

# STONE COUNTY, MISSISSIPPI

Audited Financial Statements and Special Reports  
For the Year Ended September 30, 2009

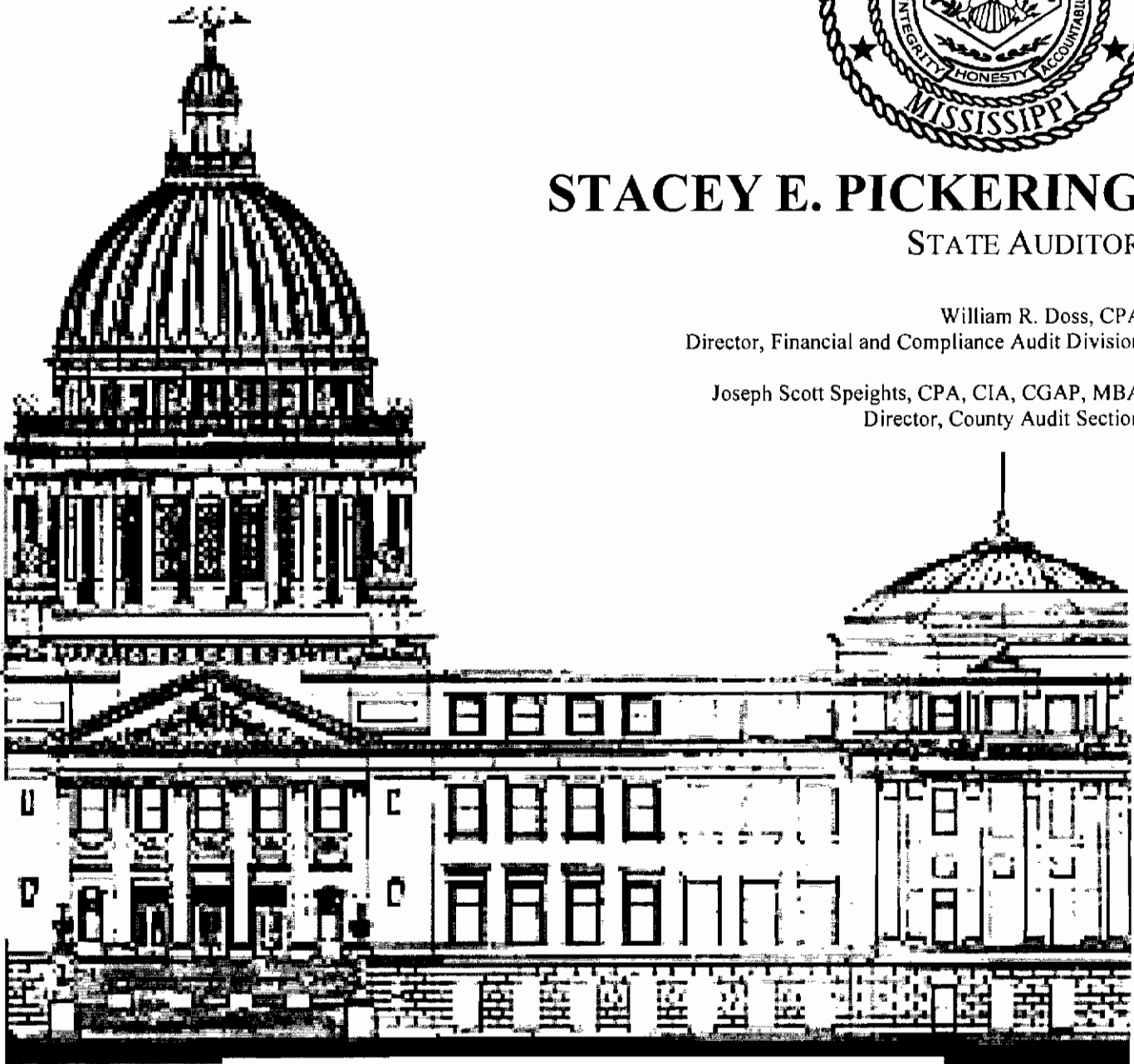


## STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA  
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA  
Director, County Audit Section



A Report from the County Audit Section

[www.osa.state.ms.us](http://www.osa.state.ms.us)



*The Office of the State Auditor does not discriminate on the basis of  
race, religion, national origin, sex, age or disability*



STONE COUNTY  
TABLE OF CONTENTS

FINANCIAL SECTION.....	1
INDEPENDENT AUDITOR'S REPORT.....	3
FINANCIAL STATEMENTS.....	5
Statement of Net Assets .....	7
Statement of Activities .....	8
Balance Sheet - Governmental Funds .....	9
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets .....	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	12
Statement of Net Assets - Proprietary Fund .....	13
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund .....	14
Statement of Cash Flows - Proprietary Fund .....	15
Statement of Fiduciary Assets and Liabilities .....	16
Notes to Financial Statements .....	17
REQUIRED SUPPLEMENTARY INFORMATION .....	35
Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) General Fund.....	36
Road and Bridge Fund .....	37
Notes to the Required Supplementary Information.....	39
SUPPLEMENTAL INFORMATION .....	41
Schedule of Expenditures of Federal Awards .....	42
Reconciliation of Operating Costs of Solid Waste.....	45
SPECIAL REPORTS .....	47
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 <i>Government Auditing Standards</i> .....	49
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	51
Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)) .....	53
Limited Internal Control and Compliance Review Management Report.....	59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS.....	61



STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

(This page left blank intentionally)





## State of Mississippi

OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR

### INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors  
Stone County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements do not include financial data for the county's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit 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 unit. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of Stone County, Mississippi, as of September 30, 2009, or the changes in financial position thereof for the year then ended.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2010, on our consideration of Stone County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

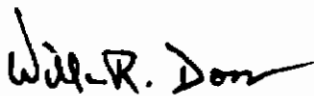
Stone County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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



STACEY E. PICKERING  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 24, 2010

**STONE COUNTY**

**FINANCIAL STATEMENTS**

STONE COUNTY

(This page left blank intentionally)

STONE COUNTY  
Statement of Net Assets  
September 30, 2009

Exhibit 1

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash	\$ 589,065		589,065
Investments		2,980,428	2,980,428
Property tax receivable	4,390,857		4,390,857
Fines receivable (net of allowance for uncollectibles of \$412,088)	181,282		181,282
Loans receivable	22,439		22,439
Allowance for uncollectible accounts	(22,439)		(22,439)
Intergovernmental receivables	65,711	605,028	670,739
Internal balances	(22,071)	22,071	
Deferred charge - bond issuance costs		201,312	201,312
Capital assets:			
Land and construction in progress	613,927	12,957	626,884
Other capital assets, net	7,486,231	4,581,026	12,067,257
Total Assets	13,305,002	8,402,822	21,707,824
<b>LIABILITIES</b>			
Claims payable	179,814	54,780	234,594
Intergovernmental payables	131,161		131,161
Accrued interest payable	4,830		4,830
Deferred revenue	4,390,857		4,390,857
Other current liabilities	39,775		39,775
Claims and judgments payable	151,479		151,479
Long-term liabilities			
Due within one year:			
Capital debt	865,375	60,639	926,014
Due in more than one year:			
Capital debt	2,047,574	3,976,791	6,024,365
Non-capital debt	140,180	58,030	198,210
Total Liabilities	7,951,045	4,150,240	12,101,285
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	5,187,209	556,553	5,743,762
Restricted:			
Expendable:			
General government	101,226		101,226
Public safety	202,172	3,696,029	3,898,201
Public works	376,262		376,262
Culture and recreation	71,686		71,686
Economic development	60,160		60,160
Unemployment compensation	39,295		39,295
Unrestricted	(684,053)		(684,053)
Total Net Assets	\$ 5,353,957	4,252,582	9,606,539

