



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

Stone County, Mississippi
Audited Financial Statements
and Special Reports
For the Year Ended
September 30, 2016

Fortenberry & Ballard, PC
Certified Public Accountants

Stone County Location in Mississippi



Stone County was formed from the northern portion of Harrison County on June 5, 1916. The County was named for John M. Stone, who served as Governor of Mississippi from 1876 to 1882 and again from 1890 to 1896. The County has a total area of 448 square miles (1,160 km²), of which 445 square miles (1,150 km²) is land and 2.6 square miles (6.7 km²) (0.6%) is water.

Stone County, Mississippi
TABLE OF CONTENTS

PAGE #

FINANCIAL SECTION

Independent Auditor's Report.....5

FINANCIAL STATEMENTS

Statement of Net Position.....11
Statement of Activities12
Balance Sheet - Governmental Funds13
Reconciliation of the Governmental Funds Balance Sheet to
the Statement of Net Position.....14
Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities16
Statement of Net Position - Proprietary Fund.....17
Statement of Revenues, Expenses and Changes in Net
Position - Proprietary Fund.....18
Statement of Cash Flows - Proprietary Fund.....19
Statement of Fiduciary Assets and Liabilities.....20
Notes to the Financial Statements22

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule - General Fund.....57
Budgetary Comparison Schedule - Road and Bridge Fund.....58
Budgetary Comparison Schedule - Countywide Bridge and Culvert Fund.....59
Schedule of the County's Proportionate Share of the Net Pension Liability.....60
Schedule of County Contributions.....61
Notes to the Required Supplementary Information.....62

OTHER INFORMATION

Schedule of Surety Bonds for County Officials.....66

SPECIAL REPORTS

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*68
Independent Accountant's Report on Central Purchasing System, Inventory Control
System and Purchase Clerk Schedules (Required by Section 31-7-115,
Miss. Code Ann. (1972)).....70
Limited Internal Control and Compliance Review Management Report76
Schedule of Findings and Responses.....82

FINANCIAL REPORT

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Stone County, Mississippi

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion on Governmental Activities

As discussed in Note 13 to the financial statements, the County has not recorded a liability for other postemployment benefits in the governmental activities and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities has not been determined.

The County did not properly maintain and preserve adequate subsidiary records documenting the County's financing of a portion of its exposure to risk of loss relating to employee health and dental coverage. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of this activity. Additionally, a fiduciary fund type is used to report the risk-financing activity in the financial statements. Accounting principles generally accepted in the United States of America stipulate that fiduciary funds are to be used solely to report resources held by the County as a trustee or agent on behalf of an outside entity that cannot be used to support the County's own programs. The amount by which this departure would affect the assets and liabilities of the governmental activities is not reasonably determinable. The County also has not recorded a liability for unpaid claims and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that claims be accrued as liabilities and expenses as they are incurred, which would increase the liabilities, reduce net position and change the expenses of the governmental activities. The amount by which this departure would affect the liabilities, net position and expenses of the governmental activities is not reasonably determinable.

Additionally, the County did not properly maintain and preserve an adequate inventory control system. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of the County's investment in capital assets.

The County did not properly account for risk-financing activities. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of the County's risk-financing activities.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on Governmental Activities" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Stone County, Mississippi, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Business-Type Activities and Correctional Facility Fund

As discussed in Note 13 to the financial statements, the County has not recorded a liability for other postemployment benefits in the business-type activities and Correctional Facility Fund and, accordingly, has not recorded an expense for the current period change in that liability. Accounting principles generally accepted in the United States of America require that other postemployment benefits attributable to employee services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee be accrued as liabilities and expenses as employees earn the rights to the benefits, which would increase the liabilities, reduce the net position and change the expenses of the business-type activities and Correctional Facility Fund. The amount by which this departure would affect the liabilities, net position and expenses of the business-type activities and the Correctional Facility Fund is not reasonably determinable.

Additionally, the County did not properly maintain and preserve an adequate inventory control system. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of the County's investment in capital assets.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on Business-Type Activities and Correctional Facility Fund" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and Correctional Facility Fund of Stone County, Mississippi, as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the General Fund

The County was unable to provide reconciled bank statements for Circuit Clerk operational accounts for the fiscal year ended September 30, 2016. Numerous requests were made to the Circuit Clerk for the following accounts: 1) Criminal account, 2) Civil account and Cash bond account for September 2016. The months of June, July, August and September 2016 have yet to be settled. This issue affects the cash presented on the financial statements.

Qualified Opinion

In our opinion, except for the effects of the matters described in the "Basis for Qualified Opinion on the General Fund" paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the General Fund of Stone County, Mississippi, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

The County did not properly maintain and preserve adequate subsidiary records documenting the County's financing of a portion of its exposure to risk of loss relating to employee health and dental coverage. Due to the nature of the County's records, we were unable to satisfy ourselves as to the fair presentation of this activity. Additionally, a fiduciary fund type is used to report the risk-financing activity in the financial statements. Accounting principles generally accepted in the United States of America stipulate that fiduciary funds are to be used solely to report resources held by the County as a trustee or agent on behalf of an outside entity that cannot be used to support the County's own programs.

The amount by which this departure would affect the assets and liabilities of the aggregate remaining fund information is not reasonably determinable. The County also has not recorded a liability for claims unpaid as of the date of the financial statements. Accounting principles generally accepted in the United States of America require that claims be accrued as liabilities and expenses as they are incurred, which would increase the liabilities of the aggregate remaining fund information. The amount by which this departure would affect the liabilities of the aggregate remaining fund information is not reasonably determinable.

Qualified Opinion

In our opinion, except for the effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Remaining Fund Information" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2016, and the change in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Road and Bridge Fund, Countywide Bridge and Culvert Fund of the Stone County, Mississippi, as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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

Omission of Required Supplementary Information

Stone County, Mississippi, has omitted the Management's Discussion and Analysis and the Schedule of Funding Progress – Other Postemployment Benefits that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018, on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stone County, Mississippi's internal control over financial reporting and compliance.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC
November 16, 2018

Certified Public Accountants

FINANCIAL STATEMENTS

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

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 1,337,256		\$ 1,337,256
Restricted assets - investments		1,910,216	1,910,216
Property tax receivable	4,877,642		4,877,642
Fines receivable, net	358,650		358,650
Loans receivable, net	42,432		42,432
Capital lease receivable	54,585		54,585
Intergovernmental receivables	258,603	492,920	751,523
Internal Balances	302,923	(302,923)	-
Capital assets:			
Land and construction in progress	1,313,274	12,957	1,326,231
Other capital assets, net of depreciation	10,804,946	4,284,292	15,089,238
Total Assets	<u>19,350,311</u>	<u>6,397,462</u>	<u>25,747,773</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	1,869,233	775,554	2,644,787
Deferred amount on refunding		23,340	23,340
Total Deferred Outflows of Resources	<u>1,869,233</u>	<u>798,894</u>	<u>2,668,127</u>
LIABILITIES			
Claims payable	184,621	28,955	213,576
Intergovernmental payables	398,986		398,986
Accrued interest payable	1,546	28,083	29,629
Long-term liabilities			
Due within one year:			
Capital debt	811,857	480,470	1,292,327
Due in more than one year:			
Capital debt	1,508,309	1,261,508	2,769,817
Non-capital debt	84,546	41,265	125,811
Net pension liability	9,082,332	3,768,306	12,850,638
Total Liabilities	<u>12,072,197</u>	<u>5,608,587</u>	<u>17,680,784</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	222,519	92,324	314,843
Unavailable revenue - capital lease interest	1,865		1,865
Unavailable revenue - property taxes	4,877,642		4,877,642
Total Deferred Inflows of Resources	<u>5,102,026</u>	<u>92,324</u>	<u>5,194,350</u>
NET POSITION			
Net investment in capital assets	9,798,054	2,578,611	12,376,665
Restricted for:			
Debt service	48,416	410,877	459,293
Public safety	515,449		515,449
Public works	335,621		335,621
Economic development	227,204		227,204
Unemployment compensation	33,888		33,888
Unrestricted	(6,913,311)	(1,494,043)	(8,407,354)
Total Net Position	<u>\$ 4,045,321</u>	<u>\$ 1,495,445</u>	<u>\$ 5,540,766</u>

