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LEE COUNTY, MISSISSIPPI
AUDITED FINANCIAL STATEMENTS
AND SPECIAL REPORTS

For the Year Ended September 30, 2016

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

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LEE COUNTY, MISSISSIPPI

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LEE COUNTY, MISSISSIPPI

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M. M. WINKLER & ASSOCIATES, PLLC

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Lee County, Mississippi

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, (the County) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

INDEPENDENT AUDITOR'S REPORT

- Continued -

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the County's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the County's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The County has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net position, revenues and expenses of the aggregate discretely presented component units has not been determined.

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of Lee County, Mississippi, as of September 30, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, as of September 30, 2016, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedules, the Schedule of the County's Proportionate Share of the Net Pension Liability, and the Schedule of County's Contributions and corresponding notes be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

INDEPENDENT AUDITOR'S REPORT

- Continued -

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lee County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 1, 2017, 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* in considering Lee County, Mississippi's internal control over financial reporting and compliance.

M. M. Winkler & Associates, PLLC

December 1, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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LEE COUNTY BOARD OF SUPERVISORS

MICHAEL W. SMITH
MEMBER – 2ND DISTRICT
SALTILLO, MISSISSIPPI

PHIL MORGAN
MEMBER – 1ST DISTRICT
SALTILLO, MISSISSIPPI

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SHANNON, MISSISSIPPI

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MEMBER – 3RD DISTRICT
TUPELO, MISSISSIPPI

BILLY JOE HOLLAND
MEMBER - 5TH DISTRICT
VERONA, MISSISSIPPI

MANAGEMENT’S DISCUSSION AND ANALYSIS

INTRODUCTION

This discussion and analysis of Lee County’s financial performance provides an overall narrative review of the County’s financial activities for the year ended September 30, 2016. 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.

Lee County is located in Northeast Mississippi along U.S. Highway 78. The population, according to the 2010 census, is 82,910. For the year 2016, the U.S. Census Bureau estimated the population to be 85,381. The local economic base is driven mainly by manufacturing and retail.

FINANCIAL HIGHLIGHTS

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

Lee County continues to grow both economically and in population. The tax rate did not increase for the current year, and looking back over the past eighteen year period (1998-2016), tax rates rose only 2.39% above the highest rate (1998-2000). This tax rate increase does not account for funding provided for school purposes that required school tax rates to increase nor does it include the funding of community college programs.

Total net position decreased \$8,065,241 which represents a 7.05% decrease from the prior fiscal year, not including the prior period adjustments. The County’s ending cash and investment balance increased by \$699,229. This represents a 4.46% increase from the prior fiscal year. This increase is due in part to an increase in investments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

FINANCIAL HIGHLIGHTS - Continued

The County had \$36,215,754 in total revenues. Tax revenues account for \$20,276,999 or 55.99% of total revenues. Revenues in the form of charges for services account for \$5,062,264 or 13.99% of total revenues. Revenue generated by fines and other fees account for \$2,141,312 or 5.91%. State revenues, in the form of reimbursements, shared revenue or grants, account for \$4,431,165 or 12.24% of total revenues. Additionally, \$2,032,409 or 5.61%, of total revenues were Federal revenues in the form of grants. Grants from other local jurisdictions amount to \$548,598 or 1.51% of total revenues. Revenue from ad valorem tax fee-in-lieu was \$367,481 or 1.01%. Investment and miscellaneous revenues totaled \$1,355,526 or 3.74% of total revenues.

The County had \$44,280,995 in total expenses, which represents an increase of \$387,423 or 0.88% from the prior fiscal year. Expenses in the amount of \$12,732,637 were offset by charges for services, grants, and outside contributions. General revenues of \$23,483,117 were used to provide for expenses.

Among major funds, the General Fund had \$21,599,305 in revenues and \$19,966,264 in expenditures. The General Fund's fund balance decreased \$161,286 from the prior year, not including the prior period adjustments. The Countywide Road Fund had \$4,596,685 in revenues and \$4,457,803 in expenditures. The Countywide Road Fund's fund balance increased \$686,236 from the prior year. The Countywide Bridge Fund had \$3,139,185 in revenues and \$2,977,930 in expenditures. The Countywide Bridge Fund's fund balance increased \$161,255 from the prior year.

Capital assets, net of accumulated depreciation, decreased by \$7,079,552 or 4.98%. The majority of this decrease was due to depreciation expense related to infrastructure such as roads and bridges.

Long-term debt decreased by \$447,919 or 1.88%

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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

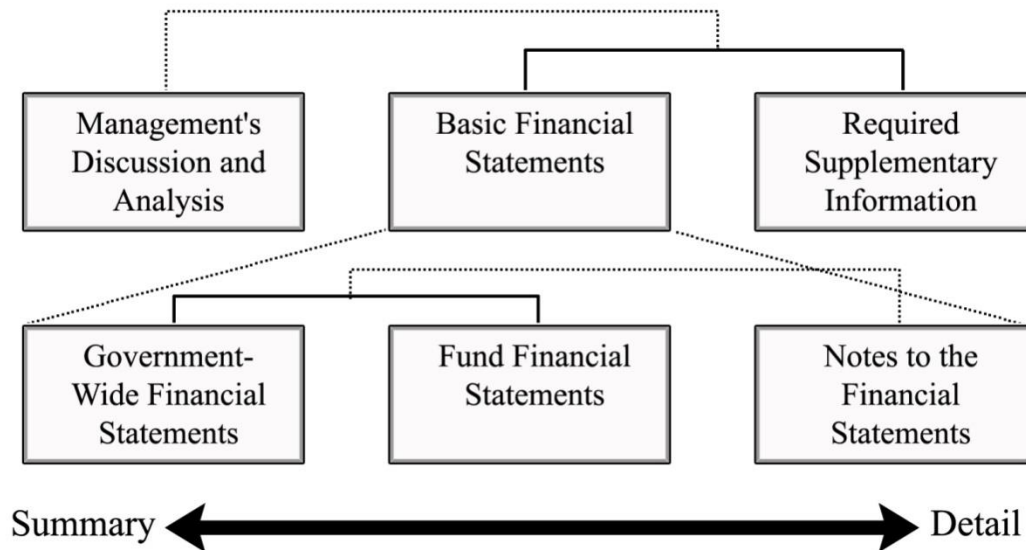


Figure 2 – Major Features of the County's Government-Wide and Fund Financial Statements

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

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

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

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

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

The **statement of activities** presents information showing how net position changed during the most recent fiscal year. All changes in net 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Government-wide Financial Statements – Continued

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

The Government-wide Financial Statements can be found on pages 27-28 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 30 and 32, respectively.

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

The basic governmental funds financial statements can be found on pages 29 and 31 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Fund Financial Statements – Continued

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.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Solid Waste Collection and Disposal is considered to be a major fund of the County. The proprietary funds financial statements can be found on pages 33-35 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 activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 36 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 37-70 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 and pension standards.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each major special revenue fund. Also, with the County implementation of GASB 68 and 71 the Schedule of the County's Proportionate Share of the Net Pension Liability and Schedule of County's Contributions have been provided. This required supplementary information can be found on pages 73-79 of this report.

Additionally, a schedule of expenditures of federal awards is required by Uniform Guidance and can be found on pages 83-84 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position – Net position may serve over time as a useful indicator of government's financial position. In the case of Lee County, assets and deferred outflows exceeded liabilities and deferred inflows by \$106,149,896 as of September 30, 2016.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS - Continued

By far, the largest portion of the County's net position (121,457,388) 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.

GASB 68 was implemented in fiscal year 2015.

The following table presents a summary of the County's net position for the fiscal year ended September 30, 2016.

(in thousands of dollars)

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015*	2016	2015	2016	2015*	2016	2015-2016
Assets:							
Current assets	\$ 41,132	42,165	\$ 600	1,116	\$ 41,732	43,281	3.71%
Capital assets, net	141,351	134,178	841	867	142,192	135,045	-5.03%
Total assets	182,483	176,343	1,441	1,983	183,924	178,326	-3.04%
Deferred Outflows	4,636	8,019	244	360	4,880	8,379	71.70%
Liabilities:							
Current liabilities	\$ 8,366	8,335	\$ 375	573	\$ 8,741	8,908	1.91%
Long-term debt outstanding	21,803	21,103	172	113	21,975	21,216	-3.45%
Net pension liability	26,432	31,394	1,392	1,652	27,824	33,046	18.77%
Total liabilities	\$ 56,601	60,832	\$ 1,939	2,338	\$ 58,540	63,170	7.91%
Deferred inflows	16,004	17,352	45	33	16,049	17,385	8.32%
Net position:							
Net Investment in capital assets	\$ 127,654	121,215	\$ 723	787	\$ 128,377	122,002	-4.97%
Restricted	7,334	8,019			7,334	8,019	9.34%
Unrestricted	(20,474)	(23,056)	(1,022)	(815)	(21,496)	(23,871)	11.05%
Total net position	\$ 114,514	106,178	\$ (299)	(28)	\$ 114,215	106,150	-7.06%

*as restated: see Note 2 to financial statements for more information.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Additional information on unrestricted net position:

In connection with the implementation of new standards on accounting and financial reporting for pensions, management presents the following additional information:

	<u>2015*</u>	<u>2016</u>
Total unrestricted net position	\$ (21,496,792)	\$ (23,870,949)
Less unrestricted deficit in net position resulting from recognition of GASB 68 and 71	<u>23,838,235</u>	<u>26,508,051</u>
Unrestricted net position, exclusive of the net pension liability effect	<u>\$ 2,341,443</u>	<u>\$ 2,637,102</u>

*as restated: see Note 2 to financial statements for more information.

Note: Lee County operates one 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 \$12.50 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.

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

- Depreciable capital assets acquisitions, disposals, and depreciation associated with existing depreciable capital assets resulted in a decrease in net capital assets of \$7,079,552.
- The implementation of GASB 68 and 71, in the prior year, resulted in the recognition of a net pension liability in the amount of \$33,045,618.
- \$11,155,000 refunding bonds issued resulting in a reduction of debt service of \$1,028,237 over the next 12 years.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Changes in Net Position – Lee County's total revenues for the fiscal year ended September 30, 2016 was \$36,215,754. The total cost for all services provided was \$44,280,995. The decrease in net position was \$8,065,241, not including the prior period adjustments. The following table presents a summary of the changes in net position for the fiscal year ended September 30, 2016.