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

STONE COUNTY

Statement of Activities

For the Year Ended September 30, 2009

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-type Activities
<b>Primary government:</b>						
Governmental activities:						
General government	\$ 2,996,616	615,710		38,398	(2,342,508)	(2,342,508)
Public safety	3,189,963	194,172	414,104	253,595	(2,328,092)	(2,328,092)
Public works	2,399,585		660,444	228,318	(1,510,823)	(1,510,823)
Health and welfare	211,637		46,461	2,101	(163,075)	(163,075)
Culture and recreation	148,497			53,412	(95,085)	(95,085)
Conservation of natural resources	46,260				(46,260)	(46,260)
Economic development and assistance	10,385			43,076	32,691	32,691
Interest on long-term debt	128,641				(128,641)	(128,641)
Total Governmental Activities	9,131,584	809,882	1,121,009	618,900	(6,581,793)	(6,581,793)
<b>Business-type activities:</b>						
Correctional facility	3,595,346	4,156,776			561,430	561,430
Total Business-type Activities	3,595,346	4,156,776	0	0	561,430	561,430
Total Primary Government	\$ 12,726,930	4,966,658	1,121,009	618,900	(6,581,793)	(6,020,363)
General revenues:						
Property taxes					\$ 5,206,706	5,206,706
Road & bridge privilege taxes					198,078	198,078
Grants and contributions not restricted to specific programs					289,118	289,118
Unrestricted interest income					27,666	6,151
Miscellaneous					579,869	9,801
Total General Revenues					6,301,437	15,952
Changes in Net Assets					(280,356)	577,382
Net Assets - Beginning					5,539,830	3,679,891
Prior period adjustments					94,483	(4,691)
Net Assets - Beginning, as restated					5,634,313	3,675,200
Net Assets - Ending					\$ 5,353,957	4,252,582

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

STONE COUNTY  
Balance Sheet - Governmental Funds  
September 30, 2009

Exhibit 3

	Major Funds			
	General Fund	Road and Bridge Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash	\$	18,724	570,341	589,065
Property tax receivable	3,240,525	391,475	758,857	4,390,857
Fines receivable (net of allowance for uncollectibles of \$412,088)	181,282			181,282
Loans receivable	22,439			22,439
Allowance for uncollectible accounts	(22,439)			(22,439)
Intergovernmental receivables	61,272		4,439	65,711
Due from other funds	43,725	217,091	23,115	283,931
Total Assets	\$ 3,526,804	627,290	1,356,752	5,510,846
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Claims payable	\$ 84,827	11,136	83,851	179,814
Intergovernmental payables	158,035			158,035
Due to other funds	248,657		8,400	257,057
Advances from other funds	22,071			22,071
Deferred revenue	3,421,807	391,475	758,857	4,572,139
Other payables	39,775			39,775
Claims and judgments payable	151,479			151,479
Total Liabilities	4,126,651	402,611	851,108	5,380,370
Fund balances:				
Reserved for:				
Unemployment compensation			39,295	39,295
Unreserved - undesignated, reported in:				
General Fund	(599,847)			(599,847)
Special Revenue Funds		224,679	564,317	788,996
Capital Project Funds			(97,968)	(97,968)
Total Fund Balances	(599,847)	224,679	505,644	130,476
Total Liabilities and Fund Balances	\$ 3,526,804	627,290	1,356,752	5,510,846

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

STONE COUNTY

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2009

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 130,476
Amounts reported for governmental activities in the Statement of Net Assets 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 \$4,868,802.	8,100,158
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	181,282
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,053,129)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(4,830)</u>
Total Net Assets - Governmental Activities	\$ <u>5,353,957</u>

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



## STONE COUNTY

## Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2009

	Major Funds		Other	Total
	General	Road and	Governmental	Governmental
	Fund	Bridge	Funds	Funds
		Fund		
REVENUES				
Property taxes	\$ 3,946,080	251,148	1,009,478	5,206,706
Road and bridge privilege taxes		198,078		198,078
Licenses, commissions and other revenue	310,206		8,526	318,732
Fines and forfeitures	391,157		12,093	403,250
Intergovernmental revenues	737,797	617,086	713,914	2,068,797
Charges for services	163,909			163,909
Interest income	20,704	2,215	4,747	27,666
Miscellaneous revenues	415,171	23,316	141,382	579,869
Total Revenues	5,985,024	1,091,843	1,890,140	8,967,007
EXPENDITURES				
Current:				
General government	3,098,152		4,935	3,103,087
Public safety	2,593,273		511,787	3,105,060
Public works	3,223	1,361,270	874,191	2,238,684
Health and welfare	183,137		2,500	185,637
Culture and recreation	157,203		130,909	288,112
Conservation of natural resources	46,260			46,260
Economic development and assistance	10,385			10,385
Debt service:				
Principal	148,946	263,309	435,569	847,824
Interest	32,861	9,291	87,579	129,731
Total Expenditures	6,273,440	1,633,870	2,047,470	9,954,780
Excess of Revenues over (under) Expenditures	(288,416)	(542,027)	(157,330)	(987,773)
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	77,161	314,579		391,740
Transfers in	16,990		177,369	194,359
Transfers out	(169,669)		(24,690)	(194,359)
Total Other Financing Sources and Uses	(75,518)	314,579	152,679	391,740
Net Changes in Fund Balances	(363,934)	(227,448)	(4,651)	(596,033)
Fund Balances - Beginning	(235,913)	452,127	510,295	726,509
Fund Balances - Ending	\$ (599,847)	224,679	505,644	130,476

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

## STONE COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2009

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (596,033)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of \$693,780 exceeded capital outlays of \$654,787 in the current period.	(38,993)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$3,542.	(3,542)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(76,009)
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$847,824 exceeded debt proceeds of \$391,740.	456,084
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The increase in compensated absences payable	(22,953)
The decrease in accrued interest payable	<u>1,090</u>
Change in Net Assets of Governmental Activities	\$ <u>(280,356)</u>