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

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

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government							
Governmental activities							
General government	\$ 2,548,793	\$ 646,656			\$ (1,902,137)	\$ -	\$ (1,902,137)
Public safety	2,647,158	195,593	201,977	10,287	(2,239,301)		(2,239,301)
Public works	3,137,820		120,477	201,247	(2,816,096)		(2,816,096)
Health and welfare	212,348		39,148		(173,200)		(173,200)
Culture and recreation	228,216				(228,216)		(228,216)
Conservation of natural resources	62,076				(62,076)		(62,076)
Economic development and assistance	155,056		143,593	633	(10,830)		(10,830)
Interest on long-term debt	80,080				(80,080)		(80,080)
Pension expense	1,234,507				(1,234,507)		(1,234,507)
Total Governmental Activities	<u>10,306,054</u>	<u>842,249</u>	<u>505,195</u>	<u>212,167</u>	<u>(8,746,443)</u>		<u>(8,746,443)</u>
Business-type activities							
Correctional facility	3,632,108	3,642,824				10,716	-
Total Business-type Activities	<u>3,632,108</u>	<u>3,642,824</u>	<u>-</u>	<u>-</u>		<u>10,716</u>	<u>-</u>
Total Primary Government	<u>\$ 13,938,162</u>	<u>\$ 4,485,073</u>	<u>\$ 505,195</u>	<u>\$ 212,167</u>	<u>\$ (8,746,443)</u>	<u>\$ 10,716</u>	<u>\$ (8,735,727)</u>
General revenues:							
Property taxes					6,749,889		6,749,889
Road & bridge privilege taxes					196,446		196,446
Grants not restricted to specific programs					896,086		896,086
Unrestricted interest income					6,888	1,490	8,378
Miscellaneous					338,321	74,838	413,159
Transfers					1,423	(1,423)	-
Total General Revenues and Transfers					<u>8,189,053</u>	<u>74,905</u>	<u>8,263,958</u>
Change in Net Position					<u>(557,390)</u>	<u>85,621</u>	<u>(471,769)</u>
Net Position - Beginning, as previously reported					3,958,900	1,410,729	5,369,629
Prior period adjustments					643,811	(905)	642,906
Net Position - Beginning, as restated					<u>4,602,711</u>	<u>1,409,824</u>	<u>6,012,535</u>
Net Position - Ending					<u>\$ 4,045,321</u>	<u>\$ 1,495,445</u>	<u>\$ 5,540,766</u>

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

	Major Funds				Total Governmental Funds
	General Fund	Road and Bridge Fund	Countywide Bridge & Culvert Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 610,539	\$ 595	\$ 521	\$ 725,601	\$ 1,337,256
Property tax receivable	3,269,020	205,766	668,591	734,265	4,877,642
Fines receivable (net of allowance for uncollectible of \$727,101)	358,650				358,650
Loans receivable				42,432	42,432
Capital Lease Receivable				52,720	52,720
Intergovernmental receivables	240,933			17,670	258,603
Other receivables				3,877	3,877
Due from other funds		616,319	562,782	583,666	1,762,767
Advances to other funds	22,212	98,823	89,699	5,925	216,659
Total Assets	<u>\$ 4,501,354</u>	<u>\$ 921,503</u>	<u>\$ 1,321,593</u>	<u>\$ 2,166,156</u>	<u>\$ 8,910,606</u>
LIABILITIES					
Claims payable	\$ 101,187	\$ 25,808	\$ 1,387	\$ 56,239	\$ 184,621
Intergovernmental payables	165,842				165,842
Due to other funds	1,442,607				1,442,607
Advances from other funds	255,668	20,027		195,222	470,917
Total Liabilities	<u>1,965,304</u>	<u>45,835</u>	<u>1,387</u>	<u>251,461</u>	<u>2,263,987</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	3,269,020	205,766	668,591	734,265	4,877,642
Deferred revenue - capital lease receivable				52,720	52,720
Deferred revenue - fines	358,650				358,650
Total Deferred Inflows of Resources	<u>3,627,670</u>	<u>205,766</u>	<u>668,591</u>	<u>786,985</u>	<u>5,289,012</u>
FUND BALANCES					
Nonspendable					
Advances	22,212	98,823	89,699	5,925	216,659
Restricted					
Debt service				49,962	49,962
Public safety				515,449	515,449
Public works		571,079	561,916	335,621	1,468,616
Economic development and assistance				176,349	176,349
Unemployment compensation				33,888	33,888
General administration				10,516	10,516
Unassigned	(1,113,832)				(1,113,832)
Total Fund Balances	<u>(1,091,620)</u>	<u>669,902</u>	<u>651,615</u>	<u>1,127,710</u>	<u>1,357,607</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 4,501,354</u>	<u>\$ 921,503</u>	<u>\$ 1,321,593</u>	<u>\$ 2,166,156</u>	<u>\$ 8,910,606</u>

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

Stone County, Mississippi

Exhibit 3-1

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

Total fund balances for governmental funds	\$	1,357,607
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		12,118,220
Other long-term assets are not available to pay current period expenditures and therefore are not reported in the funds		358,650
Deferred outflows of resources related to pension reported in governmental activities is not a financial resource and therefore is not reported in the funds.		1,869,233
Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds		(11,488,590)
Deferred inflows of resources related to pension are not due and payable in the current period and therefore are not reported in the funds.		(222,519)
Capital leases not available to pay for current period expenditures and, therefore, are deferred in the funds.		<u>52,720</u>
Net position of governmental activities	\$	<u><u>4,045,321</u></u>

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

Stone County, Mississippi

Exhibit 4

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended September 30, 2016

	Major Funds				Total Governmental Funds
	General Fund	Road and Bridge Fund	Countywide Bridge & Culvert Fund	Other Governmental Funds	
REVENUES					
Property taxes	\$ 4,666,476	\$ 272,805	\$ 886,431	\$ 924,177	\$ 6,749,889
Road and bridge privilege taxes		196,446			196,446
Licenses, commissions, and other revenues	318,105		514	7,834	326,453
Fines and forfeitures	354,357			9,810	364,167
Intergovernmental revenues	409,116	744,263	186,281	303,193	1,642,853
Charges for services	158,626				158,626
Interest income	1,533	1,737	1,226	1,914	6,410
Miscellaneous revenues	214,928	7,630		97,344	319,902
Total Revenues	<u>6,123,141</u>	<u>1,222,881</u>	<u>1,074,452</u>	<u>1,344,272</u>	<u>9,764,746</u>
EXPENDITURES					
Current:					
General government	3,196,936			11,968	3,208,904
Public safety	2,558,341			207,736	2,766,077
Public works	4,262	2,559,141	1,007,564	431,623	4,002,590
Health and welfare	183,848				183,848
Culture and recreation	193,723			11,281	205,004
Conservation of natural resources	65,426				65,426
Economic development and assistance	15,984			143,285	159,269
Debt service:					
Principal	76,379	391,838		253,994	722,211
Interest and other fiscal charges	29,508	24,727		26,284	80,519
Total Expenditures	<u>6,324,407</u>	<u>2,975,706</u>	<u>1,007,564</u>	<u>1,086,171</u>	<u>11,393,848</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(201,266)</u>	<u>(1,752,825)</u>	<u>66,888</u>	<u>258,101</u>	<u>(1,629,102)</u>
OTHER FINANCING SOURCES (USES)					
Proceeds from issuance of long term debt	52,436	251,232		1,124,065	1,427,733
Proceeds from sale of capital assets	8,374	26,150			34,524
Compensation for loss of capital assets	22,494				22,494
Transfers in	479,019	1,124,000		312,570	1,915,589
Transfers out	(310,283)	(660)		(1,603,223)	(1,914,166)
Net Other Financing Sources (Uses)	<u>252,040</u>	<u>1,400,722</u>	<u>-</u>	<u>(166,588)</u>	<u>1,486,174</u>
Net Change in Fund Balances	<u>50,774</u>	<u>(352,103)</u>	<u>66,888</u>	<u>91,513</u>	<u>(142,928)</u>
Fund Balances - Beginning, as previously reported	(1,142,394)	1,022,005	584,727	1,044,275	1,508,613
Prior period adjustments				(8,078)	(8,078)
Fund Balances - Beginning, as restated	<u>(1,142,394)</u>	<u>1,022,005</u>	<u>584,727</u>	<u>1,036,197</u>	<u>1,500,535</u>
Fund Balances - Ending	<u>\$ (1,091,620)</u>	<u>\$ 669,902</u>	<u>\$ 651,615</u>	<u>\$ 1,127,710</u>	<u>\$ 1,357,607</u>

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

Stone County, Mississippi

Exhibit 4-1

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

Net change in fund balances - total governmental funds \$ (142,928)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$1,675,290 exceeded depreciation expense of \$597,855. 1,077,435

In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net position differs from the change in fund balances by the amount of the net loss of \$73,123 less the proceeds from the sale of \$34,524 in the current period. (38,599)

Fine revenue recognized on the modified accrual basis in the funds during the current year is increased because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. (7,923)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net position. Also, governmental funds report the effect of premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities.