	Governmental Activities		Business-type Activities		Total		Total Percentage Change
	2015*	2016	2015	2016	2015	2016	2015-2016
Revenues:							
Program revenues							
Charges for services	\$ 2,286	2,398	\$ 2,661	2,664	\$ 4,947	5,062	2.32%
Fines and fees	2,180	2,141			2,180	2,141	-1.79%
Federal grants	847	2,032			847	2,032	139.91%
State grants	6,903	4,425			6,903	4,425	-35.90%
Local grants	601	549			601	549	-8.65%
General revenues							
Property taxes	18,969	19,622			18,969	19,622	3.44%
Road & Bridge privilege taxes	1,015	1,029			1,015	1,029	1.38%
Other	1,034	1,348	7	8	1,041	1,356	30.26%
Total Revenues	33,835	33,544	2,668	2,672	36,503	36,216	-0.79%
Expenses:							
General government	6,137	9,992			6,137	9,992	62.82%
Public safety	9,560	10,106			9,560	10,106	5.71%
Public works	16,202	13,384			16,202	13,384	-17.39%
Health and welfare	1,128	1,170			1,128	1,170	3.72%
Culture and recreation	1,426	1,553			1,426	1,553	8.91%
Education	13	13			13	13	0.00%
Conservation of natural resources	220	184			220	184	-16.36%
Economic development	3,028	327			3,028	327	-89.20%
Interest on long-term debt	984	776			984	776	-21.14%
Pension expense	2,838	4,375			2,838	4,375	54.16%
Solid waste collection & disposal			2,289	2,401	2,289	2,401	4.89%
Total Expenses	41,536	41,880	2,289	2,401	43,825	44,281	1.04%
Increase (Decrease) in Net Position	\$ (7,701)	(8,336)	\$ 379	271	\$ (7,322)	(8,065)	10.15%

*as restated: see Note 2 to financial statements for more information.

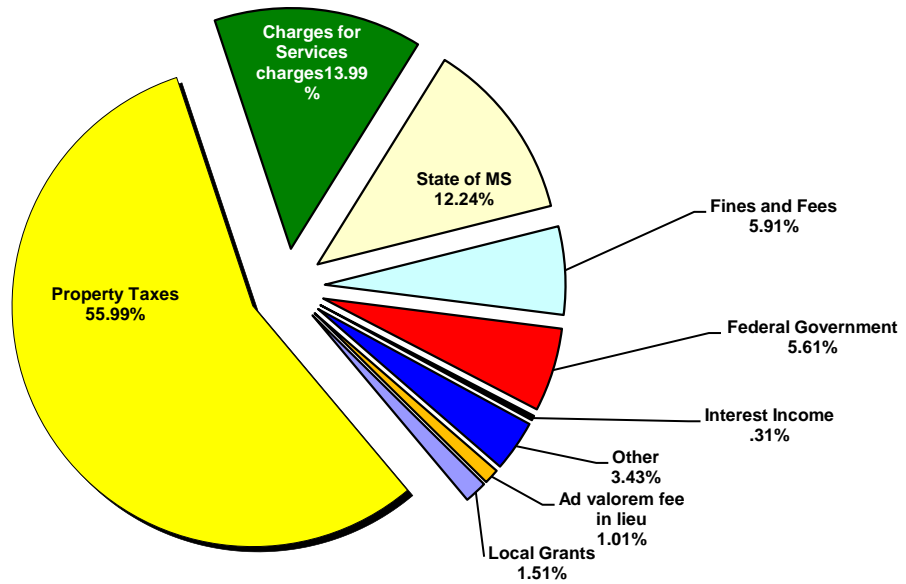
MANAGEMENT'S DISCUSSION AND ANALYSIS

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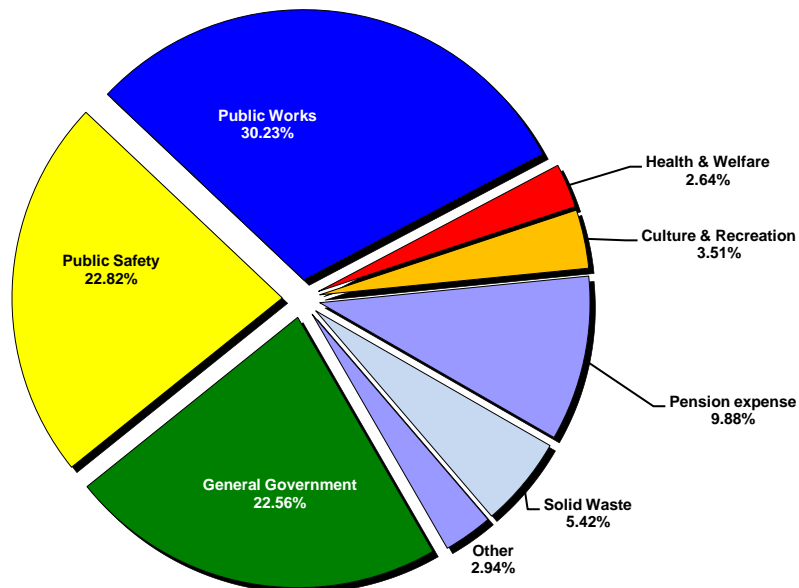
GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

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

Where The County Gets Its Revenue



How County Revenues Are Used



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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

GOVERNMENT-WIDE FINANCIAL ANALYSIS – Continued

Governmental Activities – The following table presents the cost of functional activities of the County. 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 Costs of Services		Percentage	\$	Net Costs of Services		Percentage
				Change				Change
		<u>2015*</u>	<u>2016</u>	<u>2015-2016</u>		<u>2015*</u>	<u>2016</u>	<u>2015-2016</u>
General Government	\$	6,137,110	9,991,649	62.81%		3,654,704	7,353,311	101.20%
Public Safety		9,560,730	10,106,416	5.71%		6,667,502	6,032,897	-9.52%
Public Works		16,201,920	13,384,429	-17.39%		11,488,959	12,289,451	6.97%
Health & Welfare		1,127,937	1,169,619	3.70%		495,542	559,602	12.93%
Culture and Recreation		1,425,525	1,552,590	8.91%		1,425,525	1,552,590	8.91%
Education		13,370	13,369	-0.01%		13,370	13,369	-0.01%
Conservation of natural resources		222,082	183,713	-17.28%		216,282	179,963	-16.79%
Economic Development		3,028,425	327,494	-89.19%		2,524,765	(1,320,210)	-152.29%
Interest on Long-term Debt		984,040	776,049	-21.14%		984,040	776,049	-21.14%
Pension Expense		2,838,154	4,374,763	54.14%		2,838,154	4,374,763	54.14%

*as restated: see Note 2 to financial statements for more information.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

Governmental funds – At the close of the fiscal year, Lee County's governmental funds reported a combined fund balance of \$11,423,255, an increase of \$497,215, from the beginning fund balance, after prior period adjustment. The primary reasons for this increase are highlighted in the analysis of governmental-wide activities.

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 \$184,199, after prior period adjustment. This decrease in fund balance was due in part to an increase in personal services expenditures.

Business-type funds – Revenue from the Solid Waste Collection and Disposal Fund increased by 0.16% to \$2,671,996 and expenses increased 4.91% to \$2,400,904. The chief factor contributing to the increase in expenses is an increase in pension expense.

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2016, Lee County's total capital assets were \$330,046,183. 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 \$3,291,313 or 1.01%.

Total accumulated depreciation as of September 30, 2016 was \$195,001,513 including \$10,667,642 of depreciation expense for the year. The balance in total net capital assets was \$135,044,670 at year-end.

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

Debt Administration – At September 30, 2016, Lee County had \$23,335,535 in long-term debt outstanding. This includes general obligation bonds, other loans and compensated absences. Of this debt, \$2,119,365 is due within one year.

In the past year, the County completed two advanced refundings of bonds to reduce the total debt service of the county. Together, the two refundings will save the county \$1,028,237 over the next twelve years for an economic gain of \$361,127.

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, 2016, was equal to .89% of the latest property assessment, significantly below the 15% limitation.

Additional information on Lee County's long-term debt can be found in note 12 on pages 64-67 of this report.

CURRENT AND FUTURE ITEMS OF IMPACT

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

On October 29, 2015, Lee County issued general obligation refunding bonds to advance refund the Toyota bonds originally issued December 18, 2008, in order to reduce the county's debt service payment over the next 10 years. The advanced refunding resulted in a reduction of \$769,459 in debt service payments and an economic gain of \$127,933. The payment in lieu of tax agreement with Toyota as authorized by law is still in force after the refunding and the payment in lieu of taxes will still be used to repay the bonded debt principal and interest.

MANAGEMENT'S DISCUSSION AND ANALYSIS

- Continued -

CURRENT AND FUTURE ITEMS OF IMPACT - Continued

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

Total budgeted revenues increased for the next fiscal year by \$980,695 or 2.72% and total budgeted expenditures increased \$1,653,006 or 4.36%. The County expects to have a decrease in net position for the next fiscal year.

In September 2016, the county issued general obligation refunding bonds to advance refund bonds originally issued in August 2013, to fund a replacement of the countywide emergency radio infrastructure and end-user radios. These refunding bonds will reduce the county's debt service payments by \$258,778 over the next 12 years and resulted in an economic gain of \$233,194. The bonds will be repaid from the general fund.

In September 2014, the operating assets of the Turner Industrial Park Fund were sold to the City of Saltillo for \$459,883 along with \$240,117 for county owned land for a total of \$700,000. The park will be included and operated as part of Saltillo's Water and Sewer system.

As of September 2016, Lee County had an unemployment rate of 4.90%. This was slightly lower than the state average of 5.70%. By February 2017, both Lee County's rate and the state's rate had improved to 4.70% and 5.50%, respectively.

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

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

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PRIMARY GOVERNMENT FINANCIAL STATEMENTS

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Lee County, Mississippi
Statement of Net Position
September 30, 2016

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 8,201,205	\$ 706,905	\$ 8,908,110
Investments	7,470,816		7,470,816
Accrued interest receivable	20,741		20,741
Property tax receivable	16,637,190		16,637,190
Accounts receivable, (net of allowance for uncollectibles of \$ 1,644,589)		323,331	323,331
Fines receivable, (net of allowance for uncollectibles of \$ 6,344,651)	535,806		535,806
Intergovernmental receivables	1,544,925	13,981	1,558,906
Other receivables	230,253	196,007	426,260
Internal balances	124,761	(124,723)	38
Ad valorem tax fee in-lieu receivable, net	7,399,901		7,399,901
Capital assets:			
Land and construction in progress	6,423,545	47,746	6,471,291
Other capital assets, net	127,753,989	819,390	128,573,379
Total Assets	\$ 176,343,132	\$ 1,982,637	\$ 178,325,769
Deferred Outflows of Resources			
Deferred outflows related to pension	\$ 6,831,002	\$ 359,526	\$ 7,190,528
Deferred amount on refunding	1,187,823		1,187,823
Total Deferred Outflows of Resources	\$ 8,018,825	\$ 359,526	\$ 8,378,351
Liabilities			
Claims payable	\$ 1,028,007	\$ 266,001	\$ 1,294,008
Intergovernmental payables	3,685,600	965	3,686,565
Accrued interest payable	107,127	410	107,537
Unearned revenue	54,518	244,889	299,407
Amounts held in custody for others	1,054,410		1,054,410
Claims and judgements	346,025		346,025
Long-term liabilities			
Net pension liability	31,393,570	1,652,048	33,045,618
Due within one year:			
Capital related debt	1,341,802	39,422	1,381,224
Non-capital related debt	717,669	20,472	738,141
Due in more than one year:			
Capital related debt	12,165,555	40,503	12,206,058
Non-capital related debt	8,937,218	72,894	9,010,112
Total Liabilities	\$ 60,831,501	\$ 2,337,604	\$ 63,169,105
Deferred Inflows of Resources			
Deferred inflows related to pension	\$ 620,313	\$ 32,648	\$ 652,961
Deferred inflows on refunding	94,968		94,968
Property tax for future reporting period	16,637,190		16,637,190
Total deferred inflows of resources	\$ 17,352,471	\$ 32,648	\$ 17,385,119
Net Position			
Net investment in capital assets	\$ 121,215,211	\$ 787,211	\$ 122,002,422
Restricted for:			
Expendable:			
General government	1,151,365		1,151,365
Public safety	1,380,246		1,380,246
Public works	5,341,908		5,341,908
Economic development	144,904		144,904
Unrestricted	(23,055,649)	(815,300)	(23,870,949)
Total Net Position	\$ 106,177,985	\$ (28,089)	\$ 106,149,896