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

STONE COUNTY  
Statement of Net Assets - Proprietary Fund  
September 30, 2009

Exhibit 5

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
<hr/>	
ASSETS	
Current assets:	
Investments	\$ 2,980,428
Intergovernmental receivables	605,028
Advances to other funds	22,071
Total Current Assets	<hr/> 3,607,527 <hr/>
Noncurrent assets:	
Deferred charge - bond issuance costs	201,312
Capital assets:	
Land and construction in progress	12,957
Other capital assets, net	4,581,026
Total Noncurrent Assets	<hr/> 4,795,295 <hr/>
Total Assets	<hr/> 8,402,822 <hr/>
 LIABILITIES	
Current liabilities:	
Claims payable	54,780
Capital debt:	
Capital leases payable	30,639
Other long-term liabilities	30,000
Total Current Liabilities	<hr/> 115,419 <hr/>
Noneurrent liabilities:	
Capital debt:	
Capital leases payable	6,858
Other long-term liabilities	3,969,933
Non-capital debt:	
Compensated absences payable	58,030
Total Noncurrent Liabilities	<hr/> 4,034,821 <hr/>
NET ASSETS	
Invested in capital assets, net of related debt	556,553
Restricted for:	
Public safety	3,696,029
Total Net Assets	<hr/> \$ 4,252,582 <hr/>

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

## STONE COUNTY

Exhibit 6Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund  
For the Year Ended September 30, 2009

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
Operating Revenues	
Charges for services	\$ 4,156,776
Miscellaneous	9,801
Total Operating Revenues	<u>4,166,577</u>
Operating Expenses	
Cost of sales	
Personal services	1,765,909
Contractual services	782,678
Materials and supplies	638,757
Depreciation expense	139,560
Total Operating Expenses	<u>3,326,904</u>
Operating Income (Loss)	<u>839,673</u>
Nonoperating Revenues (Expenses)	
Interest income	6,151
Interest expense	(149,851)
Payment to qualified obligation refunding trustee	(118,591)
Net Nonoperating Revenue (Expenses)	<u>(262,291)</u>
Net Income (Loss)	<u>577,382</u>
Changes in Net Assets	<u>577,382</u>
Net Assets - Beginning	3,679,891
Prior period adjustments	(4,691)
Net Assets - Beginning, as restated	<u>3,675,200</u>
Net Assets - Ending	<u>\$ 4,252,582</u>

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

STONE COUNTY  
Statement of Cash Flows - Proprietary Fund  
For the Year Ended September 30, 2009

Exhibit 7

	Business-type Activities - Enterprise Fund
	Correctional Facility Fund
Cash Flows From Operating Activities	
Receipts from customers	\$ 3,897,824
Payments to suppliers	(1,228,276)
Payments to employees	(1,928,399)
Other miscellaneous cash receipts	9,801
Net Cash Provided (Used) by Operating Activities	750,950
Cash Flows From Capital and Related Financing Activities	
Acquisition and construction of capital assets	(175,989)
Principal paid on long-term debt	(309,301)
Interest paid on debt	(255,989)
Payments to qualified obligaton refunding trustee	(494,970)
Net Cash Provided (Used) by Capital and Related Financing Activities	(1,236,249)
Cash Flows From Investing Activities	
Interest on deposits	6,151
Net Cash Provided (Used) by Investing Activities	6,151
Net Increase (Decrease) in Cash and Cash Equivalents	(479,148)
Cash and Cash Equivalents at Beginning of Year	3,459,576
Cash and Cash Equivalents at End of Year	\$ 2,980,428
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 839,673
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	139,560
(Increase) decrease in intergovernmental receivables	(258,952)
Increase (decrease) in claims payable	17,170
Increase (decrease) in compensated absences liability	13,499
Total Adjustments	(88,723)
Net Cash Provided (Used) by Operating Activities	\$ 750,950

Noncash Capital Financing Activity:

On September 25, 2009, the county issued \$4,105,000 in Advance Refunding Limited Obligation Urban Renewal Revenue Bonds with an average interest rate of 3.776% to advance refund \$3,890,000 in outstanding bonds.

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

STONE COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2009

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 34,013
Due from other funds	<u>11,907</u>
Total Assets	<u>\$ 45,920</u>
LIABILITIES	
Intergovernmental payables	\$ 7,139
Due to other funds	<u>38,781</u>
Total Liabilities	<u>\$ 45,920</u>

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

## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

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

##### A. Financial Reporting Entity.

Stone 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 Stone County to present these financial statements on the primary government and its component unit which has a significant operational or financial relationship with the county.

Management has chosen to omit from these financial statements the following component unit which has a significant operational or financial relationship with the county. Accordingly, the financial statements do not include the data of this component unit necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Stone County Recreation Association

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
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor-Collector
- Sheriff

##### B. Basis of Presentation.

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

##### Government-wide Financial Statements:

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

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

## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

#### Fund Financial Statements:

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

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

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

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

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

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year-end to liquidate liabilities existing at the end of the year. Measurable means knowing or being 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 all activities of the general government for which a separate fund has not been established.

Road and Bridge Fund - This fund is used to account for monies from specific revenue sources that are restricted for road and bridge maintenance.

The county reports the following major Enterprise Fund:

Correctional Facility Fund - This fund is used to account for monies from inmate housing agreement income with the Mississippi Department of Corrections for housing state prisoners.



## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

Additionally, the county reports the following fund types:

#### GOVERNMENTAL FUND TYPES

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

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

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

#### PROPRIETARY FUND TYPE

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

#### FIDUCIARY FUND TYPE

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

#### D. Account Classifications.

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

#### E. Deposits and Investments.

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

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

#### F. Receivables.

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

## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

#### G. Interfund Transactions and Balances.

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

#### H. Restricted Assets.

Proprietary Fund assets required to be held and/or used as specified in bond indentures, bond resolutions, trustee agreements, board resolutions and donor specifications have been reported as restricted assets. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first.

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to elect not to report major general infrastructure assets retroactively. Stone County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets acquired subsequent to October 1, 2002.

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:

# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	N/A
Infrastructure	0	20-50 years
Buildings	50,000	40 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.

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

### K. Equity Classifications.

#### Government-wide Financial Statements:

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

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

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

Unrestricted net assets - All other net assets not meeting the definition of "restricted" or "invested in capital assets, net of related debt."

#### Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved with unreserved classified as designated and undesignated.

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

## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

#### L. 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.

#### M. 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.

#### N. 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 is as follows:

##### Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
Governmental Activities	
To correct prior year errors in capital assets	\$ <u>94,483</u>
Business-type Activities	
To correct prior year errors in capital assets	\$ <u>(4,691)</u>

# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

### Exhibit 6 - Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund.

Explanation	Amount
To correct prior year errors in capital assets	\$ (4,691)

### (3) Deposits and Investments.

#### Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2009, was \$623,078, and the bank balance was \$818,334. 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).

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

#### Investments:

As provided in Section 91-13-8, Miss. Code Ann. (1972), the following investments of the county are handled through a trust indenture between the county and the trustee related to the operations of the Stone County Regional Correctional Facility.

Investment balances at September 30, 2009, are as follows:

Investment Type	Maturities	Fair Value	Rating
SEI Daily Income Trust Mutual Fund	Less than one year	\$ 2,980,428	AAA

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

**Credit Risk.** State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments 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. These investments are uninsured, unregistered and were held by the counterparty in trust accounts on behalf of the county and are not backed by the full faith and credit of the federal government.

# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

**Concentration of Credit Risk.** The county places no limit on the amount the county may invest in any one issuer. More than 5 percent of the county's investments are in SEI Daily Income Trust, a money market mutual fund that invests in treasury securities and repurchase agreements. These investments are 100% of the county's total investments and are reported in the Correctional Facility Fund.

### (4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2009:

#### A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Governmental Funds	\$ 4,944
General	Agency Funds	38,781
Other Governmental Funds	Other Governmental Funds	3,456
Road and Bridge Fund	General	217,091
Other Governmental Funds	General	19,659
Agency Funds	General	11,907
Total		<u>\$ 295,838</u>

The amount payable to the General Fund represents the amount loaned to the Payroll Clearing Fund to cover a deficit balance in that fund as of September 30, 2009. All other receivables represent the tax revenue collected but not settled until October, 2009. All interfund balances are expected to be repaid within one year from the date of the financial statements.

#### B. Advances from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Correctional Facility	General	\$ <u>22,071</u>

The amount payable to the Correctional Facility represents the correction of a prior year's error in the posting of revenue. This amount is expected to be repaid within one year from the date of the financial statements.

#### C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 16,990
Other Governmental Funds	General County	169,669
Other Governmental Funds	Other Governmental Funds	7,700
Total		<u>\$ 194,359</u>

The principal purposes of interfund transfers were to provide funds for principal and interest payments on the General Obligation Bonds, Series 1993, to provide grant matches and to provide funds to pay for capital outlay. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

STONE COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2009

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2009, consisted of the following:

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 61,272
Refund due from state	3,074
Community development block grants/state's program	1,365
Total Governmental Activities	\$ 65,711
Business-type Activities:	
Housing prisoner reimbursement	\$ 605,028

(6) Loans Receivable.

Loans receivable balances at September 30, 2009, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Emergency Medical Services District	June, 1987	N/A	N/A	\$ 22,439
Less: Allowance for doubtful accounts*				(22,439)
Total				\$ 0

\* The Emergency Medical Services District loan receivable was determined to be uncollectible in fiscal year 1997.

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2009:

Governmental activities:

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments	Balance Sept. 30, 2009
<u>Non-depreciable capital assets:</u>					
Land	\$ 459,256				459,256
Construction in progress		154,671			154,671
Total non-depreciable capital assets	459,256	154,671	0	0	613,927
<u>Depreciable capital assets:</u>					
Infrastructure	66,890				66,890
Buildings	6,141,564	193,457			6,335,021
Mobile equipment	3,354,968	117,126	6,000	275,210	3,741,304
Furniture and equipment	571,872	8,200	29,420	(13,276)	537,376
Leased property under capital leases	1,695,790	181,333		(202,681)	1,674,442
Total depreciable capital assets	11,831,084	500,116	35,420	59,253	12,355,033

STONE COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2009

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments	Balance Sept. 30, 2009
<u>Less accumulated depreciation for:</u>					
Infrastructure	2,010	402			2,412
Buildings	1,055,833	118,960			1,174,793
Mobile equipment	2,237,259	234,542	5,400	138,991	2,605,392
Furniture and equipment	260,076	69,743	26,478	(5,527)	297,814
Leased property under capital leases	686,953	270,133		(168,695)	788,391
Total accumulated Depreciation	4,242,131	693,780	31,878	(35,231)	4,868,802
Total depreciable capital assets, net	7,588,953	(193,664)	3,542	94,484	7,486,231
Governmental activities capital assets, net	<u>\$ 8,048,209</u>	<u>(38,993)</u>	<u>3,542</u>	<u>94,484</u>	<u>8,100,158</u>

\* Adjustments are to correct errors in the capital asset records and to reflect certain routine reclassifications of paid off capital leases.

Business-type activities:

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments	Balance Sept. 30, 2009
<u>Non-depreciable capital assets:</u>					
Land	\$ 12,957				12,957
Total non-depreciable capital assets	12,957	0	0	0	12,957
<u>Depreciable capital assets:</u>					
Buildings	5,230,861	168,961			5,399,822
Mobile equipment	63,600			(24,733)	38,867
Furniture and equipment	95,743	7,028			102,771
Leased property under capital leases	114,101				114,101
Total depreciable capital assets	5,504,305	175,989	0	(24,733)	5,655,561
<u>Less accumulated depreciation for:</u>					
Buildings	808,944	107,998			916,942
Mobile equipment	57,241			(22,260)	34,981
Furniture and equipment	54,887	11,021		2,218	68,126
Leased property under capital leases	33,945	20,541			54,486
Total accumulated Depreciation	955,017	139,560	0	(20,042)	1,074,535
Total depreciable capital assets, net	4,549,288	36,429	0	(4,691)	4,581,026
Business-type activities capital assets, net	<u>\$ 4,562,245</u>	<u>36,429</u>	<u>0</u>	<u>(4,691)</u>	<u>4,593,983</u>

\* Adjustments are to correct errors in the capital asset records.



# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 107,849
Public safety	268,983
Public works	273,700
Health and welfare	28,500
Culture and recreation	14,748
Total governmental activities depreciation expense	\$ 693,780
Business-type Activities:	
Correctional facility	\$ 139,560

Commitments with respect to unfinished capital projects at September 30, 2009, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Perkinston Elementary School Storm Shelter	\$ 1,344,500	May, 2011
Stone Elementary School Storm Shelter	1,368,000	May, 2011
Stone Middle School Storm Shelter	1,425,000	May, 2011
Stone High School Storm Shelter	890,400	May, 2011
Project Road Storm Shelter	457,000	May, 2011
Stone County Library Additions and Renovations	533,000	October, 2010
Stone County EOC Office	635,200	December, 2010
Stone County Justice Court Law Library	153,827	June, 2010

### (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, 2009, to January 1, 2010. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

Until September 1, 2009, the county financed 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 was exposed. Premium payments to the pool were determined on an actuarial basis. The county purchased commercial insurance to cover all claims in excess of premium contributions. Claims expenses and liabilities were reported when it was probable that a loss had occurred and the amount of that loss could be reasonably estimated. Although the county terminated their participation in the risk pool on September 1, 2009, and a commercial insurance company began providing coverage, the county retained a liability as of September 30, 2009. 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 2008 and 2009:

# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

	2008	2009
Unpaid Claims, Beginning of Fiscal Year	\$ 131,399	146,525
Plus: Incurred Claims (Including IBNRs)	1,336,589	1,303,211
Less: Claims Payments	<u>(1,321,463)</u>	<u>(1,298,257)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 146,525</u>	<u>151,479</u>

### (9) Operating Leases.

#### As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$41,949 for the year ended September 30, 2009. The future minimum lease payments for these leases are as follows:

Year Ended September 30	Amount
2010	\$ 36,948
2011	36,948
2012	36,948
2013	<u>36,948</u>
Total Minimum Payments Required	<u>\$ 147,792</u>