Payments of debt principal 722,211
Proceeds from issuance of long term debt (1,427,733)

Some items reported in the Statement of Activities relating to the implementation of GASB 68 are not reported in the governmental funds. These activities include:

Recording of pension expense for the current period (1,234,507)
Recording retirement contributions made during the fiscal year:
 Before the measurement date 391,726
 Subsequent to the measurement date 132,595

Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences (3,531)

In the Statement of Activities, only interest income from payments received on capital leases are reported, whereas in the government funds, both principal and interest payments received increase financial resources. Thus, the change in net position differs from changes in fund by the principal collections on the capital lease. (26,136)

Change in net position of governmental activities (557,390)

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

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

Exhibit 5

	Business-type Activities Enterprise Funds Correctional Facility Fund
ASSETS	
Current assets:	
Restricted assets - investments	\$ 1,910,216
Intergovernmental receivables	492,920
Advances to other funds	55,668
Total Current Assets	<u>2,458,804</u>
Noncurrent assets:	
Capital assets:	
Land and construction in progress	12,957
Other capital assets, net	4,284,292
Total Noncurrent Assets	<u>4,297,249</u>
Total Assets	<u>6,756,053</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	775,554
Deferred amount on refunding	23,340
Total Deferred Outflows of Resources	<u>798,894</u>
LIABILITIES	
Current liabilities:	
Claims payable	28,955
Due to other funds	357,181
Advances from other funds	1,410
Accrued interest payable	28,083
Capital debt:	
Capital leases payable	40,470
Other long-term liabilities	440,000
Total Current Liabilities	<u>896,099</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	24,688
Other long-term liabilities	1,236,820
Non-capital debt:	
Compensated absences payable	41,265
Net Pension Liability	3,768,306
Total Noncurrent Liabilities	<u>5,071,079</u>
Total Liabilities	<u>5,967,178</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	92,324
Total Deferred Inflows of Resources	<u>92,324</u>
NET POSITION	
Net investment in capital assets	2,578,611
Restricted for:	
Debt Service	410,877
Unrestricted	(1,494,043)
Total Net Position	<u>\$ 1,495,445</u>

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

Stone County, MississippiExhibit 6Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2016

	Business-type Activities - Enterprise Funds
	<u>Correctional Facility Fund</u>
Operating Revenues	
Charges for services	\$ 3,642,824
Miscellaneous	74,838
Total Operating Revenues	<u>3,717,662</u>
Operating Expenses	
Personal services	1,715,800
Contractual services	417,690
Materials and supplies	718,930
Depreciation expense	180,392
Pension expense	512,203
Total Operating Expenses	<u>3,545,015</u>
Operating Income (Loss)	<u>172,647</u>
Nonoperating Revenues (Expenses):	
Interest income	1,490
Transfer out	(1,423)
Interest expense	(87,093)
Net Nonoperating Revenues (Expenses):	<u>(87,026)</u>
Change in Net Position	<u>85,621</u>
Net Position - Beginning, as previously reported	1,410,729
Prior period adjustments	(905)
Net Position - Beginning, as restated	<u>1,409,824</u>
Net Position - Ending	<u>\$ 1,495,445</u>

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

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

Exhibit 7

	Business-type Activities - Enterprise Funds
	Correctional Facility Fund
Cash Flows From Operating Activities	
Cash receipts from customers	\$ 3,541,263
Cash payments to suppliers for goods and services	(1,209,488)
Cash payments to employees for services	(2,124,857)
Other operating cash receipts	79,138
Net Cash Provided by (Used for) Operating Activities	<u>286,056</u>
Cash Flows From Noncapital Financing Activities	
Transfers out	(1,423)
Cash received from other funds:	
Interfund loan repayments	(357,423)
Cash paid to other funds:	
Loans made to other funds	357,180
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(1,666)</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds from long term debt	31,754
Acquisition and construction of capital assets	(6,270)
Principal paid on long-term-debt	(471,053)
Interest paid on debt	(82,749)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(528,318)</u>
Cash Flows From Investing Activities	
Investments securities	242,437
Investment income	1,491
Net Cash Provided by (Used for) Investment Activities	<u>243,928</u>
Net Change in Cash	-
Cash and Cash Equivalents - Beginning	-
Cash and Cash Equivalents - Ending	<u>\$ -</u>
Reconciliation of Operating Income (Loss) to Net Cash	
Provided by (Used for) Operating Activities	
Operating income (loss)	<u>\$ 172,647</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	180,392
Change in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
(Increase) decrease in assets:	
Intergovernmental receivable	(87,089)
Deferred outflow related to pension	(145,984)
Increase (decrease) in liabilities:	
Claims payable	(90,606)
Net Pension Liability	169,495
Compensated absences payable	1,716
Deferred inflow - Pensions	85,485
Total adjustments	<u>113,409</u>
Net Cash Provided by (Used for) Operating Activities	<u>\$ 286,056</u>

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

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

Exhibit 8

	Agency Funds
ASSETS	
Cash	\$ 459,641
Due from other funds	37,021
Advances to other funds	200,000
Total Assets	<u>\$ 696,662</u>
LIABILITIES	
Intergovernmental payables	696,662
Total Liabilities	<u>\$ 696,662</u>

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

Stone County, Mississippi

Notes to the Financial Statements
For the year ended September 30, 2016

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(1) Summary of Significant Accounting Policies

A. Financial Reporting Entity

Stone County, Mississippi (the County) is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Stone County, Mississippi to present these financial statements on the primary government and its component units which have a significant operational or financial relationship with the County. There are no outside organizations that should be included as component units of the County's reporting entity.

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's 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 Position and a Statement of Activities, fund financial statements and accompanying note disclosures which provide a detailed level of financial information.

Government-wide Financial Statements:

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

Fund Financial Statements:

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

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 assets used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

The revenues and expenses of Proprietary Funds are classified as operating or non-operating. 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 non-operating.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

The County reports the following major Governmental Funds:

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

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

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

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 MS Department of Corrections for housing state prisoners.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

Debt Service Funds - These funds are used to account for and report financial resources restricted to expenditure principal and interest activity.

Capital Project Funds - These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

outlays, including the acquisition or construction of capital facilities and other capital assets.

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 2012 by the Government Finance Officers Association.

E. Deposits and Investments

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

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

F. Receivables

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

G. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

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 funds.” Advances between funds, as reported in the fund financial statements, are offset by a nonspendable fund balance account in the General Fund, if applicable, to indicate that they are not available for appropriation and are not expendable available financial resources.

However, this is not applicable to advances reported in other governmental funds, which are reported, by definition, as restricted, committed, or assigned. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Position. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

H. Restricted Assets

Proprietary Fund assets required to be held and used as specified in bond indentures have been reported as restricted assets. When both restricted and nonrestricted assets are available for use, the policy is to use restricted assets first. Certain resources set aside for the repayment of the County’s enterprise fund revenue bonds are classified as restricted assets on the Statement of Net Position because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The “revenue” account is used to account for all revenues of the correctional facility and to provide payment for operating and maintenance expenses as well as required monthly deposits to other accounts to meet minimum requirements of the trust agreement. The “depreciation and operating reserve” account is used to pay the costs of major repairs and replacements to the correctional facility, the costs of which are such that they should be spread over a number of years rather than charged as a current expense in a single year. The “excess revenue” account is used to pay the maintenance expense when other funds are insufficient to pay these expenses within established limitations. The “debt service reserve” account is used to segregate resources set aside to subsidize potential deficiencies from the County’s operation of the correctional facility that could adversely affect debt service payments. The “general” account is used to accumulate funds to pay the principal and interest payments due on the County’s enterprise fund revenue bonds. When both restricted and nonrestricted assets are available for use, the policy is to use the 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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to 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:

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

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

J. Deferred Outflows/Inflows of Resources

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

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

Deferred outflows related to pensions - This amount represents the County's proportionate share of the deferred outflows of resources reported by the pension plan in which the County participates. See Note 19 for additional details.