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

Lee County, Mississippi
Statement of Activities
For the Year Ended September 30, 2016

Exhibit 2

Program Revenues					Net (Expense) Revenue and Changes in Net Assets		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 9,991,649	\$ 1,942,626	\$ 695,712	\$	\$ (7,353,311)	\$	\$ (7,353,311)
Public safety	10,106,416	2,593,581	1,409,454	70,484	(6,032,897)		(6,032,897)
Public works	13,384,429	3,038		1,091,940	(12,289,451)		(12,289,451)
Health and welfare	1,169,619		610,017		(559,602)		(559,602)
Culture and recreation	1,552,590				(1,552,590)		(1,552,590)
Education	13,369				(13,369)		(13,369)
Conservation of natural resources	183,713		3,750		(179,963)		(179,963)
Economic development and assistance	327,494			1,647,704	1,320,210		1,320,210
Interest on long-term debt	776,049				(776,049)		(776,049)
Pension expense	4,374,763				(4,374,763)		(4,374,763)
Total Governmental Activities	\$ 41,880,091	\$ 4,539,245	\$ 2,718,933	\$ 2,810,128	\$ (31,811,785)	\$	\$ (31,811,785)
Business-type activities:							
Solid waste	\$ 2,400,904	\$ 2,664,331	\$	\$	\$	\$ 263,427	\$ 263,427
Total Business-type Activities	\$ 2,400,904	\$ 2,664,331	\$	\$	\$	\$ 263,427	\$ 263,427
Total Primary Government	\$ 44,280,995	\$ 7,203,576	\$ 2,718,933	\$ 2,810,128	\$ (31,811,785)	\$ 263,427	\$ (31,548,358)
General revenues:							
Taxes:							
Property taxes					\$ 19,243,454	\$	\$ 19,243,454
Road & bridge privilege taxes					1,033,545		1,033,545
Ad Valorem tax fee-in-lieu revenue					367,481		367,481
Grants and contributions not restricted to specific programs					1,483,111		1,483,111
Unrestricted investment income					113,035	941	113,976
Miscellaneous					1,234,826	6,724	1,241,550
Total General Revenues					\$ 23,475,452	\$ 7,665	\$ 23,483,117
Changes in Net Position					\$ (8,336,333)	\$ 271,092	\$ (8,065,241)
Net Position - Beginning, as previously reported					\$ 114,706,225	(299,181)	\$ 114,407,044
Prior period adjustments					(191,907)		(191,907)
Net position, as restated					\$ 114,514,318	\$ (299,181)	\$ 114,215,137
Net Position - Ending					\$ 106,177,985	\$ (28,089)	\$ 106,149,896

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

Lee County, Mississippi
Balance Sheet - Governmental Funds
September 30, 2016

Exhibit 3

	Major Funds			Other	Total
	General	County Wide	County Wide	Governmental	Governmental
	Fund	Road Fund	Bridge Fund	Funds	Funds
ASSETS					
Cash	\$ 6,154,241	\$ 159,580	\$ 299,838	\$ 1,587,546	\$ 8,201,205
Investments	2,885,288	3,620,742	964,786		7,470,816
Accrued interest receivable	7,285	10,400	2,916	140	20,741
Property tax receivable	11,890,730	2,208,232	1,885,570	652,658	16,637,190
Fines receivable (net of allowance for uncollectibles of \$ 6,344,651)	535,806				535,806
Intergovernmental receivables	1,061,607	113,381	13,612	355,438	1,544,038
Other receivables	126,007	1,494		102,752	230,253
Due from other funds	97,584	201,194	95,305	74,379	468,462
Advances to other funds	27,177				27,177
Total Assets	\$ 22,785,725	\$ 6,315,023	\$ 3,262,027	\$ 2,772,913	\$ 35,135,688
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 762,301	\$ 124,749	\$ 15,610	\$ 125,347	\$ 1,028,007
Intergovernmental payables	3,351,183	981		19,249	3,371,413
Due to other funds	685,064				685,064
Unearned revenue				54,518	54,518
Amounts held in custody for others	961,861			92,549	1,054,410
Claims and judgments	346,025				346,025
Total Liabilities	\$ 6,106,434	\$ 125,730	\$ 15,610	\$ 291,663	\$ 6,539,437
DEFERRED INFLOWS OF RESOURCES:					
Unavailable revenues - property taxes	11,890,730	2,208,232	1,885,570	652,658	16,637,190
Unavailable revenues - fines	535,806				535,806
	\$ 12,426,536	\$ 2,208,232	\$ 1,885,570	\$ 652,658	\$ 17,172,996
Fund balances:					
Nonspendable:					
Advances	\$ 27,177	\$	\$	\$	\$ 27,177
Restricted for:					
General government	793,202			358,163	1,151,365
Public safety	43,767			1,336,479	1,380,246
Public works		3,981,061	1,360,847		5,341,908
Economic development and assistance				144,904	144,904
Unassigned	3,388,609			(10,954)	3,377,655
Total Fund Balances	\$ 4,252,755	\$ 3,981,061	\$ 1,360,847	\$ 1,828,592	\$ 11,423,255
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 22,785,725	\$ 6,315,023	\$ 3,262,027	\$ 2,772,913	\$ 35,135,688

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

Lee County, Mississippi
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
September 30, 2016

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 11,423,255
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$193,695,289	134,177,534
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Fines receivable	535,806
Accrued receivables that are not available to pay for current expenditures and therefore are not recorded in the funds.	
Ad valorem tax fee in-lieu receivable, net	7,399,901
Intergovernmental receivables	886
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	
Long-term liabilities	(23,162,244)
Accrued interest on debt	(107,127)
Net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	(31,393,570)
Deferred amount on refunding	1,092,855
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds:	
Deferred outflows of resources related to pensions	6,831,002
Deferred inflows of resources related to pensions	(620,313)
Total Net Position - Governmental Activities	\$ <u><u>106,177,985</u></u>

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

Lee County, Mississippi
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2016

Exhibit 4

	Major Funds			Other	Total
	General	County Wide	County Wide	Governmental	Governmental
	Fund	Road Fund	Bridge Fund	Funds	Funds
REVENUES					
Property taxes	\$ 13,876,359	\$ 2,584,482	\$ 2,151,830	\$ 630,784	\$ 19,243,455
Road and bridge privilege taxes		1,033,545			1,033,545
Licenses, commissions and other revenue	1,513,860	17,175		24,181	1,555,216
Fines and forfeitures	603,259				603,259
In-lieu taxes - ad valorem	150,000			833,241	983,241
Intergovernmental revenues	3,379,250	923,469	975,220	1,808,869	7,086,808
Charges for services	1,037,383	1,901	1,137	1,368,811	2,409,232
Interest income	66,752	34,155	10,974	1,154	113,035
Miscellaneous revenues	972,442	1,958	24	150,003	1,124,427
Total Revenues	\$ 21,599,305	\$ 4,596,685	\$ 3,139,185	\$ 4,817,043	\$ 34,152,218
EXPENDITURES					
Current:					
General government	\$ 9,532,802			\$ 157,909	\$ 9,690,711
Public safety	7,682,941			2,325,700	10,008,641
Public works		4,235,301	2,862,210		7,097,511
Health and welfare	1,171,167				1,171,167
Culture and recreation	1,057,899			431,389	1,489,288
Conservation of natural resources	226,547				226,547
Economic development and assistance	194,600			1,523,248	1,717,848
Debt service:					
Principal	82,007	198,885	103,217	1,602,129	1,986,238
Interest	18,301	23,617	12,503	695,455	749,876
Bond issuance cost				480,135	480,135
Other debt costs				443,000	443,000
Total Expenditures	\$ 19,966,264	\$ 4,457,803	\$ 2,977,930	\$ 7,658,965	\$ 35,060,962
Excess of Revenues over (under) Expenditures	\$ 1,633,041	\$ 138,882	\$ 161,255	\$ (2,841,922)	\$ (908,744)
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	\$ 81,470			\$ 214,718	\$ 296,188
Refunding bonds issued				11,155,000	11,155,000
Proceeds from sale of capital assets	101,055	547,354		1,925	650,334
Premium on bonds issued				104,033	104,033
Compensation for loss of capital assets	2,215				2,215
Transfers in	8,960			2,431,027	2,439,987
Transfers out	(1,988,027)			(451,960)	(2,439,987)
Payment to bond refunding escrow agent				(10,778,898)	(10,778,898)
Total Other Financing Sources and Uses	\$ (1,794,327)	\$ 547,354	\$	\$ 2,675,845	\$ 1,428,872
Net Changes in Fund Balances	\$ (161,286)	\$ 686,236	\$ 161,255	\$ (166,077)	\$ 520,128
Fund Balances - Beginning, as previously reported	\$ 4,436,954	\$ 3,294,825	\$ 1,199,592	\$ 1,994,669	\$ 10,926,040
Prior period adjustments	(22,913)				(22,913)
Fund Balances - Beginning, as restated	\$ 4,414,041	\$ 3,294,825	\$ 1,199,592	\$ 1,994,669	\$ 10,903,127
Fund Balances - Ending	\$ 4,252,755	\$ 3,981,061	\$ 1,360,847	\$ 1,828,592	\$ 11,423,255

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

Lee County, Mississippi
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2016

Exhibit 4-1

Net Changes in Fund Balances - Governmental Funds	\$ 520,128
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 position differs from the change in fund balances by the amount that depreciation of \$10,542,212 exceeds capital outlays of \$3,852,866 in the current period.	(6,689,346)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net gain of \$166,677 and the proceeds from the sale of \$650,334 in the current period.	(483,657)
Fine revenue recognized on the modified accrual basis in the funds during the current year is increased because recognition is required on the Statement of Activities using the full-accrual basis of accounting.	53,477
Revenues recognized in the current and/or prior fiscal year in the Statement of Activities using the full-accrual basis of accounting.	
Ad valorem tax fee-in-lieu	(615,761)
Intergovernmental revenue	(81,223)
Charges for services	(15,085)
Licenses, commissions, and miscellaneous	(60,271)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Thus the change in net position differs from the change in fund balances by the amount that debt repayments of \$12,021,238 exceeds debt proceeds of \$11,451,188, and bond discount amortization of \$125,590	444,460
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net position differs from the change in fund balances by a combination of the following items:	
(Increase)/Decrease in Accrued Interest	89,429
(Increase)/Decrease in Compensated Absences	(53,745)
Deferred Outflow on Bond Refunding	1,297,089
Amortization of Deferred Outflow on Bond Refunding	(109,266)
Deferred Inflow Premium on Bond Refunding	(104,033)
Amortization of Deferred Inflow Premium on Bond Refunding	9,065
Some items reported in the Statement of Activities relating to the implementation of GASB 68 are reported in the governmental funds. These activities include:	
Recording of pension expense for the current period	(4,374,763)
Recording of contributions made before the measurement date	1,367,334
Recording of contributions made subsequent to the measurement date	469,835
Change in Net Position of Governmental Activities	<u>\$ (8,336,333)</u>