### (10) Capital Leases.

#### As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2009:

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,629,808	114,101
Furniture and equipment	<u>44,634</u>	<u></u>
Total	1,674,442	114,101
Less: Accumulated depreciation	<u>(788,391)</u>	<u>(54,486)</u>
Leased Property Under Capital Leases	<u>\$ 886,051</u>	<u>59,615</u>

STONE COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2009

The following is a schedule by years of the total payments due as of September 30, 2009:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 558,849	41,222	30,639	767
2011	293,546	11,465	6,858	70
2012	144,871	2,400		
2013	6,429	98		
Total	<u>\$ 1,003,695</u>	<u>55,185</u>	<u>37,497</u>	<u>837</u>

(11) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2009:

Description of Debt	Balance Oct. 1, 2008	Additions	Reductions	Adjustments	Balance Sept. 30, 2009
FEMA anticipation notes	\$ <u>472,816</u>	<u>0</u>	<u>472,816</u>	<u>0</u>	<u>0</u>

During the month of July, 2008, the county issued \$472,816 of FEMA anticipation notes with an interest rate of 3.25% and maturity date of February, 2009, in order to alleviate a temporary operating cash flow deficiency. The county renewed the notes in February, 2009, and paid off the balance in September, 2009.

(12) Long-term Debt.

Debt outstanding as of September 30, 2009, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Governmental Activities:			
A. General Obligation Bonds:			
General obligation bonds, Series 2003	\$ <u>1,355,000</u>	3.30/3.70%	03-2018
B. Capital Leases:			
Garbage trucks	\$ 5,648	4.36%	07-2010
IBM Turnkey System	33,410	3.27%	06-2013
2008 Ford F250 truck	10,143	3.42%	03-2011
Two 2007 Crown Victorias	25,500	3.54%	02-2011
2008 Ford F150 truck	8,435	3.45%	04-2011
Two 2008 Crown Victorias	32,634	3.04%	08-2011
2009 Dodge Charger	20,622	3.24%	12-2008
2009 Nissan Titan	23,117	3.14%	07-2009
2009 Dodge Charger	24,219	3.14%	07-2009
2008 Ford F450 truck	12,777	4.36%	10-2010
Two motor graders	124,264	3.24%	12-2011
Holland backhoe and line laser	31,045	3.09%	10-2011
2006 John Deere excavator	79,735	3.20%	12-2011

STONE COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2009

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Two 2008 Mack garbage trucks	235,386	2.86%	06-2010
Six Mack dump trucks	336,760	4.12%	06-2012
Total Capital Leases	\$ <u>1,003,695</u>		
C. Other Loans:			
Health Department	\$ 285,216	3.80%	09-2013
Rural fire protection project note	38,444	3.50%	07-2010
Series 2005 Road Department note	27,321	3.50%	07-2010
Economic industrial development promissory note	71,627	4.10%	06-2011
MDA Cap loan	131,646	3.00%	06-2017
Total Other Loans	\$ <u>554,254</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Correctional Facility	\$ <u>4,105,000</u>	3.10/4.00%	11-2019
B. Capital Leases:			
Correctional Facility van	\$ 4,562	4.34%	03-2010
Two Correctional Facility Crown Victorias	12,636	4.12%	06-2010
Kubota tractor	20,299	3.45%	03-2011
Total Capital Leases	\$ <u>37,497</u>		

Pledge of Future Revenues - The county has pledged future revenues for housing inmates, net of specified operating expenses, to repay \$4,105,000 in Advance Refunding Limited Obligation Urban Renewal Revenue Bonds issued on September 25, 2009. Proceeds from the bonds provided financing for refunding the Urban Renewal Revenue Bonds issued in 1999, which were used for the construction of the Stone County Regional Correctional Facility. The bonds are not a general obligation of the county and, therefore, are not secured by the full faith and credit of the county. The bonds are payable solely from income derived from an inmate housing agreement with the Mississippi Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners and are payable through November 1, 2019. Annual principal and interest payments on the bonds are expected to require less than 12.41 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$4,951,087. Principal and interest paid for the current year on the refunded bond and total inmate housing net revenues were \$515,958 and \$4,156,776, respectively.

# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

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

### Governmental Activities:

Year Ending September 30	General Obligation Bonds		Other Loans	
	Principal	Interest	Principal	Interest
2010	\$ 125,000	44,589	181,526	20,041
2011	130,000	40,381	120,508	13,261
2012	135,000	36,009	86,924	8,647
2013	145,000	31,334	90,173	5,399
2014	150,000	26,356	15,221	2,045
2015 – 2019	670,000	49,878	59,902	3,428
Total	\$ 1,355,000	228,547	554,254	52,821

### Business-type Activities:

Year Ending September 30	Limited Obligation Bonds	
	Principal	Interest
2010	\$ 30,000	84,987
2011	365,000	135,833
2012	380,000	124,285
2013	390,000	112,350
2014	405,000	100,027
2015 - 2019	2,225,000	282,405
2020 - 2024	310,000	6,200
Total	\$ 4,105,000	846,087

**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, 2009, the amount of outstanding debt was equal to 1.87% of the latest property assessments.

**Advance Refunding** - On September 25, 2009, the county issued \$4,105,000 in Advance Refunding Limited Obligation Urban Renewal Revenue Bonds with an average interest rate of 3.776% to advance refund \$3,890,000 of the following outstanding bond issue:

Issue	Average Interest Rate	Outstanding Amount Refunded
\$5,800,000 Urban Renewal Revenue Bond	5.597721%	\$ 3,890,000

On September 25, 2009, the Qualified Obligation Trustee transferred the funds on deposit in the refunding fund in the amount of \$3,967,800 to itself and made certain inner bank transfers to effectuate the redemption of the outstanding 1999 bonds as well as to pay the cost of issuance and to make the final debt service payments on the old bonds due November 1, 2019.

# STONE COUNTY

## Notes to Financial Statements For the Year Ended September 30, 2009

The county advance refunded the above bonds to reduce its total debt service payments over the next ten years by \$513,911 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$126,206.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2009:

	Balance Oct. 1, 2008	Additions	Reductions	Adjustments	Balance Sept. 30, 2009	Amount due within one Year
<b>Governmental Activities:</b>						
Compensated absences	\$ 117,227	22,953			140,180	
General obligation bonds	1,475,000		120,000		1,355,000	125,000
Capital leases	1,165,201	391,740	553,246		1,003,695	558,849
Other loans	728,832		174,578		554,254	181,526
<b>Total</b>	<b>\$ 3,486,260</b>	<b>414,693</b>	<b>847,824</b>	<b>0</b>	<b>3,053,129</b>	<b>865,375</b>
<b>Business-type Activities:</b>						
Compensated absences	\$ 44,531	13,499			58,030	
Limited obligation bonds	4,445,000		4,445,000			
Advance refunding limited obligation bonds		4,105,000			4,105,000	30,000
Discount on advance refunding limited obligation bonds		(27,267)			(27,267)	(2,727)
Unamortized charge on advance refunding limited obligation bonds		(77,800)			(77,800)	(7,780)
Capital leases	76,798		39,301		37,497	30,639
<b>Total</b>	<b>\$ 4,566,329</b>	<b>4,013,432</b>	<b>4,484,301</b>	<b>0</b>	<b>4,095,460</b>	<b>50,132</b>

Compensated absences will be paid from the funds from which the employees' salaries were paid which are generally the General Fund, Road and Bridge Fund, and Correctional Facility Fund.