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

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

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

Unavailable revenue - fines - When an asset is recorded in the governmental fund financial statements but the revenues is not available, the government should

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

report a deferred inflow of resources until such time as the revenue becomes available.

Deferred inflows related to pensions - This amount represents the County's proportionate share of the deferred inflows of resources reported by the pension plan in which the County participates. See Note 19 for additional details.

K. Pensions

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

L. 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, business-type activities or Proprietary Funds Statement of Net Position. Bond premiums and discounts, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

M. Equity Classifications

Government-wide Financial Statements:

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

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

Restricted net position - Consists of net position with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

regulations of other governments; or law through constitutional provisions or enabling legislation.

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

Net Position Flow Assumption:

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

Fund Financial Statements:

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

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

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

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

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

expenditures incurred for specific purposes exceeded the amounts restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

Fund Balance Flow Assumption:

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

N. 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.

O. 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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

and shared revenues when the expenditure is made because the expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

P. 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 fund 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. The County's policy caps the amount of accumulated unpaid employee personal leave at 30 days.

(2) Prior Period Adjustments

A summary of significant net position / fund balance adjustments are as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
<u>Governmental Activities</u>	
1. To correct prior years errors in recording revenues and expenses.	\$ (300,972)
2. To correct prior year errors in recording long term debt.	16,338
3. To correct prior year errors in recording capital assets.	928,445
Total	\$ <u>643,811</u>
<u>Business-Type Activities</u>	
1. See explanation below.	\$ (5,048)
3. See explanation below.	4,143
Total	\$ <u>(905)</u>

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

<u>Explanation</u>	<u>Amount</u>
1 Net effect of prior year errors in recording revenues and expenses	\$ <u>(8,078)</u>

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Exhibit 6 - Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds

<u>Business-Type Activities</u>	<u>Amount</u>
1. Net effect of prior year errors in recording revenues and expenses	\$ (5,048)
2. To correct prior year errors in recording capital assets	4,143
Total	\$ <u><u>(905)</u></u>

(3) Deposits and Investments

Deposits:

Primary Government

The carrying amount of the County's total deposits with financial institutions at September 30, 2016, was \$1,337,256 in the governmental funds and \$459,641 in the fiduciary funds and the bank balance was \$2,505,881. 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. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). Deposits above the 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.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Investment balances at September 30, 2016 are as follows:

Investment Type	Matures	Fair Value	Rating
SEI Daily Income Trust Mutual Fund	Less than one year	\$ 1,910,216	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 prescribed in Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The County does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is defined as 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 that addresses custodial credit risk. Of the County's investments, all of the underlying securities were uninsured, unregistered, and held in trust accounts by the investment's counterparty on behalf of the County, not in the name of the County.

(4) Interfund Transactions and Balances

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

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Road and Bridge Fund	General Fund	\$ 259,138
Road and Bridge Fund	Enterprise Fund	357,181
Countywide Bridge and Culvert Fund	General Fund	562,782
Other Governmental Funds	General Fund	583,666
Agency Funds	General Fund	37,021
Total		<u>\$ 1,799,788</u>

The majority of the receivables represent amounts received from various funds to cover deficit cash balances, errors in posting revenues and debt service expenditures. All other receivables represent either tax revenue collected in September 2016 but not settled until October 2016. All interfund balances are expected to be repaid within one year from the date of the financial statements.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

B. Advances To/From Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Road and Bridge Fund	\$ 15,512
General Fund	Other Governmental Funds	6,700
Road and Bridge Fund	Other Governmental Funds	98,823
Countywide Bridge and Culvert Fund	Other Governmental Funds	89,699
Other Governmental Funds	Road and Bridge Fund	4,515
Other Governmental Funds	Enterprise Fund	1,410
Enterprise Funds	General Fund	55,668
Agency Funds	General Fund	200,000
Total		<u>\$ 472,327</u>

The advances represent errors in posting revenues, debt proceeds, and debt service expenditures in prior years.

C. Transfers In/Out:

Transfers In	Transfers Out	Amount
General Fund	Other Governmental Funds	\$ 479,019
Road and Bridge Fund	Other Governmental Funds	1,124,000
Other Governmental Funds	General Fund	310,283
Other Governmental Funds	Road and Bridge Fund	660
Other Governmental Funds	Other Governmental Funds	204
Other Governmental Funds	Enterprise Funds	1,423
Total		<u>\$ 1,915,589</u>

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(5) Intergovernmental Receivables

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

Governmental Activities:

Description	Amount
Grant Reimbursements	\$ 86,824
Reimbursement for school resource officers	20,019
DHS Reimbursement	3,974
Phone Commissions and Fees	12,466
Legislative tag credit	96,846
Sales Commissions	17,037
Miscellaneous	5,172
E-911 Commissions	16,265
Total	\$ 258,603

Business-Type Activities:

Description	Amount
Reimbursements for housing prisoners	\$ 484,250
Other	8,670
Total	\$ 492,920

(6) Loans Receivable

Loan receivable balances at September 30, 2016, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Emergency Medical Services District	06-1987	N/A	N/A	\$ 22,439
Crown Castle Towers 09, LLC	03-2013	2.00%	03-2018	43,432
				65,871
Less: allowance for doubtful accounts				(23,439)
Total				\$ 42,432

The Emergency Medical Services District's loan has been dormant for decades. The Crown Castle Towers 09, LLC's loan is a 5 year loan (Tower Lease) which the County maintained.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(7) Restricted Assets

The balances of restricted asset accounts in the enterprise funds are as follows:

	<u>Amount</u>
General Account	\$ 432,039
Revenue fund	61,962
Depreciation and operating reserve fund	500,593
Debt service reserve fund	410,877
Excess revenue fund	504,197
Mandatory redemption fund	<u>548</u>
Total restricted assets	<u><u>\$ 1,910,216</u></u>

Stone County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(8) Capital Assets

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

<u>Governmental activities:</u>	Balance Oct. 1, 2015	Additions	Deletions	* Adjustments/ Completed Construction	Balance Sept. 30, 2016
Non-depreciable capital assets:					
Land	\$ 434,756				434,756
Construction in progress		870,581		7,937	878,518
Total non-depreciable capital assets	434,756	870,581	0	7,937	1,313,274
Depreciable capital assets:					
Infrastructure	914,623			657,556	1,572,179
Buildings	8,683,919	394,124			9,078,043
Improvements other than buildings	671,284			247,022	918,306
Mobile equipment	4,684,388	44,075	278,882	300,146	4,749,727
Furniture and equipment	603,749	160,000		(79,858)	683,891
Leased property under capital leases	1,016,883	206,510		(160,477)	1,062,916
Total depreciable capital assets	16,574,846	804,709	278,882	964,389	18,065,062
Less accumulated depreciation for:					
Infrastructure	29,890	22,456			52,346
Buildings	2,152,651	173,770	240,283	240,283	2,326,421
Improvements other than buildings					0
Mobile equipment	3,732,655	228,890		(110,041)	3,851,504
Furniture and equipment	453,323	46,821		(24,711)	475,433
Leased property under capital leases	490,144	125,918		(61,650)	554,412
Total accumulated depreciation	6,858,663	597,855	240,283	43,881	7,260,116
Total depreciable capital assets, net	9,716,183	206,854	38,599	920,508	10,804,946
Governmental activities capital assets, net	\$ 10,150,939	1,077,435	38,599	928,445	12,118,220

Adjustment were made to correctly present capital assets.

