support program	97.004	3SSG-3087	67,117
State domestic preparedness equipment support program	97.004	3SSG-5002	22,232
State domestic preparedness equipment support program	97.004	3SSG-5001	8,356
Total passed-through Mississippi Emergency Management Agency			124,540
Passed-through the Mississippi Department of Public Safety			
State domestic preparedness equipment support program	97.004	01CC041	2,714
State domestic preparedness equipment support program	97.004	4HS041R	69,113
State domestic preparedness equipment support program	97.004	3SSG-5000	1,225
State domestic preparedness equipment support program	97.004	3SSG-5002	24,112
State domestic preparedness equipment support program	97.004	3SSG-5001	11,601
State domestic preparedness equipment support program	97.004	04HS041	50,240
State domestic preparedness equipment support program	97.004	04LE041	60,775
State domestic preparedness equipment support program	97.004	04CS041R	5,017
Homeland Security Grant Program	97.067	5HS041R	1,673
Total passed-through Mississippi Department of Public Safety			226,470
Total Homeland Security Cluster			351,010
U.S. Department of Commerce Economic Development Administration			
Grants for public works and economic development facilities	11.300	04-01-05439	885,692
Total U.S. Department of Commerce			885,692
Total Expenditures of Major Federal Awards			1,252,702

Lee County  
Schedule of Expenditures of Federal Awards (Continued)  
For the Year Ended September 30, 2005

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>OTHER FEDERAL AWARDS</b>			
U.S. Department of Agriculture			
Passed-through Three Rivers Planning and Development District			
Child and adult care food program	10.558	712-U-551	782
Child and adult care food program	10.558	712-U-551	9,148
Child and adult care food program	10.558	712-V-241	885
Total U.S. Department of Agriculture			<u>10,815</u>
U.S. Department of Housing and Urban Development			
Passed-through the Mississippi Department of Economic and Community Development			
Community Development Block Grant/State's Program	14.228	04-041-ED-01	\$ 160,365
Community Development Block Grant/State's Program	14.228	02-041-ED-01	2,500
Community Development Block Grant/State's Program	14.228	00-041-ED-IF01	<u>3,222</u>
U.S. Department of Housing and Urban Development			<u>166,087</u>
U.S. Department of Justice			
Direct programs			
Gang resistance education and training	16.737	2004-JV-FX-0080	8,399
Passed-through the State of Mississippi Department of Public Safety			
Juvenile accountability incentive block grant	16.523	2001-JB-BX-0028	17,240
Juvenile accountability incentive block grant	16.523	02JB1411	40,108
Violence against women formula grants	16.588	2SP1412	25,159
Violence against women formula grants	16.588	3SP1411	17,480
Local law enforcement block grant program	16.592	2002-LB-BX-2978	10,597
Local law enforcement block grant program	16.592	2003-LB-BX-2029	25,011
Local law enforcement block grant program	16.592	2004-LB-BX-1458	<u>6,505</u>
U.S. Department of Justice			<u>150,499</u>
U.S. Department of Labor			
Passed-through the Mississippi Council of Aging			
Passed-through Three Rivers Planning and Development District			
Title V - senior community service employment program	17.235	712-U-151	20,146
Title V - senior community service employment program	17.235	712-U-161	<u>7,312</u>
U.S. Department of Labor			<u>27,458</u>

**Lee County**  
**Schedule of Expenditures of Federal Awards (Continued)**  
**For the Year Ended September 30, 2005**

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed-through the Mississippi Department of Transportation			
Highway planning and construction	20.205	N/A	3,080
Passed-through the Mississippi Department of Public Safety			
Alcohol traffic safety and drunk driving prevention incentive grants	20.601	5-J8-141-1	7,858
U.S. Department of Transportation			10,938
Appalachian Regional Commission			
Passed-through Tennessee Valley Authority			
Appalachian area development	23.002	MS-14778-I-302	105,475
Appalachian Regional Commission			105,475
U.S. Department of Health and Human Services			
Passed-through the Mississippi Council of Aging			
Passed-through Three Rivers Planning and Development District			
Aging Cluster			
Special programs for the aging-Title III, Part B-Grants for supportive services and senior centers (senior center)	93.044	712-R-151	18,720
Special programs for the aging-Title III, Part B-Grants for supportive services and senior centers (transportation)	93.044	712-R-151	22,500
Special programs for the aging-Title III, Part C-Nutrition services	93.045	712-R-251	43,322
Special programs for the aging-Title III, Part C-Nutrition services	93.045	712-R-351	68,671
Nutrition services incentive program	93.053	712-R-251	11,976
Nutrition services incentive program	93.053	712-R-351	19,279
Aging Cluster			184,468
Social services block grant	93.667	712-V-251	63,327
Social services block grant	93.667	712-V-251	48,750
U.S. Department of Health and Human Services			296,545
Total Expenditures of Other Federal Awards			767,817
Total Expenditures of Federal Awards			\$ 2,020,519

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**Note A: Significant Accounting Policies**

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

## **SPECIAL REPORTS**

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

**CERTIFIED PUBLIC ACCOUNTANTS**

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

Members of the Board of Supervisors  
Lee County, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated October 6, 2006. The auditors' report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lee County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lee County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 05-2 and 05-3.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial

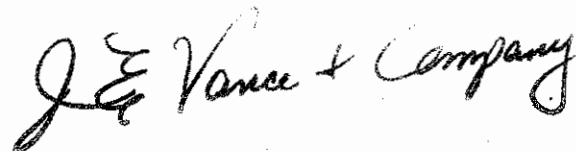
statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 05-3 to be a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 05-1. We also noted certain instances of noncompliance (or other matters) which we have reported to the management of Lee County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated October 6, 2006, included within this document.