### (13) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2009:

Fund	Deficit Amount
General Fund	\$ 599,847
Road and Bridge Debt Service Fund	37,517
Perkinston Elementary Shelter Fund	9,907
Library/E-911 Office Fund	74,101
Stone Middle School Shelter Fund	454
Stone High School Shelter Fund	16,884
Project Road Shelter Fund	11,813

## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

#### (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.

#### (15) Joint Ventures.

The county participates in the following joint ventures:

Stone County is a participant with the Counties of Covington, Greene and Perry in a joint venture authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$70,064 in fiscal year 2009. Complete financial statements for the Pine Forest Regional Library can be obtained from Post Office Box 1208, Richton, Mississippi 39476.

Stone County is a participant with the City of Wiggins in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Stone-Wiggins Airport Board. The joint venture was created to provide an airport for the citizens of Stone County and is governed by a board of commissioners consisting of five members, with Stone County and the City of Wiggins appointing two members each and one member appointed jointly by the city and county. By contractual agreement, the county's appropriation to the joint venture was \$3,223 in fiscal year 2009. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

#### (16) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Stone County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$11,000 for support of the district in fiscal year 2009.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$27,500 for support of the agency in fiscal year 2009.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

## STONE COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2009

Mississippi Gulf Coast Community College operates in a district composed of the Counties of George, Harrison, Jackson, and Stone. The college's board of trustees is composed of 23 members, three each appointed by George and Stone Counties, eight each appointed by Harrison and Jackson Counties, and one appointed at large. The county appropriated \$604,475 for maintenance and support of the college in fiscal year 2009.

Stone County Economic Development Partnership is governed by a 15-member board, consisting of the President of the Board of Supervisors; five members appointed by the Board of Supervisors; three members appointed by the City of Wiggins; one member appointed by the Mississippi Gulf Coast Community College; and five members appointed at large by the Partnership. The organization is supported primarily by a sales tax collected by the county and remitted to the Foundation. The amount remitted in the 2009 fiscal year was \$355,585.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the ten members of the board of directors. The county contributed \$36,300 for support of the District in fiscal year 2009.

#### (17) Defined Benefit Pension Plan.

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2009 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2009, 2008 and 2007 were \$479,127, \$453,798 and \$389,716, respectively, equal to the required contributions for each year.

#### (18) Subsequent Events.

Subsequent to September 30, 2009, Stone County issued the following debt obligations:

Issue Date	Interest Rate		Issue Amount	Type of Financing	Source of Financing
10-21-2009	3.10%	\$	600,000	Other loan	Tax revenue
11-02-2009	3.11%		47,965	Capital lease	Tax revenue
12-16-2009	3.18%		228,970	Capital lease	Tax revenue
12-28-2009	3.25%		500,045	Other loan	Tax revenue
03-10-2010	3.14%		245,232	Capital lease	Tax revenue
06-15-2010	3.26%		50,713	Capital lease	Tax revenue



STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 4,139,530	3,950,088	3,950,088	
Licenses, commissions and other revenue	392,300	360,784	135,805	(224,979)
Fines and forfeitures	380,000	393,373	393,373	
Intergovernmental revenues	1,453,799	1,168,721	1,168,721	
Charges for services	155,000	163,909	163,909	
Interest income	60,000	20,734	20,734	
Miscellaneous revenues	181,025	105,444	105,444	
Total Revenues	<u>6,761,654</u>	<u>6,163,053</u>	<u>5,938,074</u>	<u>(224,979)</u>
<b>EXPENDITURES</b>				
Current:				
General government	2,982,890	3,267,596	3,081,311	186,285
Public safety	2,951,958	2,648,778	2,652,222	(3,444)
Public works	3,225	4,177	3,223	954
Health and welfare	196,005	182,667	183,874	(1,207)
Culture and recreation	126,072	158,362	158,362	
Conservation of natural resources	43,154	45,597	45,597	
Economic development and assistance	7,500	10,385	10,385	
Debt service:				
Principal	524,640	537,045	615,350	(78,305)
Interest	21,679	31,310	31,310	
Total Expenditures	<u>6,857,123</u>	<u>6,885,917</u>	<u>6,781,634</u>	<u>104,283</u>
Excess of Revenues over (under) Expenditures	<u>(95,469)</u>	<u>(722,864)</u>	<u>(843,560)</u>	<u>(120,696)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	253,923		336,805	336,805
Transfers out	(269,568)	(918,019)	(277,082)	640,937
Total Other Financing Sources and Uses	<u>(15,645)</u>	<u>(918,019)</u>	<u>59,723</u>	<u>977,742</u>
Net Change in Fund Balance	(111,114)	(1,640,883)	(783,837)	857,046
Fund Balances - Beginning	<u>159,069</u>	<u>(455,194)</u>	<u>(456,244)</u>	<u>(1,050)</u>
Fund Balances - Ending	<u>\$ 47,955</u>	<u>(2,096,077)</u>	<u>(1,240,081)</u>	<u>855,996</u>

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

STONE COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Road and Bridge Fund  
 For the Year Ended September 30, 2009

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 262,866	250,361	250,361	
Road and bridge privilege taxes	179,000	196,934	196,934	
Licenses, commissions and other revenue	2,500	2,353		(2,353)
Intergovernmental revenues	667,750	614,732	614,732	
Interest income	6,500	2,215	2,215	
Miscellaneous revenues		29,054	29,054	
Total Revenues	<u>1,118,616</u>	<u>1,095,649</u>	<u>1,093,296</u>	<u>(2,353)</u>
<b>EXPENDITURES</b>				
Current:				
Public works	1,476,457	1,352,425	1,352,425	
Debt service:				
Principal	12,189	100,098	100,098	
Interest	892	8,787	8,787	
Total Expenditures	<u>1,489,538</u>	<u>1,461,310</u>	<u>1,461,310</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(370,922)</u>	<u>(365,661)</u>	<u>(368,014)</u>	<u>(2,353)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	<u>(12,775)</u>			
Total Other Financing Sources and Uses	<u>(12,775)</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	<u>(383,697)</u>	<u>(365,661)</u>	<u>(368,014)</u>	<u>(2,353)</u>
Fund Balances - Beginning	<u>419,447</u>	<u>430,467</u>	<u>430,467</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 35,750</u>	<u>64,806</u>	<u>62,453</u>	<u>(2,353)</u>

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

STONE COUNTY

(This page left blank intentionally)

# STONE COUNTY

## Notes to the Required Supplementary Information For the Year Ended September 30, 2009

### 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-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:

	Governmental Fund Types	
	General Fund	Road and Bridge Fund
Budget (Cash Basis)	\$ (783,837)	(368,014)
Increase (Decrease)		
Net adjustments for revenue accruals	(195,704)	313,126
Net adjustments for expenditure accruals	615,607	(172,560)
GAAP Basis	\$ <u>(363,934)</u>	<u>(227,448)</u>