* Construction in progress include completed construction in the amount of (\$657,556) and an adjustment in the amount of \$665,493. Infrastructure include completed construction \$657,556.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Business-Type Activities:

The following is a summary of business-type activities' capital assets activity for the year ended September 30, 2016:

	Balance Oct. 1, 2015	Additions	Deletions	Adjustments	Balance Sept. 30, 2016
Non-depreciable capital assets:					
Land	\$ 12,957				12,957
Construction in progress			5,047	5,047	0
Total non-depreciable capital assets	<u>12,957</u>	<u>0</u>	<u>5,047</u>	<u>5,047</u>	<u>12,957</u>
Depreciable capital assets:					
Buildings	5,857,503				5,857,503
Mobile equipment	162,119			(50,812)	111,307
Furniture and equipment	207,386	6,270			213,656
Leased property under capital leases	125,508				125,508
Total depreciable capital assets	<u>6,352,516</u>	<u>6,270</u>	<u>0</u>	<u>(50,812)</u>	<u>6,307,974</u>
Less accumulated depreciation for:					
Buildings	1,616,759	117,156			1,733,915
Mobile equipment	134,311	34,815		(72,504)	96,622
Furniture and equipment	108,557	28,422			136,979
Leased property under capital leases	33,570			22,596	56,166
Total accumulated depreciation	<u>1,893,197</u>	<u>180,393</u>	<u>0</u>	<u>(49,908)</u>	<u>2,023,682</u>
Total depreciable capital assets, net	<u>4,459,319</u>	<u>(174,123)</u>	<u>0</u>	<u>(904)</u>	<u>4,284,292</u>
Total business-type activities capital assets, net	<u>\$ 4,472,276</u>	<u>(174,123)</u>	<u>5,047</u>	<u>4,143</u>	<u>4,297,249</u>

Adjustments were made to correctly present capital assets.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 157,156
Public safety	133,117
Public works	253,595
Health and welfare	28,500
Culture and recreation	23,111
Economic development and assistance	2,376
Total governmental activities	<u>597,855</u>
Business-Type Activities	
Correctional Facility	<u>180,393</u>
Total depreciation expense	<u>\$ 778,248</u>

(9) Claims and Judgments

Risk Financing

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

(10) Operating Leases

As Lessee:

The County entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$41,508 for the year ended September 30, 2016. The future minimum lease receivables for these leases are as follows:

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 41,508
2018	41,508
2019	41,508
2020	41,508
2021	41,508
2022 - 2023	76,098
Total Minimum Payments Required	\$ <u><u>283,638</u></u>

(11) Capital Leases

As Lessor:

The County leases the following property with varying terms and options as of September 30, 2016:

<u>Classes of Property</u>	<u>Amount</u>
Buildings	\$ <u><u>269,842</u></u>

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2016, are as follows:

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 27,065	1,414
2018	25,655	451
Total Minimum Payments Required	\$ <u><u>52,720</u></u>	<u><u>1,865</u></u>

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

As Lessee:

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

Classes of Property	Governmental Activities	Business-type Activities
Mobile equipment	\$ 1,062,916	125,508
Less: Accumulated depreciation	(554,412)	(56,166)
Leased Property Under Capital Leases	<u>\$ 508,504</u>	<u>69,342</u>

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

Year Ending September 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2017	\$ 265,509	10,937	40,470	883
2018	245,555	6,100	19,283	263
2019	154,040	1,956	5,405	
2020	15,865	41		
Total	<u>\$ 680,969</u>	<u>19,034</u>	<u>65,158</u>	<u>1,146</u>

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(12) Short-Term Debt and Liquidity

The following is a summary of short-term debt activity for the year ended September 30, 2016:

Description of Debt	Beginning 10-01-15	Additions	Reductions	Ending 09-30-16
2015 tax anticipation promissory note	\$ 400,000		400,000	0

During the month of September 2015, the County issued a \$400,000 tax anticipation note with an interest rate of 0.95% and a maturity date of April 2016 in order to alleviate an operating cash flow deficiency. The note was repaid in February 2016.

(13) Other Postemployment Benefits

Plan Description

The Stone County Board of Supervisors administers the County's health, dental and vision insurance plans which are authorized by Sections 25-15-101 et. Seq., Mississippi Code Ann. (1972). The County's health, dental and vision insurance plans may be amended by the Stone County Board of Supervisors. The County purchases health, dental and vision insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the County's health insurance plan (the Plan). The County is also self-insured in respect to supplemental health insurance. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the County has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. However, the County has not recorded a liability for other postemployment benefits nor has the County reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(14) Long-Term Debt

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<u>Governmental Activities:</u>			
A. General Obligation Bonds:			
GOB, Series 2003	\$ 350,000	3.37-3.7%	03/2018
B. Capital Leases			
2007 Ford F-150 pickup truck	\$ 2,553	1.45%	04/2017
Kubota M108SHDC tractor	16,522	1.71%	11/2017
Kubota M9960 HDC & Rhino Flex	28,118	1.89%	03/2018
JCB JS190 Excavator	145,713	1.66%	07/2019
2016 Kubota M6101 Tractor	97,159	1.87%	10/2019
Tiger boom mower	9,897	1.90%	05/2017
(2) Mack rear load garbage trucks	234,473	2.24%	11/2019
(2) Ford Police Interceptor	42,477	1.94%	02/2018
Ford F-150 pickup truck	16,194	1.99%	09/2018
Caterpillar backhoe/loader	47,368	1.94%	04/2018
2014 Dodge 1500 truck	7,627	1.71%	09/2017
2014 Dodge Charger	9,447	1.71%	09/2017
2014 Dodge Charger	6,906	1.78%	10/2016
(2) 2014 Dodge Rams	16,515	1.60%	10/2017
Total Capital Leases	\$ 680,969		
C. Other Loans:			
HVAC control system	\$ 1,062	1.35%	09/2017
2016 road repair note	1,124,065	1.35%	05/2021
2012 road paving note	133,604	1.55%	05/2017
MDA revolving loan - CMI Bldg.	30,466	3.00%	06/2018
Total Other Loans	\$ 1,289,197		

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Business-Type Activities:

A. Limited Obligation Bonds:

Regional Correctional Facility	\$ <u>1,685,000</u>	3.1-4.0%	11/2019
--------------------------------	---------------------	----------	---------

B. Capital Leases:

2014 Ford F150 truck	\$ 7,117	1.45%	04/2017
Ford F350 XL truck	26,585	1.92%	03/2019
2015 Ford police interceptor SCR	13,763	1.94%	02/2018
2015 Ford F-150 truck, SCRCF	17,693	1.94%	02/2018
Total Capital Leases	\$ <u>65,158</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 limited obligation urban renewal revenue bonds issued in September 2009, 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 MS Department of Corrections for housing state prisoners and income received from any other governments for housing and holding prisoners and are payable through November 2019. Annual principal and interest payments on the bonds are expected to require less than 14 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,812,300. Principal and interest paid for the current year and total inmate housing net revenues were \$504,065 and \$3,642,824, respectively.

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

Year Ending September 30,	Governmental Activities				Business-type Activities	
	General Obligation Bonds		Other Loans		Limited Obligation Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 170,000	9,720	376,348	17,934	440,000	58,600
2018	180,000	3,330	241,887	12,280	460,000	40,600
2019			231,149	9,058	475,000	21,900
2020			234,270	5,937	310,000	6,200
2021			205,543	2,775		
Total	\$ <u>350,000</u>	<u>13,050</u>	<u>1,289,197</u>	<u>47,984</u>	<u>1,685,000</u>	<u>127,300</u>

Legal Debt Margin

The amount of debt, excluding specific exempted debt, that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater

Stone County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

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 by 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2016, the amount of outstanding debt was equal to 3.61% of the latest property assessments.

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

	Balance				Balance	Amount
	Oct. 1, 2015	Additions	Reductions	Adjustment	Sept. 30, 2016	due
						one year
<u>Governmental Activities:</u>						
General obligation bonds	\$ 515,000		165,000		350,000	170,000
Capital leases	593,236	303,668	209,375	(6,560)	680,969	265,509
Other loans	522,746	1,124,065	347,836	(9,778)	1,289,197	376,348
Compensated absences	81,015	3,531			84,546	
Total	\$ <u>1,711,997</u>	<u>1,431,264</u>	<u>722,211</u>	<u>(16,338)</u>	<u>2,404,712</u>	<u>811,857</u>

	Balance				Balance	Amount
	Oct. 1, 2015	Additions	Reductions		Sept. 30, 2015	due
						one year
<u>Business-type Activities:</u>						
Limited obligation bonds	\$ 2,115,000		430,000		1,685,000	440,000
Discount	(10,907)		(2,727)		(8,180)	
Capital leases	75,065	31,754	41,661		65,158	40,470
Compensated absences	39,549	1,716			41,265	
Total	\$ <u>2,218,707</u>	<u>33,470</u>	<u>468,934</u>		<u>1,783,243</u>	<u>480,470</u>

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

(15) Deficit Fund Balances of Individual Funds

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

Fund	Deficit Amount
General Fund	\$ 1,091,620

(16) 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.