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

Lee County, Mississippi
Statement of Net Position - Proprietary Funds
September 30, 2016

Exhibit 5

	Business - Type Activities Enterprise Funds
	Solid Waste Fund
Assets	
Current assets:	
Cash	\$ 706,905
Accounts receivable, (net of allowance for uncollectibles of \$ 1,644,589)	323,331
Intergovernmental receivables	13,981
Other receivables	196,007
Total Current Assets	\$ 1,240,224
Noncurrent assets:	
Capital assets:	
Land	\$ 47,746
Other capital assets, net	819,390
Total Noncurrent Assets	\$ 867,136
Total Assets	\$ 2,107,360
Deferred Outflows of Resources	
Deferred outflows related to pensions	\$ 359,526
Total Deferred Outflows of Resources	\$ 359,526
Liabilities	
Current liabilities:	
Claims payable	\$ 266,001
Intergovernmental payables	965
Due to other funds	97,546
Advances from other funds	27,177
Accrued interest payables	410
Unearned revenue	244,889
Current portions of long-term capital related debt:	
Other long-term liabilities	39,422
Current portions of long-term non-capital related debt:	
Other long-term liabilities	20,472
Total Current Liabilities	\$ 696,882
Noncurrent liabilities:	
Pension liability	\$ 1,652,048
Capital related debt:	
Other long-term liabilities	40,503
Non-capital related debt:	
Compensated absences payable	51,862
Other long-term liabilities	21,032
Total Noncurrent Liabilities	\$ 1,765,445
Deferred Inflows of Resources	
Deferred inflows related to pensions	\$ 32,648
Total Deferred Inflows of Resources	\$ 32,648
Net Position	
Net investment in capital assets	\$ 787,211
Unrestricted	(815,300)
Total Net Position	\$ (28,089)

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

Lee County, Mississippi
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds
For the Year Ended September 30, 2016

Exhibit 6

	Business-type Activities Enterprise Funds
	Solid Waste Fund
Operating Revenues	
Charges for services	\$ 2,664,331
Miscellaneous	4,574
Total Operating Revenues	\$ 2,668,905
Operating Expenses	
Personal services	\$ 911,485
Pension expense	228,916
Contractual services	687,254
Materials and supplies	395,295
Depreciation expense	125,430
Indirect administrative cost	42,926
Total Operating Expenses	\$ 2,391,306
Operating Income (Loss)	\$ 277,599
Nonoperating Revenues (Expenses)	
Interest income	\$ 941
Gain (loss) on disposal of assets	2,150
Interest expense	(9,598)
Net Nonoperating Revenue (Expenses)	\$ (6,507)
Changes in Net Assets	\$ 271,092
Net Position - Beginning	\$ (299,181)
Net Position - Ending	\$ (28,089)

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

Lee County, Mississippi
Statement of Cash Flows - Proprietary Funds
For the Year Ended September 30, 2016

Exhibit 7

	Business-type Activities Enterprise Funds
	Solid Waste Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 2,668,561
Payments to suppliers	(866,106)
Payments to employees	(1,042,230)
Payments to general fund for indirect costs	(42,926)
Other operating cash receipts	4,574
Net Cash Provided (Used) by Operating Activities	\$ 721,873
Cash Flows From Noncapital Financing Activities	
Cash paid to other funds:	
Interfund loan repayments	(112,676)
Net Cash Provided (Used) by Noncapital Financing Activities	\$ (112,676)
Cash Flows From Capital and Related Financing Activities	
Gain on sale of noncapital assets	\$ 2,150
Acquisition of capital assets	(151,178)
Principal paid on long-term debt	(58,254)
Interest paid on debt	(9,527)
Net Cash Provided (Used) by Capital and Related Financing Activities	\$ (216,809)
Cash Flows From Investing Activities	
Interest and dividends on investments	\$ 941
Net Cash Provided (Used) by Investing Activities	\$ 941
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 393,329
Cash and Cash Equivalents at Beginning of Year	313,576
Cash and Cash Equivalents at End of Year	\$ 706,905
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 277,599
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	\$ 125,430
Provision for uncollectible accounts	109,422
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(132,598)
(Increase) decrease in intergovernmental receivables	14,062
(Increase) decrease in other receivables	(377)
(Increase) decrease in deferred outflows - pensions	(115,285)
Increase (decrease) in claims payable	185,974
Increase (decrease) in intergovernmental payables	(4,633)
Increase (decrease) in unearned revenue	13,721
Increase (decrease) in meter deposits	
Increase (decrease) in net pension liability	259,558
Increase (decrease) in compensated absences liability	1,050
Increase (decrease) in deferred inflows - pensions	(12,050)
Total Adjustments	\$ 444,274
Net Cash Provided (Used) by Operating Activities	\$ 721,873

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

Lee County, Mississippi
Statement of Fiduciary Assets and Liabilities
September 30, 2016

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 387,914
Due from other funds	314,186
Other receivables	<u>13,099</u>
Total Assets	<u>\$ 715,199</u>
LIABILITIES	
Intergovernmental payables	\$ 715,161
Due to other funds	<u>38</u>
Total Liabilities	<u>\$ 715,199</u>

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

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

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

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

C. Measurement Focus and Basis of Accounting.

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

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

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

The County reports the following major Governmental Funds:

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

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

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

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

The county reports the following major Enterprise Funds:

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

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds – These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

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

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

PROPRIETARY FUND TYPES

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

FIDUCIARY FUND TYPES

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2012 by the Government Finance Officers Association.

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Transactions and Balances.

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

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 statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

H. Capital Assets (Continued).

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

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

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

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

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

I. Deferred Outflows/Inflows of Resources.

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred amount on refunding – For current refundings and advance refundings resulting in defeasance of debt reported by governmental activities, business type activities, and proprietary funds, the difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources or a deferred inflow of resources and recognized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter.

Deferred outflows related to pensions – This amount represents the County's proportionate share of the deferred outflows of resources reported by the pension plan in which the County participates. See Note 11 for additional details.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

Property tax for future reporting period/unavailable revenue – property taxes – Deferred inflows of resources should be reported when resources associated with imposed nonexchange revenue transactions are received or reported as a receivable before the period for which property taxes are levied.

Unavailable revenue – fines – When an asset is recorded in the governmental fund financial statements but the revenue is not available, the government should report a deferred inflow of resources until such time as the revenue becomes available.

Deferred inflows related to pensions – This amount represents the County's proportionate share of the deferred inflows of resources reported by the pension plan in which the County participates. See Note 11 for additional details.

J. Pensions.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension expense, information about the fiduciary net position of the Public Employees' Retirement System of Mississippi (PERS) and additions to/deductions from PERS' fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

K. 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 financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or Proprietary Funds Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

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

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as Net Position and displayed in three components:

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

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

Unrestricted net position – All other net position not meeting the definition of “restricted” or “net investment in capital assets.”

Net Position Flow Assumption:

When an expense is incurred for purposes for which both restricted and unrestricted (committed, assigned or unassigned) resources are available, it is the County’s general policy to use restricted resources first.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

L. Equity Classifications (Continued).

Net Position Flow Assumption: (Continued)

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

Fund Financial Statements:

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

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

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

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

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

L. Equity Classifications (Continued).

Fund Balance Flow Assumption:

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

M. Property Tax Revenues:

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

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

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

N. Intergovernmental Revenues in Governmental Funds.

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies (Continued).

O. 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 Proprietary Funds financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments as follows:

Exhibit 2 - Statement of Activities - Governmental Activities

<u>Explanation</u>	<u>Amount</u>
Refund over assessed taxes	\$ (22,913)
Correct court fines	(236,697)
Record capital assets costs	67,703
Total prior period adjustments	\$ <u>(191,907)</u>

Exhibit 4 - Statement of Revenues, Expenses and Changed in Net Position -
Governmental Funds.

<u>Explanation</u>	<u>Amount</u>
Refund over assessed taxes - General Fund	\$ (22,913)
Total prior period adjustments	\$ <u>(22,913)</u>

(3) Deposits and Investments.

Deposits:

The carrying amount of the County's total deposits with financial institutions at September 30, 2016, was \$9,296,024 and the bank balance was \$10,277,329. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(3) Deposits and Investments (Continued).

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). 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, 2016, are as follows:

Investment Type	Maturities	Fair Value	Rating
American Express Cert Deposit	01/30/18	201,274	N/A
Discover Bank Cert Deposit	02/05/18	201,274	N/A
Goldman Sachs Bank Cert Deposit	02/05/15	201,266	N/A
Federal Home Loan Mtg	02/26/20	250,008	AAA
Federal Home Loan Mtg	07/27/20	299,424	AAA
Federal Farm Credit Bks	09/18/17	504,065	AAA
Federal Home Loan Bks	06/15/20	500,150	AAA
Federal Natl Mtg Assn	01/27/20	149,619	AAA
U. S. Treasury Note	10/31/18	302,778	AAA
U. S. Treasury Note	05/31/18	1,004,110	AAA
U. S. Treasury Note	08/31/17	505,500	AAA
U. S. Treasury Note	03/31/17	751,935	AAA
U. S. Treasury Note	10/31/16	250,168	AAA
U. S. Treasury Note	05/31/18	308,040	AAA
U. S. Treasury Note	04/30/18	257,407	AAA
U. S. Treasury Note	12/15/17	250,935	AAA
U. S. Treasury Note	08/31/18	506,850	AAA
U. S. Treasury Note	11/30/17	254,477	AAA
U. S. Treasury Note	02/18/18	301,185	AAA
U. S. Treasury Security	08/15/21	470,351	AAA
Total		<u>7,470,816</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, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(3) Deposits and Investments (Continued).

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. None of the County's investments were held by the investment's counterparty on behalf of the County, not in the name of the County.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2016:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste	\$ 97,546
General Fund	Agency Funds	38
Countywide Road	General Fund	201,194
Countywide Bridge	General Fund	95,305
Other Governmental Funds	General Fund	74,379
Agency Funds	General Fund	314,186
Total		<u>\$ 782,648</u>

The receivable in the General Fund represents a temporary loan. The receivables from the General Fund represent the tax revenues collected in September 2016 but not settled until October 2016. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Solid Waste	\$ 27,177
Total		<u>\$ 27,177</u>

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(4) Interfund Transactions and Balances (Continued).

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	8,960
Other Governmental Funds	General Fund	1,988,027
Other Governmental Funds	Other Governmental Funds	443,000
Total		\$ 2,439,987

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.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2016 consisted of the following:

Description	Amount
Governmental Activities:	
Economic Development	\$ 75,642
Legislative tag credit	560,919
FEMA/MEMA reimbursement for tornado cleanup	292,798
Public Safety	81,755
Motor Vehicle Licenses	45,512
Reimbursement for the housing of prisoners	136,405
Welfare	58,398
911 fees	34,384
District Attorney grant	10,111
Safe Room grant	35,084
Generator grant	35,400
Local grant	70,000
Other	107,630
Total Governmental Activities - Exhibit 3	\$ 1,544,038
911 fees	887
Total Governmental Activities - Exhibit 1	\$ 1,544,925
Business-type Activities:	
Solid waste fees	\$ 13,981

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

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

Pontotoc County, Union County, and Lee County (PUL Alliance) entered into an Ad Valorem Tax Fee In-Lieu Agreement (Agreement) with the Mississippi Development Authority, the Mississippi Major Economic Impact Authority and Toyota Motor Manufacturing Mississippi, Inc. (TMMMS). The Agreement provides that beginning in January, 2001, and continuing until the retirement of the Public Bonds, TMMMS agrees to make an annual fee payment of \$2,500,000 to the PUL Alliance. The first fee payment was made in January, 2011, and subsequent fee payments shall be made on or before January 31 of each succeeding year. The fee payment shall expire after the 2026 payment or, if the Public Bonds are retired sooner than 2026, it shall expire in the year of retirement. Lee County's portion of this annual payment is one third or \$833,333.