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

Tupelo, Mississippi  
October 6, 2006

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

**J.E. VANCE & COMPANY, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors  
Lee County, Mississippi

Compliance

We have audited the compliance of Lee County, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Lee County, Mississippi's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lee County, Mississippi's management. Our responsibility is to express an opinion on Lee County, Mississippi's compliance based on our audit.

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

In our opinion, Lee County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

### Internal Control Over Compliance

The management of Lee County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lee County, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Tupelo, Mississippi  
October 6, 2006

*J E Vance + Company*



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

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

Members of the Board of Supervisors  
Lee County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Lee County, Mississippi, as of and for the year ended September 30, 2005. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Lee County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Lee County, Mississippi, has established centralized purchasing for all funds of the county and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

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

## Inventory Control Clerk

### Finding

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

- a. The capital asset records were incomplete in regards to acreage and valuation of land owned by the county. This prevented the Inventory Control Clerk from being able to deduct the appropriate amount of land from the capital asset records following a sale of land.
- b. Land donated to the county was not added to the capital asset records.
- c. The Inventory Control Clerk did not add all purchases to the capital asset records.

### Recommendation

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

### Inventory Control Clerk's Response

I concur.

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

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases, and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

This report is intended for use in evaluating the central purchasing system and inventory control system of Lee County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Tupelo, Mississippi  
October 6, 2006

*J E Vance & Company*

**Lee County**  
**Schedule of Purchases Not Made From the Lowest Bidder**  
**For the Year Ended September 30, 2005**

**Schedule 1**

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

**Lee County**  
**Schedule of Emergency Purchases**  
**For the Year Ended September 30, 2005**

**Schedule 2**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
11/9/2004	Steel beams	\$ 9,095	Skyline Steel, LLC	Main beam failure
11/4/2004	Labor	30,000	Dye Construction	Main beam failure
1/26/2005	Labor	14,000	Dye Construction	Bridge timbers giving way
1/26/2005	Bridge lumber	4,862	Tri-State Lumber	Bridge timbers giving way
1/31/2005	Steel beams	8,596	Skyline Steel, LLC	Bridge timbers rotted
2/7/2005	Steel pilings	16,949	Skyline Steel, LLC	Bridge timbers rotted
2/8/2005	Labor	10,000	Dye Construction	Bridge timbers rotted
3/24/2005	Labor	3,000	Dye Construction	Timbers gave way

**Lee County****Schedule 3****Schedule of Purchases Made Noncompetitively from a Sole Source  
for the Year Ended September 30, 2005**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
10/19/2004	Jail maintenance software	\$ 56,765	Walt Meziere & Associates
2/24/2005	105 gallon containers	122,250	Toter, Inc.
5/12/2005	Rescue Phone	6,500	Rescue Phone, Inc.

## **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**LEE COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

**Section 1: Summary of Auditors' Results**

**Financial Statements:**

1. Type of auditors' report issued on the primary government financial statements: Unqualified
2. Internal control over financial reporting:
  - a. Material weakness(es) identified? Yes
  - b. Reportable conditions identified that are not considered to be material weaknesses? Yes
3. Noncompliance material relating to the primary government financial statements? Yes

**Federal Awards:**

4. Internal control over major programs:
  - a. Material weakness(es) identified? No
  - b. Reportable conditions identified that are not considered to be material weaknesses? No
5. Type of auditors' report issued on compliance for major federal programs: Unqualified
6. Any audit findings reported as required by section \_\_.510(a) of OMB Circular A-133? No
7. Federal programs identified as major programs:
  - a. Grants for public works and economic development facilities, CFDA #11.300.
  - b. Homeland Security Cluster, CFDA #97.004 and 97.067.
  - c. State domestic preparedness equipment support program, CFDA #16.007.
8. The dollar threshold used to distinguish between type A and type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? No

**LEE COUNTY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section \_\_\_\_\_.315(b) of OMB Circular A-133? No

**Section 2: Financial Statement Findings**

Chancery Clerk

05-1 Finding

Section 19-9-29(c), Miss. Code Ann. (1972), authorizes counties to invest surplus funds in, among other securities, direct obligations of the United States of America. At September 30, 2005, the county had investments totaling \$8,583,649 that were backed by the Federal government, but were not direct obligations of the United States of America.

Recommendation

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

Chancery Clerk's Response

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

Tax Collector

05-2 Finding

As reported in the 2000 and 2002 audit reports, the tax levy for one taxing district was incorrectly input into the Tax Collector's computer system, causing taxes to be collected in excess of the amounts due.



**LEE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

Recommendation

The Tax Collector should establish and implement internal controls whereby a person with appropriate knowledge of the tax levy and independent of the initial entry of the millage into the computer system compares the millage rates entered to the levy authorized by the Board of Supervisors.

Tax Collector's Response

The Tax Collector chose not to respond.

Inventory Control Clerk

05-3 Finding

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

- a. The capital asset records were incomplete in regards to acreage and valuation of land owned by the county. This prevented the Inventory Control Clerk from being able to deduct the appropriate amount of land from the capital asset records following a sale of land.
- b. Land donated to the county was not added to the capital asset records.
- c. The Inventory Control Clerk did not add all purchases to the capital asset records.

Recommendation

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

**LEE COUNTY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2005**

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

Inventory Control Clerk's Response

I concur.

**Section 3: Federal Awards Findings and Questioned Costs**

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

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**LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors  
Lee County, Mississippi

In planning and performing our audit of the financial statements of Lee County, Mississippi for the year ended September 30, 2005, we considered Lee County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Lee County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated October 6, 2006, on the financial statements of Lee County, Mississippi.

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

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

October 6, 2006