(17) Joint Ventures

The County participates in the following joint ventures:

Stone County is a participant with the counties of Greene and Perry in a joint venture authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library System. 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 of trustees. Each County appoints at least one board member and may appoint two at the discretion of the County. By contractual agreement, the County's appropriation to the joint venture was \$65,000 in fiscal year 2016. Complete financial statements for the Pine Forest Regional Library can be obtained at P.O. 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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

joint venture was \$2,000 in fiscal year 2016. Complete financial statements for the Stone Wiggins Airport Board can be obtained from 2016 Big Four Road, Wiggins, Mississippi 39577.

(18) 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 \$18,447 for support of the district in fiscal year 2016.

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 \$34,375 for support of the agency in fiscal year 2016.

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 member counties and one appointed at large. The counties generally provide no financial support to the organization.

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 \$726,046 for maintenance and support of the college in fiscal year 2016.

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 Partnership. The amount remitted in the 2016 fiscal year was \$400,461.

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Southeast Mississippi Air Ambulance District operates in a district composed of the counties of Covington, Forrest, Greene, Jefferson Davis, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the nine members of the board of directors. The County contributed \$47,200 for support of the district in fiscal year 2016.

(19) Defined Benefit Pension Plan

General Information about the 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.

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

July 1, 2011), with 3.0 percent compounded for each fiscal year thereafter. Plan provisions are established and may be amended only by the State of Mississippi Legislature.

Contributions. At September 30, 2016, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The employer's rate at September 30, 2016 was 15.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2016, 2015 and 2014 were \$741,866, \$731,971 and \$693,334, respectively, equal to the required contributions for each year.

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

At September 30, 2016, the County reported a liability of \$12,850,638 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contribution to the pension plan relative to projected contributions of all participating entities, actuarially determined. The County's proportionate share used to calculate the September 30, 2016 net pension liability was 0.071942 percent, which was based on a measurement date of June 30, 2016. This was a decrease of 0.001656 percent from its proportionate share used to calculate the September 30, 2015 net pension liability, which was based on a measurement date of June 30, 2015.

For the year ended September 30, 2015, the County's governmental activities and business-type activities recognized pension expense of \$1,234,507 and \$512,203, respectively. At September 30, 2016, the County's governmental activities and business-type activities reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Governmental Activities:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 123,743	
Net difference between projected and actual earnings on pension plan investments	470,465	
Change of assumptions	692,677	24,134
Changes in proportion and differences between County contributions and proportionate share of contributions	449,753	198,385
County contributions subsequent to the measurement date	<u>132,595</u>	
Total	<u>\$ 1,869,233</u>	<u>222,519</u>
Business-Type Activities:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 51,341	
Net difference between projected and actual earnings on pension plan investments	195,199	
Change of assumptions	287,394	10,014
Changes in proportion and differences between County contributions and proportionate share of contributions	186,605	82,310
County contributions subsequent to the measurement date	<u>55,015</u>	
Total	<u>\$ 775,554</u>	<u>92,324</u>

Deferred outflows of resources reported in the governmental activities, in the amount of \$132,595, and the business-type activities, in the amount of \$55,015, are related to pensions resulting from County contributions subsequent to the measurement date will be recognized as a reduction to the net pension liability in the year ended September 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Stone County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

Year ending September 30:		
2017	\$	801,065
2018		684,378
2019		403,023
2020		253,867
Total	\$	<u>2,142,333</u>

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

Inflation	3.0 percent
Salary increases	3.75 - 19.00 percent, including inflation
Investment rate of return	7.75 percent, net of pension plan investment expense, including inflation

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

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

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

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

Stone County, Mississippi

Notes to the Financial Statements
For the Year Ended September 30, 2016

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Broad	34%	5.20%
International Equity	19%	5.00%
Emerging Markets Equity	8%	5.45%
Fixed Income	20%	0.25%
Real Assets	10%	4.00%
Private Equity	8%	6.15%
Cash	1%	-0.50%
Total	100%	

Discount Rate. The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate (9.00%) and that employer contributions will be made at the current employer contribution rate (15.75%). Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
County's proportionate share of the net pension liability	\$ 16,477,399	\$ 12,850,638	\$ 9,841,602

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

Stone County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

(20) Effect of Deferred Amounts on Net Position

The governmental activities' unrestricted net position amount of (\$6,913,311) includes the effect of deferred outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$132,595 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$1,736,638 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next 4 years.

The governmental activities' unrestricted net position amount of (\$6,913,311) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from pensions. The \$222,519 balance of deferred inflows of resources at September 30, 2016, will be recognized as revenue and will increase the unrestricted net position over the next 3 years.

The governmental activities' unrestricted net position amount of (\$6,913,311) includes the effect of recognition of deferring the recognition of revenue resulting from capital lease interest. The \$1,865 balance of deferred inflows of resources at September 30, 2016, will be recognized as revenue and will increase the unrestricted net position over the next few years.

The governmental activities' unrestricted net position amount of (\$6,913,311) includes the effect of recognition of deferring the recognition of revenue resulting from property tax. The \$4,877,642 balance of deferred inflows of resources at September 30, 2016, will be recognized as revenue and will increase the unrestricted net position over the next few years.

The business-type activities' unrestricted net position amount of (\$1,494,043) includes the effect of deferred outflows of resources related to pensions. A portion of the deferred outflow of resources related to pension in the amount of \$55,015 resulting from County contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2017. The \$720,539 balance of the deferred outflow of resources related to pensions at September 30, 2016, will be recognized in pension expense over the next 4 years.

The business-type activities' net investment in capital assets amount of \$2,578,611 includes the effect of deferring the recognition of expenditures resulting from a deferred outflow from refunding of County debt. The \$23,340 balance of the deferred outflow of sources at September 30, 2016, will be recognized as an expense and decrease the net investment in capital assets net position over the next year.

The business-type activities' unrestricted net position amount of (\$1,494,043) includes the effect of deferring the recognition of revenues resulting from a deferred inflow from

Stone County, Mississippi

Notes to the Financial Statements For the Year Ended September 30, 2016

pensions. The \$92,324 balance of deferred inflows of resources at September 30, 2016, will be recognized as revenue and will increase the unrestricted net position over the next 3 years.

(21) Subsequent Events

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

The County issued the following debt obligation:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
12-02-16	2.04%	\$ 389,448	Capital lease	Advalorem taxes
12-02-16	2.14%	314,857	Capital lease	Advalorem taxes
12-23-16	2.39%	14,143	Capital lease	Advalorem taxes
12-30-16	2.24%	38,848	Capital lease	Advalorem taxes
03-30-17	2.69%	40,352	Capital lease	Advalorem taxes
08-28-17	2.47%	117,500	Other loan	Advalorem taxes
12-19-17	1.25%	300,000	Tax anticipation note	Advalorem taxes
02-15-18	3.17%	10,900	Capital lease	Advalorem taxes
02-15-18	3.17%	52,208	Capital lease	Advalorem taxes
05-03-18	3.44%	79,758	Capital lease	Advalorem taxes
05-15-18	3.29%	34,858	Capital lease	Advalorem taxes
08-14-18	3.25%	200,000	Other loan	Advalorem taxes

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY, MISSISSIPPI

Budgetary Comparison Schedule -

Budget and Actual (Non-GAAP Basis)

General Fund

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Over (Under)
REVENUES				
Property taxes	\$ 4,447,864	\$ 4,648,206	\$ 4,648,206	\$ -
Licenses, commissions and other revenue	343,250	232,100	232,100	-
Fines and forfeitures	372,000	351,824	351,824	-
Intergovernmental revenues	446,163	412,024	412,024	-
Charges for services	170,000	165,783	165,783	-
Interest income	750	1,517	1,517	-
Miscellaneous revenues	76,185	220,058	220,058	-
Total Revenues	<u>5,856,212</u>	<u>6,031,512</u>	<u>6,031,512</u>	<u>-</u>
EXPENDITURES				
Current:				
General government	3,174,661	3,518,265	3,518,265	-
Public safety	2,183,644	2,493,411	2,493,411	-
Public works	3,000	4,262	4,262	-
Health and welfare	173,478	175,863	175,863	-
Culture and recreation	213,077	195,084	195,084	-
Education	-			-
Conservation of natural resources	58,200	66,272	66,272	-
Economic development and assistance	3,500	15,873	15,873	-
Debt service:				
Principal	560,977	502,579	502,579	-
Interest	6,922	3,308	3,308	-
Total Expenditures	<u>6,377,459</u>	<u>6,974,917</u>	<u>6,974,917</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>46,652</u>	<u>(943,405)</u>	<u>(943,405)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources	1,323,320	739,107	739,107	-
Other financing uses	(500,990)	(294,772)	(294,772)	-
Total Other Financing Sources (Uses)	<u>822,330</u>	<u>444,335</u>	<u>444,335</u>	<u>-</u>
Net Change in Fund Balance	<u>868,982</u>	<u>(499,070)</u>	<u>(499,070)</u>	<u>-</u>
Fund Balances - Beginning	<u>(595,000)</u>	<u>(548,481)</u>	<u>(548,481)</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 273,982</u>	<u>\$ (1,047,551)</u>	<u>\$ (1,047,551)</u>	<u>\$ -</u>

The notes to the required supplementary information are an integral part of this schedule.