Ad valorem tax fee in lieu receivable at September 30, 2016, is as follows:

Ad valorem tax fee in lieu receivable	\$ <u>6,548,666</u>
Due in one to five years	\$ 4,166,667
Due in six to ten years	<u>4,166,667</u>
Total	\$ 8,333,334
Less: discount to present value - 5.45%	<u>(1,784,668)</u>
Net receivable	\$ <u>6,548,666</u>

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

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

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

Ad valorem tax fee in lieu receivable at September 30, 2016, is as follows:

Ad valorem tax fee in lieu receivable	\$	<u>851,235</u>
Due in one to five years	\$	750,000
Due in six to ten years		<u>150,000</u>
Total	\$	900,000
Less: discount to present value - 2.00%		<u>(48,765)</u>
Net receivable	\$	<u>851,235</u>

The receivables due in more than one year are discounted to net present value using the County's average interest rate of 2.00%, which management has determined is an appropriate discount rate commensurate with the risks involved.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2016:

Governmental activities:

	Balance Oct. 1, 2015		Additions		Deletions		Adjustments		Balance Sept. 30, 2016
<u>Non-depreciable capital assets:</u>									
Land	\$ 4,780,995	\$		\$	(37,950)	\$		\$	4,743,045
Construction in progress	433,020		1,572,479				(324,999)		1,680,500
Total non-depreciable capital assets	<u>\$ 5,214,015</u>	<u>\$</u>	<u>1,572,479</u>	<u>\$</u>	<u>(37,950)</u>	<u>\$</u>	<u>(324,999)</u>	<u>\$</u>	<u>6,423,545</u>
<u>Depreciable capital assets:</u>									
Infrastructure	\$ 256,720,060	\$	952,590	\$		\$	67,703	\$	257,740,353
Buildings	38,835,796								38,835,796
Improvements other than buildings	5,175,061						324,999		5,500,060
Mobile equipment	16,465,485		930,434		(672,910)				16,723,009
Furniture and equipment	2,009,469		208,973		(69,574)				2,148,868
Leased property under capital leases	312,802		188,390						501,192
Total depreciable capital assets	<u>\$ 319,518,673</u>	<u>\$</u>	<u>2,280,387</u>	<u>\$</u>	<u>(742,484)</u>	<u>\$</u>	<u>392,702</u>	<u>\$</u>	<u>321,449,278</u>
<u>Less accumulated depreciation for:</u>									
Infrastructure	\$ 160,559,859	\$	7,810,975	\$		\$		\$	168,370,834
Buildings	11,258,050		750,985						12,009,035
Improvements other than buildings	757,278		211,513						968,791
Mobile equipment	9,143,588		1,561,036		(233,366)				10,471,258
Furniture and equipment	1,618,471		117,382		(63,411)				1,672,442
Leased property under capital leases	112,608		90,321		-0-				202,929
Total accumulated depreciation	<u>\$ 183,449,854</u>	<u>\$</u>	<u>10,542,212</u>	<u>\$</u>	<u>(296,777)</u>	<u>\$</u>		<u>\$</u>	<u>193,695,289</u>
Total depreciable capital assets, net	<u>\$ 136,068,819</u>	<u>\$</u>	<u>(8,261,825)</u>	<u>\$</u>	<u>(445,707)</u>	<u>\$</u>	<u>392,702</u>	<u>\$</u>	<u>127,753,989</u>
Governmental activities capital assets, net	<u>\$ 141,282,834</u>	<u>\$</u>	<u>(6,689,346)</u>	<u>\$</u>	<u>(483,657)</u>	<u>\$</u>	<u>67,703</u>	<u>\$</u>	<u>134,177,534</u>

The adjustments are to capitalize construction in progress completed in the fiscal year 2016 and to record engineering fees paid in the prior year.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(7) Capital Assets (Continued).

Business-type activities:

	Balance Oct. 1, 2015	Acquisitions	Dispositions	Adjustments	Balance Sept. 30, 2016
<u>Non-depreciable capital assets:</u>					
Land	\$ 47,746	\$	\$	\$	\$ 47,746
Total non-depreciable capital assets	<u>\$ 47,746</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 47,746</u>
<u>Depreciable capital assets:</u>					
Buildings	\$ 93,750	\$	\$	\$	\$ 93,750
Mobile equipment	1,835,658	151,178			1,986,836
Furniture and equipment	45,028				45,028
Total depreciable capital assets	<u>\$ 1,974,436</u>	<u>\$ 151,178</u>	<u>\$</u>	<u>\$</u>	<u>\$ 2,125,614</u>
<u>Less accumulated depreciated for:</u>					
Buildings	\$ 48,747	\$ 1,875	\$	\$	\$ 50,622
Mobile equipment	1,094,365	118,399			1,212,764
Furniture and equipment	37,682	5,156			42,838
Total accumulated depreciation	<u>\$ 1,180,794</u>	<u>\$ 125,430</u>	<u>\$</u>	<u>\$</u>	<u>\$ 1,306,224</u>
Total depreciable capital assets, net	<u>\$ 793,642</u>	<u>\$ 25,748</u>	<u>\$</u>	<u>\$</u>	<u>\$ 819,390</u>
Business type activities capital assets, net	<u>\$ 841,388</u>	<u>\$ 25,748</u>	<u>\$</u>	<u>\$</u>	<u>\$ 867,136</u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(7) Capital Assets (Continued).

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 421,785
Public safety	1,450,651
Public works	8,356,290
Health and welfare	3,175
Culture and recreation	110,917
Education	13,369
Conservation of natural resources	3,900
Economic development and assistance	<u>182,125</u>
Total governmental activities depreciation expense	\$ <u><u>10,542,212</u></u>
Business-type activities:	
Solid Waste	\$ <u>125,430</u>
Total business-type activities depreciation expense	\$ <u><u>125,430</u></u>

Commitments with respect to unfinished capital projects at September 30, 2016, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
H. M. Richards Industrial Complex Infrastructure Improvements	<u>3,532</u>	February 2017
Total	\$ <u><u>3,532</u></u>	

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2016, to January 1, 2017. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The County finances its exposure to risk of loss relating to employee health and accident coverage through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the County retaining the risk of loss on all claims to which the County is exposed. Premium payments to the pool are determined on an actuarial basis. The County has reinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$60,000, and the aggregate policy covers all submitted claims in excess of \$60,000. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The following table provides changes in the balances of claims liabilities for fiscal years 2015 and 2016:

	2015	2016
Unpaid Claims, Beginning of Fiscal Year	\$ 580,873	\$ 524,144
Plus: Incurred Claims (Including IBNRs)	4,827,662	3,739,001
Less: Claims Payments	<u>(4,884,391)</u>	<u>(3,917,120)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 524,144</u>	<u>\$ 346,025</u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(9) Operating Leases.

As Lessor:

On December 5, 2006, Lee County entered into a non-cancellable operating lease agreement with Community Development Foundation for the lease of a building owned by the County for the purpose of economic development. The operating lease stipulated that the lessee would pay approximately \$5,546 per month in lease payments commencing June 1, 2008 for a term of 20 years.

The County receives income from this lease under a noncancellable operating lease. Total income from the lease was \$66,552 for the year ended September 30, 2016. The future minimum lease payments for this lease are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 66,552
2018	66,552
2019	66,552
2020	66,552
2021	66,552
2022-2026	332,759
2027-2028	<u>94,282</u>
Total	<u>\$ 759,801</u>

On November 10, 2014, Lee County entered into an operating lease agreement with Grammer Inc., a Minnesota corporation, for the lease of a building owned by the County for the purpose of manufacturing automotive components. The operating lease stipulated that the lessee would pay approximately \$12,250 per month in lease payments commencing December 1, 2014 for a term of 15 years. At the end of this term, Grammer has the option to extend the lease for two subsequent five years periods. Grammer also has the option to purchase the property at any time following the seventh anniversary of the rent commencement date for a price of \$84,000 times the number of years of the term having elapsed as of date of closing plus the principal amount of the County loan which remains unamortized at the time of conveyance of the property.

The County receives income from this operating lease. Total income from the lease was \$147,000 for the year ended September 30, 2016. The future minimum lease payments for this lease are as follows:

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(9) Operating Leases (Continued).

Year Ending September 30,	Amount
2017	\$ 147,000
2018	147,000
2019	147,000
2020	147,000
2021	147,000
2022-2026	735,000
2027-2030	<u>465,500</u>
Total	<u>\$ 1,935,500</u>

As Lessee:

On August 2, 2002, Lee County entered into a non-cancellable operating lease agreement with C.H. Page Trust for the lease of a building owned by the C.H. Page Trust for the purpose of housing the Department of Human Services. The operating lease stipulated that the lessee would pay approximately \$20,265 per month in lease payments commencing September 1, 2002 for a term of 15 years.

The County's operating lease does not give rise to property rights. Total costs for the lease was \$243,180 for the year ended September 30, 2016. The future minimum lease payments for this lease are as follows:

Year Ending September 30,	Amount
2017	\$ <u>222,915</u>
Total	<u>\$ 222,915</u>

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(10) Capital Leases.

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2016:

<u>Class of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 312,802
Furniture and equipment	188,390
Total	\$ 501,192
Less: Accumulated depreciation	202,929
Leased Property Under Capital Leases	<u>\$ 298,263</u>

The following is a schedule by years of the total payments due as of September 30, 2016:

<u>Year Ending September 30</u>	<u>Governmental Principal</u>	<u>Activities Interest</u>
2017	\$ 76,171	3,996
2018	42,229	2,900
2019	43,068	2,060
2020	43,924	1,204
2021	37,269	337
Total	<u>\$ 242,661</u>	<u>\$ 10,497</u>

(11) Defined Benefit Pension Plan.

General Information about the Pension Plan

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

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(11) Defined Benefit Pension Plan (Continued).