STONE COUNTY

(This page left blank intentionally)

## STONE COUNTY

## SUPPLEMENTAL INFORMATION

STONE COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/ Passed-through the Mississippi State Treasurer's Office Schools and Roads - grants to states	10.665	N/A	* \$ 243,281
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-109-066-01-KCR	53,412
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-066-01-KP	33,329
Total U.S. Department of Housing and Urban Development			86,741
U.S. Department of Justice/Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety Edward Byrne memorial justice assistance grant program	16.738	07HR1661	37,270
U.S. Department of Transportation - Federal Highway Administration/ Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	BR NBIS 070 B (66)	3,000
Highway planning and construction	20.205	STP 0066 25 B (PE-5)	1,490
Subtotal			4,490
Passed-through the Mississippi Department of Public Safety - Office of Highway Safety State and community highway safety	20.600	09TA1661	38,699
Total U.S. Department of Transportation			43,189
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	1794-DR-MS	11,671
Disaster grants - public assistance	97.036	1837-DR-MS	42,963
Subtotal			54,634
Hazard mitigation grant	97.039	1604-50	* 71,385
Hazard mitigation grant	97.039	1604-241	* 59,425
Hazard mitigation grant	97.039	1604-215	* 41,983
Hazard mitigation grant	97.039	1604-242	* 35,178
Hazard mitigation grant	97.039	1604-224	* 30,589
Subtotal			238,560
Emergency management performance grants	97.042	N/A	49,207
Total U.S Department of Homeland Security			342,401
Total Expenditures of Federal Awards			\$ 752,882



STONE COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2009

(Continued)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

\* Denotes major federal award program

## STONE COUNTY

(This page left blank intentionally)

STONE COUNTY  
Reconciliation of Operating Costs of Solid Waste  
For the Year Ended September 30, 2009

Operating Expenditures, Cash Basis:

Salaries	\$	178,501
Contractual services		173,320
Expendable Commodities:		
Gasoline and petroleum products		46,673
Repair parts		20,864
Clothing		1,545
Supplies		3,197
Interest		<u>7,078</u>

Solid Waste Cash Basis Operating Expenditures		431,178
---	--	---------

Full Cost Expenses:

Indirect administrative costs		6,577
Depreciation on equipment		<u>57,244</u>

Solid Waste Full Cost Operating Expenses	\$	<u><u>494,999</u></u>
--	----	-----------------------

STONE COUNTY

(This page left blank intentionally)

## STONE COUNTY

## SPECIAL REPORTS

## STONE COUNTY

(This page left blank intentionally)



## State of Mississippi

OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR

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  
Stone County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2009, which collectively comprise the county's basic financial statements and have issued our report thereon dated June 24, 2010. Our report includes an adverse opinion on the aggregate discretely presented component unit due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stone County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 09-1, 09-2, 09-3, 09-4, 09-5 and 09-6 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 09-1, 09-2, 09-3, 09-4, 09-5 and 09-6 to be material weaknesses.


#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 09-3.

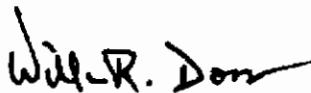
We also noted certain instances of noncompliance which we have reported to the management of Stone County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated June 24, 2010, included within this document.

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

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



STACEY E. PICKERING  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 24, 2010





## State of Mississippi

OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR

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

Members of the Board of Supervisors  
Stone County, Mississippi

#### Compliance

We have audited the compliance of Stone County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2009. Stone 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Stone County, Mississippi's management. Our responsibility is to express an opinion on Stone County, Mississippi's compliance based on our audit.

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

In our opinion, Stone County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2009.

### Internal Control Over Compliance

The management of Stone County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stone County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

A control deficiency in a county's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control.

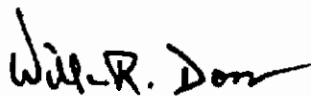
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the county's internal control.

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

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



STACEY E. PICKERING  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 24, 2010



## State of Mississippi

OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR

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

Members of the Board of Supervisors  
Stone County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Stone County, Mississippi, as of and for the year ended September 30, 2009. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

## Inventory Control Clerk.

### Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. An effective system of internal control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, cost, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records helps identify and distinguish county assets from one another, thereby safeguarding county assets from loss or misappropriation. The information is also very important to the financial reporting process. The following deficiencies were noted in the policies and procedures of the internal control structure for capital assets:

- a. Asset number 200-432, line lazer was not added to inventory.
- b. Asset number 757, addition to the library, which is correctly classified as construction in progress, erroneously included depreciation expense.
- c. Asset number 300-377, dump truck, which is erroneously classified as construction in progress, should be classified as a lease purchase.
- d. Asset number 300-379, dump truck, which is erroneously classified as construction in progress, should be classified as a lease purchase.
- e. Asset number 300-839, Alamo mower, was erroneously classified as a lease purchase but should have been classified as mobile equipment.
- f. Asset number 300-840, Alamo mower, was erroneously classified as a lease purchase but should have been classified as mobile equipment.
- g. Asset number 200-765, Dodge Charger, should have included an additional \$828 for equipment.

The failure to properly document capital assets could result in erroneous amounts being reported and increases the possibility of the loss of misappropriation of public funds.

### Recommendation

The Inventory Control Clerk should ensure appropriate control procedures are established to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. The information listed in the county's capital asset records should be reconciled by all involved department heads through an annual inventory to ensure records are accurate and complete.

### Inventory Control Clerk's Response

All findings have been corrected.

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

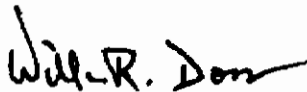
The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to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

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

This report is intended for use in evaluating the central purchasing system and inventory control system of Stone 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.



STACEY E. PICKERING  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 24, 2010

## STONE COUNTY

Schedule 1

## Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2009

<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>
05/04/2009	Warning Siren System	\$ 32,732	Precision Communications	\$ 31,513	Precision offered a better warranty.

STONE COUNTY  
Schedule of Emergency Purchases  
For the Year Ended September 30, 2009

Schedule 2

Our test results did not identify any emergency purchases.

STONE COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2009

Our test results did not identify any purchases made noncompetitively from a sole source.





## State of Mississippi

OFFICE OF THE STATE AUDITOR  
STACEY E. PICKERING  
AUDITOR

### LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors  
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2009, we considered Stone 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 Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated June 24, 2010, on the financial statements of Stone 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 a certain 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 are disclosed below:

Board of Supervisors.

#### Finding

Section 25-11-127, Miss. Code Ann. (1972), requires the county to file a PERS Form 4B Certification/Acknowledgment of Reemployment of Retiree within five days of employment of a PERS retiree. The county failed to file this form within the required time for one of its employed PERS retirees. This caused the county to be in noncompliance with legal requirements.

#### Recommendation

The county should file the required form with PERS as soon as possible.