STONE COUNTY, MISSISSIPPI

Budgetary Comparison Schedule -

Budget and Actual (Non-GAAP Basis)

Road and Bridge Fund

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Over (Under)
REVENUES				
Property taxes	\$ 265,716	\$ 272,515	\$ 272,515	\$ -
Road and bridge privilege taxes	205,000	213,469	213,469	-
Licenses, commissions and other revenue	2,200	926	926	-
Intergovernmental revenues	622,520	743,337	743,337	-
Interest income	350	1,737	1,737	-
Miscellaneous revenues	10,200	7,630	7,630	-
Total Revenues	<u>1,105,986</u>	<u>1,239,614</u>	<u>1,239,614</u>	<u>-</u>
EXPENDITURES				
Public works	745,755	2,306,186	2,306,186	-
Debt service:				
Principal	308,000	400,678	400,678	-
Interest	20,000	15,887	15,887	-
Total Expenditures	<u>1,073,755</u>	<u>2,722,751</u>	<u>2,722,751</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>32,231</u>	<u>(1,483,137)</u>	<u>(1,483,137)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Other financing sources		1,150,150	1,150,150	-
Other financing uses	<u>(25,000)</u>	<u>(660)</u>	<u>(660)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(25,000)</u>	<u>1,149,490</u>	<u>1,149,490</u>	<u>-</u>
Net Change in Fund Balance	<u>7,231</u>	<u>(333,647)</u>	<u>(333,647)</u>	<u>-</u>
Fund Balances - Beginning		<u>945,423</u>	<u>945,423</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 7,231</u>	<u>\$ 611,776</u>	<u>\$ 611,776</u>	<u>\$ -</u>

The notes to the required supplementary information are an integral part of this schedule.

STONE COUNTY, MISSISSIPPI

Budgetary Comparison Schedule -

Budget and Actual (Non-GAAP Basis)

Countywide Bridge and Culvert Fund

For the Year Ended September 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Over (Under)
REVENUES				
Property taxes	\$ 857,736	\$ 885,460	\$ 885,460	\$ -
Licenses, commissions, and other revenue	1,500	514	514	-
Intergovernmental revenues	100,000	186,281	186,281	-
Interest income	500	1,226	1,226	-
Miscellaneous revenues	15,000			-
Total Revenues	<u>974,736</u>	<u>1,073,481</u>	<u>1,073,481</u>	<u>-</u>
EXPENDITURES				
Public works	<u>944,922</u>	<u>1,031,880</u>	<u>1,031,880</u>	<u>-</u>
Total Expenditures	<u>944,922</u>	<u>1,031,880</u>	<u>1,031,880</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>29,814</u>	<u>41,601</u>	<u>41,601</u>	<u>-</u>
Net Change in Fund Balance	<u>29,814</u>	<u>41,601</u>	<u>41,601</u>	<u>-</u>
Fund Balances - Beginning	<u> </u>	<u>506,920</u>	<u>506,920</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 29,814</u>	<u>\$ 548,521</u>	<u>\$ 548,521</u>	<u>\$ -</u>

The notes to the required supplementary information are an integral part of this schedule.

STONE COUNTY, MISSISSIPPI

Schedule of the County's Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

	<u>2016</u>	<u>2015</u>
County's proportion of the net pension liability (asset)	0.071942%	0.073598%
County's proportionate share of the net pension liability (asset)	\$ 12,850,638	\$ 11,376,799
County's covered-employee payroll	\$ 4,710,260	\$ 4,647,435
County's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	272.82%	244.80%
Plan fiduciary net position as a percentage of the total pension liability	57.47%	61.70%

The notes to the required supplementary information are an integral part of this schedule.

* The amounts presented for each fiscal year were determined as of the measurement date of 6/30 of the fiscal year presented. This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB 68 was implemented in FYE 9/30/15, and, until a full 10-year trend is compiled, the County has only presented information for the years in which information is available.

The notes to the required supplementary information are an integral part of this schedule.

STONE COUNTY, MISSISSIPPI
 Schedule of County Contributions
 Last 10 Fiscal Years*
 For the Year Ended September 30, 2016

	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 741,866	\$ 731,971
Contributions in relation to the contractually required contribution	<u>741,866</u>	<u>731,971</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
County's covered-employee payroll	\$ 4,710,260	\$ 4,647,435
Contributions as a percentage of covered-employee payroll	15.75%	15.75%

The notes to the required supplementary information are an integral part of this schedule.

* This schedule is presented to illustrate the requirement to show information for 10 years. However, GASB was implemented in FYE 9/30/15, and, until, a full 10-year is compiled, the County has only presented information for the years in which information is available.

The notes to the required supplementary information are an integral part of this schedule.

Stone County, Mississippi

Notes to the Required Supplementary Information
For the year ended September 30, 2016

Budgetary Comparison Schedules

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 supplementary 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).

Stone County, Mississippi

Notes to the Required Supplementary Information
For the Year Ended September 30, 2016

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

	<u>Governmental Fund Types</u>		
	General Fund	Road and Bridge Fund	Countywide Bridge and Culvert Fund
Budget (Cash Basis)	\$ (499,070)	(333,647)	41,601
Increase (Decrease)			
Net adjustments for revenue accruals	144,065	234,499	971
Net adjustments for expenditure accruals	405,779	(252,955)	24,316
GAAP Basis	<u>\$ 50,774</u>	<u>(352,103)</u>	<u>66,888</u>

Pension Schedules

A. Changes in benefit terms

2016

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

B. Changes of assumptions

2015

- The expectation of retired life mortality was changed to the RP-2014 Healthy Annuitant Blue Collar Table projected to 2016 using Scale BB rather than the RP-2000 Mortality Table, which was used prior to 2015.
- The expectation of disabled mortality was changed to the RP-2014 Disabled Retiree Table, rather than the RP-2000 Disabled Mortality Table, which was used prior to 2015.
- Withdrawal rates, pre-retirement mortality rates, disability rates and service retirement rates were also adjusted to more closely reflect actual experience.
- Assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience.
- The price inflation and investment rate of return assumptions were changed from 3.50% to 3.00% and 8.00% to 7.75% respectively.

Stone County, Mississippi

Notes to the Required Supplementary Information
For the Year Ended September 30, 2016

2016

- The assumed rate of interest credited to employee contributions was changed from 3.50% to 2.00%.