Benefits Provided. Membership in PERS is a condition of employment granted upon hiring for qualifying employees and officials of the State of Mississippi, state universities, community and junior colleges, and teachers and employees of the public school districts. For those persons employed by political subdivisions and instrumentalities of the State of Mississippi, membership is contingent upon approval of the entity's participation in PERS by the PERS' Board of Trustees. If approved, membership for the entity's employees is a condition of employment and eligibility is granted to those who qualify upon hiring. Participating members who are vested and retire at or after age 60 or those who retire regardless of age with at least 30 years of creditable service (25 years of creditable service for employees who become members of PERS before July 1, 2011) are entitled, upon application, to an annual retirement allowance payable monthly for life in an amount equal to 2.0 percent of their average compensation for each year of creditable service up to and including 30 years (25 years for those who became members of PERS before July 1, 2011), plus 2.5 percent for each additional year of creditable service with an actuarial reduction in the benefit for each year of creditable service below 30 years or the number of years in age that the member is below 65, whichever is less. Average compensation is the average of the employee's earnings during the four highest compensated years of creditable service. Benefits vest upon completion of eight years of membership service (four years of membership service for those who became members of PERS before July 1, 2007). PERS also provides certain death and disability benefits. A Cost-of-Living Adjustment (COLA) payment is made to eligible retirees and beneficiaries. The COLA is equal to 3.0 percent of the annual retirement allowance for each full fiscal year of retirement up to the year in which the retired member reaches age 60 (55 for those who became members of PERS before July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2016, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers 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 ended September 30, 2016, 2015, and 2014 were \$1,933,862, \$1,791,703, and \$1,827,892 respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2016, the County reported a liability of \$33,045,618 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The County's proportion share used to calculate the September 30, 2016 net

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(11) Defined Benefit Pension Plan (Continued).

pension liability was .185 percent, which was based on a measurement date of June 30, 2016. This was an increase of .005 percent from its proportionate share used to calculate the September 30, 2015 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended September 30, 2016, the County recognized pension expense of \$4,603,679. At September 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 815,923	\$
Net difference between projected and actual earnings on pension plan investments	3,832,315	
Changes of assumptions	1,515,738	87,662
Changes in the County's proportion and differences between the County's contributions and proportionate share of contributions	531,989	565,299
County contributions subsequent to the measurement date	494,563	
Total	\$ 7,190,528	\$ 652,961

\$494,563 reported as deferred outflows of resources related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending September 30:

2017	\$ 2,171,939
2018	1,973,136
2019	1,245,104
2020	652,825

Actuarial Assumptions. The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(11) Defined Benefit Pension Plan (Continued).

Inflation	3.00 percent
Salary increases	3.75 - 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2014 Healthy Annuitant Blue Collar Table Projected with Scale BB to 2016, with males rates set forward one year.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 to June 30, 2014. The experience report is dated May 4, 2015.

The long-term expected rate of return on pension plan investments was determined using the log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected nominal returns, net of pension plan investment expense and the assumed rate of inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target asset allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U. S. Broad	34.00 %	5.20 %
International Equity	19.00	5.00
Emerging Markets Equity	8.00	5.45
Fixed Income	20.00	0.25
Real Assets	10.00	4.00
Private Equity	8.00	6.15
Cash	1.00	(0.50)
Total	100.00 %	

Discount rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(11) Defined Benefit Pension Plan (Continued).

available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity to the County's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the County's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	1% Decrease (6.75%)	Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$ 42,371,893	\$ 33,045,618	\$ 25,307,835

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial report.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(12) Long-term Debt.

Debt outstanding as of September 30, 2016, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds			
Toyota Bonds	\$ 495,000	5.00-6.00	7/1/17
Toyota Refunding	5,985,000	3.0-3.50	6/20/26
GO Bonds Series, 2011	618,570	2.00-3.75	9/30/18
911 Bonds, Series 2013	2,415,000	1.50-5.25	8/1/21
911 Refunding	4,985,000	2.0-2.125	8/1/28
Total General Obligation Bonds	\$ 14,498,570		
B. Capital Leases			
Asphalt paver	\$ 34,765	2.35	4/19/17
Viper 911 phone system	207,896	1.97	7/26/21
Total Capital Leases	242,661		
C. Other Loans			
Capital improvements revolving loan	\$ 652,771	3.00	5/1/28
Capital improvements revolving loan	470,087	2.00	12/1/25
Noncap revolving loan	500,000	0.00	10/15/21
Certificates of participation	2,055,000	3.75	6/1/25
Capital improvements revolving loan	1,281,958	3.00	2/1/33
Capital improvements loan	2,485,843	3.00	1/1/29
Software license loan	52,510	0.00	3/1/20
Total Other Loans	\$ 7,498,169		
Business-type Activities:			
A. General Obligation Bonds			
GO Bonds Series, 2011	\$ 121,429	2.00-3.75	9/30/18

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(12) Long-term Debt (Continued).

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

Governmental Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2017	\$ 1,475,106	\$ 382,949	\$ 524,487	\$ 214,997
2018	1,518,464	343,861	543,506	198,666
2019	1,230,000	305,196	557,842	181,642
2020	1,265,000	268,896	568,478	164,201
2121	1,305,000	230,286	577,021	145,978
2022-2026	6,330,000	589,020	3,371,614	437,512
2027-2031	1,375,000	43,138	1,225,493	90,765
2032-2033			129,728	2,774
Total	\$ <u>14,498,570</u>	\$ <u>2,163,346</u>	\$ <u>7,498,169</u>	\$ <u>1,436,535</u>

Business-type Activities:

Year Ending September 30,	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2017	\$ 59,894	\$ 3,013	\$	\$
2018	<u>61,535</u>	<u>1,038</u>		
Total	\$ <u>121,429</u>	\$ <u>4,051</u>	\$	\$

Legal Debt Margin - The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2016, the amount of outstanding debt was equal to .89% of the latest property assessments.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(12) Long-term Debt (Continued).

Advance Refunding – On October 29, 2015, the County issued \$6,170,000 in general obligation refunding bonds with an average interest rate of 3.25% to advance refund \$5,790,000 of the following outstanding bond issues:

Issue	Interest Rate	Amount Refunded
Toyota Bonds	5.5%	\$ 5,790,000

The Toyota Bonds had an outstanding balance of \$6,755,000 at the time of refunding, but only \$5,790,000 was refunded, leaving a balance of \$965,000, of which \$470,000 was redeemed during the fiscal year 2016.

The net proceeds of \$5,915,373 plus an additional payment from the County of \$443,000 (after payment of \$330,585 in underwriting fees and other issuance costs) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Position.

The County advanced refunded the above bonds to reduce its total debt service payments over the next 10 years by almost \$769,459 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$127,933.

On September 15, 2016, the County issued \$4,985,000 in general obligation refunding bonds with an average interest rate of 2.07% to advance refund \$4,245,000 of the following outstanding bond issues:

Issue	Interest Rate	Amount Refunded
911 bonds, Series 2013	2.50%-3.75%	\$ 4,245,000

The 911 Bonds, Series 2013, had an outstanding balance of \$6,660,000 at the time of refunding, but only \$4,245,000 was refunded, leaving a balance of \$2,415,000, none of which was redeemed during the fiscal year 2016.

The net proceeds of \$4,863,525 (after payment of \$149,550 in underwriting fees and other issuance costs) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Position.

The County advanced refunded the above bonds to reduce its total debt service payments over the next 12 years by almost \$258,778 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$233,194.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(12) Long-term Debt (Continued).

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2016:

Governmental Activities:

	Balance Oct. 1, 2015	Additions	Reductions	Balance Sept. 30, 2016	Amount due within one year
Compensated absences	\$ 885,392	\$ 53,745	\$	\$ 939,137	\$
General obligation bonds	14,775,317	11,155,000	11,431,747	14,498,570	1,475,106
Less:					
Discounts	(141,883)		(125,590)	(16,293)	(16,293)
Capital leases	93,267	214,718	65,324	242,661	76,171
Other loans	7,940,866	81,470	524,167	7,498,169	524,487
Totals	<u>\$ 23,552,959</u>	<u>\$ 11,504,933</u>	<u>\$ 11,895,648</u>	<u>\$ 23,162,244</u>	<u>\$ 2,059,471</u>

Business-type Activities:

Compensated absences	\$ 50,812	\$ 1,050	\$	\$ 51,862	\$
General obligation bonds	179,683		58,254	121,429	59,894
Totals	<u>\$ 230,495</u>	<u>\$ 1,050</u>	<u>\$ 58,254</u>	<u>\$ 173,291</u>	<u>\$ 59,894</u>

Compensated absences will be paid from the funds from which the employees' salaries were paid which are generally the General Fund, Road Maintenance Fund, Bridge Maintenance Fund, E-911 Fund, Agri-Center Fair Fund and Solid Waste Enterprise Fund.

(13) Deficit Fund Balances of Individual Funds.

The following funds reported deficit in fund balances at September 30, 2016:

Fund	Deficit Amount
Agri-Center Fair Fund	\$ 10,954
HM Richards	\$ 2,812
Limoss Access Road	\$ 176

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(14) Contingencies.

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

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

Solid Waste Revenue Refunding Bonds.

Three Rivers Solid Waste Management Authority issued solid waste revenue bonds. As part of a solid waste disposal service agreement between Lee County and Three Rivers Solid Waste Management Authority, the County has agreed to pay its pro rata share of any obligations of the authority that are not covered by fees generated from solid waste disposal services. The County's pro rata share of the \$2,695,000 bonds balance at September 30, 2016, is \$377,839.

(15) Effect of Deferred Amounts on Net Position.

The governmental activities' unrestricted net position amount of \$(23,055,649) includes the effect of deferred inflows/outflows of resources related to pension. A portion of the deferred outflow of resources related to pension in the amount of \$469,835 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$6,361,167 balance of deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next 4 years. The \$620,313 balance of the deferred inflow of resources related to pension at September 30, 2016, will be recognized in pension expense over the next 3 years.

The governmental activities' unrestricted net position amount of \$(23,055,649) includes the effect of deferred inflows/outflows of resources related to an advance refunding of County debt. The \$1,187,823 balance of deferred outflows of resources related to the advance refunding at September 30, 2016, will be recognized as an expense over the next 12 years. The \$94,968 balance of the deferred inflow of resources related to an advance refunding at September 30, 2016, will be recognized in interest expense over the next 12 years.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(15) Effect of Deferred Amounts on Net Position (Continued).

The business-type activities' unrestricted net position amount of \$(815,300) includes the effect of deferred inflows/outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$24,728 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$334,798 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next 3 years. The \$32,648 balance of the deferred inflow of resources related to pension at September 30, 2016, will be recognized in pension expense over the next 3 years.

(16) 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 2016.

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 \$50,489 for the support of the district in fiscal year 2016.

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 \$6,057,504 for the support and maintenance of the college in fiscal year 2016.

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 \$97,088 for support of the commission in fiscal year 2016.

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 \$8,657 in fiscal year 2016 to the organization.

LEE COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2016

(16) Jointly Governed Organizations (Continued).

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 \$61,353 for support of the district in fiscal year 2016.

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 2016.

(17) Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of Lee County evaluated the activity of the County through December 1, 2017, (the date the financial statements were available to be issued), and determined that the following subsequent event has occurred requiring disclosure in the notes to the financial statements.