Board of Supervisors' Response

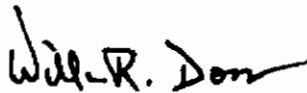
Form 4B for the employee in question was sent to PERS immediately when it was brought to the personnel office's attention that it had not previously been sent. The personnel office will endeavor to send the required forms to PERS in a timely manner in the future.

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

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



STACEY E. PICKERING  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

June 24, 2010

STONE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY

(This page left blank intentionally)

STONE COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009

Section 1: Summary of Auditor's Results

***Financial Statements:***

- |    |   |               |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements:                              |               |
|    | Governmental activities   | Unqualified   |
|    | Business-type activities  | Unqualified   |
|    | Aggregate discretely presented component unit   | Adverse       |
|    | General Fund  | Unqualified   |
|    | Road and Bridge Fund  | Unqualified   |
|    | Aggregate remaining fund information  | Unqualified   |
| 2. | Internal control over financial reporting:  |               |
|    | a. Material weaknesses identified?  | Yes           |
|    | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the financial statements noted?                                 | Yes           |

***Federal Awards:***

- |     |   |               |
|-----|---|---------------|
| 4.  | Internal control over major programs:   |               |
|     | a. Material weaknesses identified?  | No            |
|     | b. Significant deficiencies identified that are not considered to be material weaknesses?   | None Reported |
| 5.  | Type of auditor's report issued on compliance for major federal programs:   | Unqualified   |
| 6.  | Any audit findings disclosed that are required to be reported in accordance with Section ____ .510(a) of OMB Circular A-133?  | No            |
| 7.  | Federal programs identified as major programs:  |               |
|     | a. CFDA # 10.665, Schools and Roads – grants to states  |               |
|     | b. CFDA # 97.039, Hazard mitigation grant   |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:  | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?  | No            |
| 10. | Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | No            |

## STONE COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2009

#### Section 2: Financial Statement Findings

Board of Supervisors.

#### Significant Deficiency – Material Weakness

##### 09-1. Finding

A critical aspect of effective financial management is the preparation of accurate financial statements. As reported in the prior two years' audit reports, management did not have personnel who possessed the necessary expertise to prepare financial statements in accordance with generally accepted accounting principles. Due to the fact county personnel lacked the expertise to apply generally accepted accounting principles in preparing its financial statements, the risk of reporting inaccurate information has increased.

##### Recommendation

The Board of Supervisors should establish adequate controls and procedures to ensure that financial transactions are recorded, presented and disclosed in accordance with generally accepted accounting principles.

##### Board of Supervisors' Response

Management will consider hiring an independent accounting firm to prepare the county's financial statements.

#### Significant Deficiency – Material Weakness

##### 09-2. Finding

Generally accepted accounting principles require the financial data for the county's component unit to be reported with the financial data of the county's primary government unless the county also issued financial statements for the financial reporting entity that include the financial data for its component unit. As reported in the prior two years' audit reports, the financial statements do not include the financial data for the county's legally separate component unit. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component unit.

##### Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component unit for the inclusion in the county's financial statements.

##### Board of Supervisors' Response

Management will ask the Stone/Wiggins Recreation Association to forward a copy of their audited financial statements to the county for inclusion in the county's financial statements.

## STONE COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2009

#### Significant Deficiency – Material Weakness Material Noncompliance

##### 09-3. Finding

Section 19-13-43, Miss Code Ann. (1972), prohibits the signing of warrants or delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. As reported in the prior two years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. At September 30, 2009, the following funds had negative cash balances:

- a. General Fund - \$158,166
- b. Road/Bridge Debt Service Fund - \$35,113
- c. Perkinston Elementary Shelter Fund - \$9,907
- d. Library/E-911 Office Fund - \$2,925
- e. Stone Middle School Shelter Fund - \$454
- f. Stone High School Shelter Fund - \$16,883
- g. Project Road Shelter Fund - \$11,813
- h. Payroll Clearing Fund - \$38,781.

Failure to have sufficient cash balances in county funds prior to writing checks on these funds resulted in other funds' cash being used for purposes other than their intended purpose. These types of transactions could result in the Board of Supervisors being held personally liable for such amounts.

##### Recommendation

The Board of Supervisors should ensure that no warrants are signed or delivered until there is sufficient money in the fund upon which it is drawn to pay the same, as required by law.

##### Board of Supervisors' Response

The shortfall in the Payroll Clearing Fund was a timing issue, as a workers' compensation invoice was paid early. The invoice should have been held until after the close of the fiscal year.

The Shelter Funds and the Library E-911 balances fluctuate as the projects continue. Advances and reimbursements are made to the county by the Mississippi Development Authority and FEMA/EMMA on a continuing basis.

The General Fund and the Road/Bridge Debt Service Fund balances will likely need to be corrected with a reallocation of existing millage, or the addition of millage.

#### Significant Deficiency – Material Weakness

##### 09-4. Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior year's audit report, the correctional facility billing and cash receipt functions are not adequately segregated for effective internal control. The administrative assistant prepares the billing for various agencies and receives the funds. Failure to have an adequate segregation of duties could result in the loss of public funds.

## STONE COUNTY

### Schedule of Findings and Questioned Costs For the Year Ended September 30, 2009

#### Recommendation

The Board of Supervisors should maintain a system of internal control that will ensure the proper segregation of duties between the billing and cash receipt functions at the correctional facility.

#### Board of Supervisors' Response

The administrative assistant has requested all vendors send their payments directly to the bank. All invoices have the bank's address printed on them as the "remit to" address. However, some vendors continue to send payments to the regional correctional facility address, and the administrative assistant has no choice but to forward the funds to the bank herself.

#### Significant Deficiency – Material Weakness

##### 09-5. Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior year's audit report, the maintenance of the general ledger, processing of payroll and other payroll duties are not adequately segregated for effective internal control. Based upon our test work, we noted the following internal control weaknesses in the payroll function:

- a. The comptroller, who maintains the general ledger, also prepares the payroll and distributes some of the payroll checks.
- b. Time cards/attendance records are not checked for computations of payroll period hours.
- c. Unclaimed W2's are returned directly to the comptroller.

Failure to have an adequate segregation of duties could result in the loss of public funds.

#### Recommendation

The Board of Supervisors should implement a system of internal control that will ensure that proper segregation of duties exists with respect to control of the general ledger, the processing of payroll and other payroll duties.

#### Board of Supervisors' Response

The Board of Supervisors will attempt to segregate payroll duties, but the Board is limited by available funds to hire additional personnel.

#### Significant Deficiency – Material Weakness

##### 09-6. Finding

An effective system of internal control should include an adequate segregation of duties. As reported in the prior year's audit report, cash collection and general ledger maintenance functions are not adequately segregated for effective internal control. The comptroller receipts funds, prepares all deposits, reconciles the county's bank statements and posts the receipts to the general ledger. Failure to have an adequate segregation of duties could result in the loss of public funds.



STONE COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2009

Recommendation

The Board of Supervisors should implement effective internal control policies that allow for the proper segregation of duties for the cash collection and general ledger maintenance functions.

Board of Supervisors' Response

The Board of Supervisors will attempt to segregate cash collection duties, but the Board is limited by available funds to hire additional personnel.

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.