On July, 20, 1992, Mississippi Agriculture and Forestry Experiment Station (MAFES) leased certain property to Lee County for the construction of the Lee County Agri Center and other related facilities. The County does not wish to renew the lease and chooses to allow the lease to expire pursuant to its terms on July 31, 2017. The County will not remove any of the improvements that have been constructed on the leased premises and the items listed on the inventory will remain on the premises and be considered the property of MAFES after July 31, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

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Lee County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2016
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 13,384,700	\$ 13,903,705	\$ 13,903,705	\$
Licenses, commissions and other revenue	1,345,600	1,500,511	1,500,511	
Fines and forfeitures	653,100	596,949	596,949	
Intergovernmental revenues	3,133,629	3,125,656	3,125,656	
Charges for services	830,500	973,926	973,926	
Interest income	30,530	59,098	59,098	
Miscellaneous revenues	565,609	497,740	497,740	
Total Revenues	<u>\$ 19,943,668</u>	<u>\$ 20,657,585</u>	<u>\$ 20,657,585</u>	<u>\$</u>
EXPENDITURES				
Current:				
General government	\$ 9,942,287	\$ 9,802,718	\$ 9,802,718	\$
Public safety	7,782,872	7,773,605	7,773,605	
Health and welfare	1,177,371	988,779	988,779	
Culture and recreation	1,063,281	1,053,660	1,053,660	
Conservation of natural resources	270,632	234,800	234,800	
Economic development and assistance	150,486	194,600	194,600	
Debt service:				
Principal	51,554	53,046	53,046	
Interest	23,433	18,301	18,301	
Total Expenditures	<u>\$ 20,461,916</u>	<u>\$ 20,119,509</u>	<u>\$ 20,119,509</u>	<u>\$</u>
Excess of Revenues over (under) Expenditures	<u>\$ (518,248)</u>	<u>\$ 538,076</u>	<u>\$ 538,076</u>	<u>\$</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	\$ 200	\$	\$	\$
Proceeds from sale of capital assets	4,000	100,155	100,155	
Compensation for loss of capital assets	100			
Transfers in	1,287,025	1,130,545	1,130,545	
Transfers out	(3,058,782)	(3,092,447)	(3,092,447)	
Total Other Financing Sources and Uses	<u>\$ (1,767,457)</u>	<u>\$ (1,861,747)</u>	<u>\$ (1,861,747)</u>	<u>\$</u>
Net Change in Fund Balance	<u>\$ (2,285,705)</u>	<u>\$ (1,323,671)</u>	<u>\$ (1,323,671)</u>	<u>\$</u>
Fund Balances - Beginning	<u>3,264,614</u>	<u>3,132,133</u>	<u>3,132,133</u>	
Fund Balances - Ending	<u><u>\$ 978,909</u></u>	<u><u>\$ 1,808,462</u></u>	<u><u>\$ 1,808,462</u></u>	<u><u>\$</u></u>

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

Lee County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
County Wide Road Fund
For the Year Ended September 30, 2016
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,412,347	\$ 2,573,598	\$ 2,573,598	\$
Licenses, commissions and other revenue	962,000	1,045,231	1,045,231	
Fines and forfeitures	1,000			
Intergovernmental revenues	1,000,000	895,132	895,132	
Charges for services	5,100	1,901	1,901	
Interest income	8,500	29,767	29,767	
Miscellaneous revenues	2,800	464	464	
Total Revenues	<u>\$ 4,391,747</u>	<u>\$ 4,546,093</u>	<u>\$ 4,546,093</u>	<u>\$</u>
EXPENDITURES				
Current:				
Public works	\$ 4,277,725	\$ 3,981,755	\$ 3,981,755	\$
Debt service:				
Principal	198,885	198,885	198,885	
Interest	26,292	23,617	23,617	
Total Expenditures	<u>\$ 4,502,902</u>	<u>\$ 4,204,257</u>	<u>\$ 4,204,257</u>	<u>\$</u>
Excess of Revenues over (under) Expenditures	<u>\$ (111,155)</u>	<u>\$ 341,836</u>	<u>\$ 341,836</u>	<u>\$</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of long-term capital debt	\$ 100	\$	\$	\$
Proceeds from sale of capital assets	25,000	6,640	6,640	
Compensation for loss of capital assets	1,000			
Transfers in	215,208	215,208	215,208	
Total Other Financing Sources and Uses	<u>\$ 241,308</u>	<u>\$ 221,848</u>	<u>\$ 221,848</u>	<u>\$</u>
Net Change in Fund Balance	\$ 130,153	\$ 563,684	\$ 563,684	\$
Fund Balances - Beginning	<u>87,981</u>	<u>3,194,419</u>	<u>3,194,419</u>	<u>\$</u>
Fund Balances - Ending	<u><u>\$ 218,134</u></u>	<u><u>\$ 3,758,103</u></u>	<u><u>\$ 3,758,103</u></u>	<u><u>\$</u></u>

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

Lee County, Mississippi
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
County Wide Bridge Fund
For the Year Ended September 30, 2016
UNAUDITED

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 2,032,636	\$ 2,142,189	\$ 2,142,189	\$
Intergovernmental revenue	48,000	65,920	65,920	
Charges for services		1,137	1,137	
Interest income	4,000	10,052	10,052	
Miscellaneous income	550	24	24	
Total Revenues	<u>\$ 2,085,186</u>	<u>\$ 2,219,322</u>	<u>\$ 2,219,322</u>	<u>\$</u>
EXPENDITURES				
Current:				
Public works	\$ 1,839,160	\$ 1,734,320	\$ 1,734,320	\$
Debt service:				
Principal	103,217	103,217	103,217	
Interest	14,093	12,503	12,503	
Total Expenditures	<u>\$ 1,956,470</u>	<u>\$ 1,850,040</u>	<u>\$ 1,850,040</u>	<u>\$</u>
Excess of Revenues over (under) Expenditures	<u>\$ 128,716</u>	<u>\$ 369,282</u>	<u>\$ 369,282</u>	<u>\$</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	\$ 100	\$	\$	\$
Proceeds from sale of capital assets	100			
Compensation for loss of capital assets	100			
Transfers out	(215,208)	(215,208)	(215,208)	
Total other financing sources (uses)	<u>\$ (214,908)</u>	<u>\$ (215,208)</u>	<u>\$ (215,208)</u>	<u>\$</u>
Net Change in Fund Balance	\$ (86,192)	\$ 154,074	\$ 154,074	\$
Fund Balances - Beginning	<u>675,693</u>	<u>1,099,283</u>	<u>1,099,283</u>	<u></u>
Fund Balances - Ending	<u>\$ 589,501</u>	<u>\$ 1,253,357</u>	<u>\$ 1,253,357</u>	<u>\$</u>

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

Lee County, Mississippi
Schedule of the County's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*
For the Year Ended September 30, 2016

		2016	2015	2014
County's proportion of the net pension liability (asset)		0.185%	0.18%	0.19%
County's proportionate share of the net pension liability (asset)	\$	33,045,618	27,824,450	23,062,521
County's covered-employee payroll	\$	12,278,470	11,375,872	11,605,656
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		269.13%	244.59%	198.72%
Plan fiduciary net position as a percentage of the total pension liability		57.47%	61.70%	67.21%

* The amounts presented for each fiscal year were determined as of the measurement date of June 30 prior to the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until a full 10 year trend is compiled, the County has only presented information for the years in which information is available.

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

Lee County, Mississippi
Schedule of County Contributions
Last 10 Fiscal Years*
For the Year Ended September 30, 2016

	2016	2015	2014
Contractually required contribution	\$ 1,933,862	1,791,703	1,827,892
Contributions in relation to the contractually required contribution	1,933,862	1,791,703	1,827,892
Contribution deficiency (excess)	\$ -	-	-
County's covered-employee payroll	\$ 12,278,470	11,375,872	11,605,656
Contributions as a percentage of covered-employee payroll	15.75%	15.75%	15.75%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB Statement No. 68 was implemented for the fiscal year ended September 30, 2015, and, until, a full 10 year trend is compiled, the County has only presented information for the years in which information is available.

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

LEE COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2016
UNAUDITED

Notes to the Required Supplementary Information

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major Special Revenue Fund:

LEE COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended September 30, 2016
UNAUDITED

Notes to the Required Supplementary Information – Continued.

C. Budget/GAAP Reconciliation – Continued.

	Governmental Fund Types		
	General Fund	County Wide Road Fund	County Wide Bridge Fund
Net Change in Fund Balance - Budget (Cash Basis)	\$ (1,323,671)	\$ 563,684	\$ 154,074
Net adjustments for revenue	(95,280)	(164,616)	919,863
Net adjustments for expenditure	<u>1,257,665</u>	<u>287,168</u>	<u>(912,682)</u>
Net Change in Fund Balance - GAAP Basis	<u>\$ (161,286)</u>	<u>\$ 686,236</u>	<u>\$ 161,255</u>

Pension Schedules

A. Changes of assumptions

The assumed rate of interest credited to employee contributions was changed from 3.5% to 2.00%.

B. Change in benefit provisions

Effective July 1, 2016, the interest rate on employee contributions shall be calculated based on the money market rate as published by the Wall Street Journal on December 31 of each preceding year with a minimum rate of one percent and a maximum rate of five percent.

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SUPPLEMENTAL INFORMATION

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Lee County, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Passed-through Three Rivers Planning and Development District			
Child and adult care food program	10.558	16CACFP	\$ 9,485
Total U.S. Department of Agriculture			\$ 9,485
U. S. Department of Housing and Urban Development			
Passed-through the Mississippi Development Authority			
Community Services Division			
CDBG-State-Administered CDBG Cluster			
Community development block grants/state's program			
and Non-Entitlement Grants in Hawaii	14.228	* 1131-14-041-ED-01	\$ 1,109,500
Total U.S. Department of Housing and Urban Development			\$ 1,109,500
U.S. Department of Justice			
Direct programs			
Bulletproof vest partnership program	16.607	N/A	\$ 2,377
Passed-through the State of Mississippi Department of Public Safety			
Violence against women formula grants	16.588	12SP1411	40,443
Total U.S. Department of Justice			\$ 42,820
U.S. Department of Labor			
Passed-through the Mississippi Council of Aging			
Passed-through Three Rivers Planning and Development			
District			
Senior community service employment program	17.235	15-S90-05-6055-1	\$ 22,486
Senior community service employment program	17.235	16-S90-05-6056-1	5,594
Total U.S. Department of Labor			\$ 28,080
U.S. Department of Transportation			
Passed-through the Mississippi Emergency Management Agency			
Interagency Hazardous Materials Public Sector Training and			
Planning grant	20.703	N/A	\$ 1,972
Total U.S. Department of Transportation			\$ 1,972
Appalachian Regional Commission			
Passed-through the Mississippi Department of Economic and			
Community Development			
Appalachian Area Development	23.002	APL-0041(44)B	\$ 28,019
Appalachian Area Development	23.002	MS-18228	381,972
Total Appalachian Regional Commission			\$ 409,991
U.S. Department of Health and Human Services			
Passed-through the Mississippi Council of Aging			
Passed-through Three Rivers Planning and Development			
District			
Aging Cluster			
Special programs for the aging-Title III, Part B-Grants for			
supportive services and senior centers	93.044	16-LC-B-SC	\$ 17,741
Special programs for the aging-Title III, Part C-Nutrition services	93.045	15-LC-3-C1	4,339
Special programs for the aging-Title III, Part C-Nutrition services	93.045	16-LC-3-C1	46,835
Special programs for the aging-Title III, Part C-Nutrition services	93.045	14-LC-3-C2	980
Special programs for the aging-Title III, Part C-Nutrition services	93.045	15-LC-3-C2	3,862
Special programs for the aging-Title III, Part C-Nutrition services	93.045	16-LC-3-C2	61,981
Nutrition services incentive program	93.053	16-LC-3-C1	11,711
Nutrition services incentive program	93.053	16-LC-3-C2	14,787
Nutrition services incentive program	93.053	16-LC-XX-DC	800
Total Aging Cluster			\$ 163,036

Lee County, Mississippi
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Expenditures
Social services block grant	93.667	16-LC-XX-DC	\$ 46,962
Social services block grant	93.667	16-LC-XX-TR	85,751
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	16-LC-3RMW	10,303
			<u>\$ 143,016</u>
Total U.S. Department of Health and Human Services			<u>\$ 306,052</u>
U.S. Department of Homeland Security			
Passed-through the Mississippi Emergency Management Agency			
Hazard Mitigation grant	97.039	4175-0016	\$ 35,084
Hazard Mitigation grant	97.039	4175-0018	35,400
Emergency Management Performance Grant	97.042	72114-664	54,025
			<u>54,025</u>
Total U.S. Department of Homeland Security			<u>\$ 124,509</u>
Total Expenditures of Federal Awards			<u><u>\$ 2,032,409</u></u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS:

Note A: Significant Accounting Policies

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Lee County, MS (the "County") under programs of the federal government for the year ended September 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements/or Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, results of operations, changes in net assets or cash flows of the County.

2. Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The County has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note B - Hazard Mitigation grant, 4175-0016

Of the federal expenditures presented in the schedule, the county provided federal awards totaling \$35,084 to a subrecipient during the year ended September 30, 2016.

* Denotes Major Federal Funds

OTHER INFORMATION

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Lee County, Mississippi
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2016
"UNAUDITED"

NAME	POSITION	INSURANCE COMPANY	BOND AMOUNT
PHIL MORGAN	SUPERVISOR	RENASANT INSURANCE	\$ 100,000.00
MIKE SMITH	SUPERVISOR	RENASANT INSURANCE	\$ 100,000.00
TONY ROPER	SUPERVISOR	RENASANT INSURANCE	\$ 100,000.00
TOMMIE LEE IVY	SUPERVISOR	RENASANT INSURANCE	\$ 100,000.00
BILLY JOE HOLLAND	SUPERVISOR	RENASANT INSURANCE	\$ 100,000.00
JIMMIE H JOHNSON	SHERIFF	ROSS & YERGER	\$ 100,000.00
WILLIAM H BENSON	CHANCERY CLERK	ROSS & YERGER	\$ 100,000.00
CAMILLE MANGUM	CIRCUIT CLERK	ROSS & YERGER	\$ 100,000.00
CHARLES H "CHUCK" HOPKINS	JUSTICE CO. JUDGE	RENASANT INSURANCE	\$ 50,000.00
JOHN HOYT SHEFFIELD	JUSTICE CO. JUDGE	RENASANT INSURANCE	\$ 50,000.00
SADIE M HOLLAND	JUSTICE CO. JUDGE	ROSS & YERGER	\$ 50,000.00
MARCUS CRUMP	JUSTICE CO. JUDGE	ROSS & YERGER	\$ 50,000.00
JOE HUCKABY	CONSTABLE	ROSS & YERGER	\$ 50,000.00
TED WOOD	CONSTABLE	ROSS & YERGER	\$ 50,000.00
PHIL GANN	CONSTABLE	ROSS & YERGER	\$ 50,000.00
TOM HENRY LYLES	CONSTABLE	RENASANT INSURANCE	\$ 50,000.00
MARK G WEATHERS	TAX ASSESSOR	ROSS & YERGER	\$ 50,000.00
LEROY E BELK, JR	TAX COLLECTOR	ROSS & YERGER	\$ 100,000.00
JAMES D MOORE	CO ATTORNEY	ROSS & YERGER	\$ 2,000.00
CARL J SCHERFF	COUNTY SURVEYOR	ROSS & YERGER	\$ 10,000.00
SEAN THOMPSON	COUNTY ADMIN	RENASANT INSURANCE	\$ 100,000.00
SEAN THOMPSON	PUR CLERK	ROSS & YERGER	\$ 75,000.00
YOLANDA GILBERT	INVENTORY CLERK	ROSS & YERGER	\$ 75,000.00
LISA B BOX	RECEIVING CLERK	ROSS & YERGER	\$ 75,000.00
DENISE R FLANAGAN	AST PUR CLERK	ROSS & YERGER	\$ 50,000.00
TAMMY COWARD	ASST INVEN CLERK	ROSS & YERGER	\$ 50,000.00
TIMOTHY J ALLRED	ROAD MANAGER	RENASANT INSURANCE	\$ 50,000.00
TAMMY RODGERS	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
CAMILLE MANGUM	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
KIM LOYD	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
BRAD C BARNETT	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
ZANETTA BELL	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
MARK WEATHERS	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
ROBBIE MONTGOMERY	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
SARA BETH MCCARTER	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
JOHN A HALL	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
KAMISHA MCKINNON	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
WILLIAM B KILGORE	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
KAREN BALINT	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
JANET CLARK	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
L SEALS	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
SUSAN O CARR	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
MACKENZIE BROWN	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
JUDY THOMPSON	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
S B McCARTER	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
S STAPLES	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
T BRADLEY	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
J CHISM	ASST REC CLERK	ROSS & YERGER	\$ 50,000.00
ELISE ROBBINS HILL	PAYROLL/BILL/PROCESS	ROSS & YERGER	\$ 25,000.00

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SPECIAL REPORTS

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

Members of the Board of Supervisors
Lee County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Lee County, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated December 1, 2017. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the reporting entity that include the financial data for its component units.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as 2016-001 that we consider to be a material weakness.

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

- Continued -

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lee County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to the management of Lee County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules, and the Limited Internal Control and Compliance Review Management Report dated December 1, 2017, included within this document.

Lee County's Response to Finding

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

Purpose of this Report

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

M. M. Winkler & Associates, PLLC

December 1, 2017

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE

Members of the Board of Supervisors
Lee County, Mississippi

Report on Compliance for Each Major Federal Program

We have audited Lee County, Mississippi's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016. Lee County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Lee County, Mississippi's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for the major federal program. However, our audit does not provide a legal determination on Lee County, Mississippi's compliance.

Opinion on Each Major Federal Program

In our opinion, Lee County, Mississippi, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended September 30, 2016.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY UNIFORM GUIDANCE**

- Continued -

Report on Internal Control Over Compliance

Management of Lee County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered Lee County, Mississippi's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. According this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited.

M. M. Winkler & Associates, PLLC

December 1, 2017

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

Members of the Board of Supervisors
Lee County, Mississippi

We have examined Lee County, Mississippi's (the County) compliance with establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972) and compliance with the purchasing requirements in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972) during the year ended September 30, 2016. The Board of Supervisors of Lee County, Mississippi is responsible for the County's compliance with those requirements. Our responsibility is to express an opinion on the County's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with those requirements and performing other procedures as we considered necessary in the circumstances. We believe our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with specified requirements. The Board of Supervisors of Lee County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

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

The results of our audit procedures disclosed a certain instance of noncompliance with the aforementioned code sections. The instance of noncompliance was considered in forming our opinion on compliance. Our finding and recommendation and your response is disclosed below:

Inventory Control Clerk

Finding

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

Recommendation

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

Inventory Control Clerk's Response

We will comply.

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

-Continued-

Purchase Clerk

Finding

Section 31-7-12, Miss. Code Ann. (1972), allows the purchase of commodities approved by the Department of Finance and Administration from a state contract vendor at a price not exceeding the state contract price established for such commodity, without obtaining or advertising for competitive bids. During our expenditure testing it was noted the county used state contract laws to purchase certain items. For one of the purchases tested, the county did not maintain the state contract documentation for the purchase.

Recommendation

The county should insure when using state contracts to purchase items, the proper state contract documentation is maintained.

Purchase Clerk’s Response

We will comply

In our opinion, except for the noncompliance referred to in the preceding paragraphs, Lee County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements for the year ended September 30, 2016.

The accompanying schedules of (1) Purchases Not Made from the Lowest Bidder, (2) Emergency Purchases and (3) Purchases Made Noncompetitively from a Sole Source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned examination of the purchasing system and, in our opinion, is fairly presented when considered in relation to that examination.

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

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

M. M. Winkler & Associates, PLLC

December 1, 2017

LEE COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
For the Year Ended September 30, 2016

Schedule 1

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason For Accepting Other Than the Lowest Bid</u>
09/09/2016	Wheel Loader	\$ 151,178	Thompson Machinery	\$ 144,018	Did not meet specs.

LEE COUNTY, MISSISSIPPI
SCHEDULE OF EMERGENCY PURCHASES
For the Year Ended September 30, 2016

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
11/25/2015	Bridge Repair	\$ 9,850	Rutledge Construction	Bridge Repair

LEE COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY
FROM A SOLE SOURCE
For the Year Ended September 30, 2016

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
12/15/2015	ICOP Safety Vison	\$ 23,974	ICOP
03/15/2016	Touch Print Upgrade	\$ 14,593	SAFRAN Morpho Trust USA
09/06/2016	Packer Weldment	\$ 5,652	Hol-Mac Corp

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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Lee County, Mississippi

In planning and performing our audit of the financial statements of Lee County, Mississippi for the year ended September 30, 2016, we considered Lee County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Lee County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 1, 2017, on the financial statements of Lee County, Mississippi.

Due to the reduced scope, these review procedures and compliance 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.

The results of our review procedures and compliance tests identified an immaterial instance of noncompliance with state laws and regulations that is an opportunity for strengthening internal controls and operating efficiency. Our finding, recommendation, and your response is disclosed below:

Finding

Section 9-1-43, Miss. Code Ann. (1972), limits the compensation of Chancery Clerks to \$90,000 after making deductions for employee salaries and related salary expenses and expenses allowed as deductions by Schedule C of the Internal Revenue Code. A business expense must be both ordinary and necessary to be deductible. Adequate documentation, such as itemized invoices, was not provided for a \$60 expense claimed as advertising on the fee report.

Recommendation

The Chancery Clerk should ensure adequate documentation is maintained for all fee journal expenses.

County's Response

I will comply.

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

-Continued-

This report is intended solely for the information and use of management, the Board of Supervisors, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and distribution is not limited.

M. M. Winkler & Associates, PLLC

December 1, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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LEE COUNTY, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2016

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major program: | |
| | a. Material weakness(es) identified? | No |
| | b. Significant deficiency(ies) identified? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal program: | Unmodified |
| 6. | Any audit finding(s) disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | No |
| 7. | Identification of major federal program: | |
| | a. CFDA #: 14.228 Community Development Block Grants/
State's Program and Non-Entitlement Grants in Hawaii | |

LEE COUNTY, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2016

-Continued-

Section 1: Summary of Auditor's Results - Continued

- | | | |
|----|--|------------|
| 8. | Dollar threshold used to distinguish between type A and type B programs: | \$ 750,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

Section 2: Financial Statement Findings

2016-001 Design Deficiency - Segregation of Duties (*Material Weakness*)

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

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

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

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

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

Response: Due to the limited number of employees in the Payroll Department, we feel that implementing additional internal controls utilizing employees other than the payroll clerk will mitigate the risk of loss or material misstatement in the most economically feasible manner. We will implement these controls no later than September 30, 2017.

Section 3: Federal Award Findings and Questioned Costs

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