OTHER INFORMATION

STONE COUNTY, MISSISSIPPI
Schedule of Surety Bonds for County Officials
For the Year Ended September 30, 2016
UNAUDITED

Name	Position	Company	Bond
Clark Byrd	Supervisor District 1	RLI Surety	\$100,000
Daniel Harris	Supervisor District 2	RLI Surety	\$100,000
Lance Pearson	Supervisor District 3	RLI Surety	\$100,000
Scott Strickland	Supervisor District 4	RLI Surety	\$100,000
Dale Bond	Supervisor District 5	RLI Surety	\$100,000
Gerald Bond	County Administrator	RLI Surety	\$100,000
Shella Lott	Purchase Clerk	RLI Surety	\$75,000
Brian Ross	Assistant Purchase Clerk	RLI Surety	\$50,000
Glenda Joyce Cobb	Receiving Clerk	RLI Surety	\$75,000
Lori Redmond	Receiving Clerk	RLI Surety	\$75,000
Lynn Stokes	Assistant Receiving Clerk	RLI Surety	\$50,000
Wanda Berry	Assistant Receiving Clerk	RLI Surety	\$50,000
Linda Sumrall	Assistant Receiving Clerk	RLI Surety	\$50,000
Twyla Garner	Assistant Receiving Clerk	RLI Surety	\$50,000
Chris Walters	Assistant Receiving Clerk	RLI Surety	\$50,000
Leila Geiger	Assistant Receiving Clerk	RLI Surety	\$50,000
Micholyn Harris Ramsey	Inventory Control Clerk	RLI Surety	\$75,000
Robert Victor Clark	Road Manager	RLI Surety	\$50,000
Everett Compston	Constable	RLI Surety	\$50,000
Victor Simmons	Constable	RLI Surety	\$50,000
Jeffrey L. O'Neal	Circuit Clerk	RLI Surety	\$100,000
Wanda Fairley	Deputy Circuit Clerk	RLI Surety	\$50,000
Susan D. Kelogg	Deputy Circuit Clerk	RLI Surety	\$50,000
Mike Farmer	Sheriff	RLI Surety	\$100,000
Glenda Joyce Cobb	Justice Court Clerk	RLI Surety	\$50,000
Justin Miles	Justice Court Judge	RLI Surety	\$50,000
Ricky Farmer	Justice Court Judge	RLI Surety	\$50,000
Sonya Warren	Deputy Justice Court Clerk	RLI Surety	\$50,000
Aletha Parker	Deputy Justice Court Clerk	RLI Surety	\$50,000
Leila Geiger	Deputy Justice Court Clerk	RLI Surety	\$50,000
Debra Patrick	Deputy Justice Court Clerk	RLI Surety	\$50,000
Charles Williams, Jr.	Tax Collector-Assessor	RLI Surety	\$100,000
Lola Marie Bond	Deputy Tax Collector	RLI Surety	\$50,000
Violet Georgian	Deputy Tax Collector	RLI Surety	\$50,000
Taryn Racine Breland	Deputy Tax Collector	RLI Surety	\$50,000
Charlotte Taylor	Deputy Tax Collector	RLI Surety	\$50,000
Tom Smith	Deputy Tax Assessor	RLI Surety	\$10,000
Kenneth Shelton	Deputy Tax Assessor	RLI Surety	\$10,000

SPECIAL REPORTS

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors
Stone County, Mississippi

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 16, 2018. Our report includes a qualified opinion on the Governmental Activities, the Business-Type Activities and Correctional Facility Fund because the County did not record a liability for other postemployment benefits and accordingly, has not recorded an expense for the current period change in that liability and also because the County failed to maintain an inventory control system. Our report also includes a qualified opinion on the Governmental Activities and the Aggregate Remaining Fund Information because the County did not properly account for risk-financing activities.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a

deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We considered the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: Finding 2016-001, 2016-002, 2016-003, 2016-004, 2016-005 and 2016-006.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and responses as Finding 2016-007 and 2016-008 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stone County, Mississippi's financial statements are free from 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 instances of noncompliance or other matter that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2016-001 and 2016-006.

We also noted certain matters which we have reported to the management of Stone County, Mississippi, in the Independent Accountant's Report on Central Purchasing System, Inventory Control system and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated November 16, 2018, included within this document.

Stone County's Responses to the Findings

Stone County's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Stone County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Fortenberry & Ballard, PC

Fortenberry & Ballard PC
November 16, 2018

Certified Public Accountants

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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

Members of the Board of Supervisors
Stone County, Mississippi

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

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

The County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets.

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 current evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

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

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

Inventory Control Clerk.

Capital asset records were not maintained during the fiscal year.

Criteria

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, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help 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.

Condition

Construction in progress is not recorded in the capital asset records.

Cause

This occurs due to not obtaining information on state aid engineering projects in a timely manner and subsequently recording the activity until completion and transfer to the appropriate asset class.

Effect/Possible Effect

Failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. Communication needs to be made on a regular basis with the county engineer regarding road and bridge projects. Information obtained from the county engineer regarding construction in progress and completed infrastructure projects not of a maintenance nature need to be communicated to the Inventory Control Clerk for proper recording in the capital assets inventory in accordance with GASB 34 requirements regarding asset recognition in the financial records.

Inventory Clerk's Response

The Inventory Clerk and the County Engineer will comply by meeting and reviewing projects on a regular basis.

In our opinion, except as explained in the third paragraph and 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 for the year ended September 30, 2016.

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

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 Stone County, Mississippi's compliance with the aforementioned requirements, 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
November 16, 2018

Certified Public Accountants

Stone County, Mississippi

Schedule 1

Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2016

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

Stone County, Mississippi
Schedule of Emergency Purchases
For the Year Ended September 30, 2016

Schedule 2

Our test results did not identify any emergency purchases.

Stone County, Mississippi

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2016

Date	Item Purchased	Amount Paid	Vendor
7/5/2016	Agris Desktop Standard Concurrent Use Licenses	\$6,650	ESRI, Inc.

FORTENBERRY & BALLARD, PC
CERTIFIED PUBLIC ACCOUNTANTS

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, 2016, 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 November 16, 2018, 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 certain instances of noncompliance with state laws and regulations that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Board of Supervisors

1. Stone County Should Strengthen Passwords and Set All Individual Passwords to Expire on a Periodic Basis.

Finding:

During our review, we noted Stone County is using some parameters associated with password strength that meet industry standard best practices. However, the County has some password parameters that do not meet these standards, thereby creating unnecessary risk for Stone County information assets. Also, security settings revealed that users' passwords were not set to expire. All passwords should be set to expire in accordance

1929 SPILLWAY ROAD, SUITE B
BRANDON, MISSISSIPPI 39047
TELEPHONE 601-992-5292 FAX 601-992-2033

with a policy to be determined by Stone County.

Recommendation:

We recommend that Stone County improve its password strength by changing password parameters to comply with password management best practices and industry standards. Also, we recommend that a policy be implemented to ensure all passwords expire on a regular basis. In addition, Stone County should conduct access reviews for information assets on a periodic basis (at least annually). Documentation of these reviews should be signed by the person conducting them and retained for review by auditors.

Board of Supervisors' Response:

The County outsources our IT need to several third party vendors. One such vendor services several Mississippi counties and is preparing IT best practices and industry standards protocols for those counties. The protocols have not been rolled out to counties yet.

2. Stone County Should Improve Its Server Room Environment Management.

Finding:

As reported in the prior two audit reports, Stone County's computer room is located in a locked room that has backup power, the room is not environmentally protected (e.g., fire and smoke protection, backup air conditioner, etc.). In addition, no log is kept of entrance into the room and periodic access reviews are not performed to determine that only authorized personnel have access to this room.

Recommendation:

We recommend that Stone County consider the purchase of equipment that can monitor environmental conditions that might affect computerized equipment such as fire, smoke, heat and humidity. This equipment should have the capability of notifying the proper personnel when monitored environmental conditions vary outside of preset ranges. Periodic access reviews of personnel authorized to access the computer room should be performed. Documentation of such reviews should be retained for use by auditors at a later date.

Board of Supervisors' Response:

County management will review the recommendations with our third party IT vendors and make changes as considered appropriate.

3. Stone County Should Install Network Banners on Its Internal Network.

Finding:

As reported in the prior two audit reports, the information system did not display appropriate network banners on its internal network. Network banners are electronic messages that provide notice of legal rights to users of computer networks. Bannering assists in the prosecution of computer-related incidents by helping prevent certain defenses made by the perpetrator.

Recommendation:

We recommend that Stone County implement appropriate network banners on its internal network.

Board of Supervisor's Response:

The County outsources our IT needs to several third party vendors. One such vendor services several Mississippi counties and is preparing IT best practices and industry standards protocols for those counties. The protocols have not been rolled out to counties yet.

4. Stone County Needs to Replace Obsolete Computer Hardware and Software.

Finding:

As reported in prior two audit report, Stone County is running operating systems as well as applications on some of its personal computers (PCs) that might not be supported by vendors. Due to lack of such support, these systems could become vulnerable to hackers and malware such as viruses.

Recommendation:

We recommend that Stone County develop a plan to replace the operating systems, applications, and hardware where necessary that is associated with lack of support from vendors as soon as possible. Computers that originally came loaded with operating systems or applications that are no longer supported by vendors will have hardware that most likely cannot run the newest operating systems or applications, thereby requiring replacement of hardware, operating systems and applications in many cases. Due to the possible large number of PCs that need replacing, this could involve a sizable expenditure by the County. Due to the cost and effort involved in such a project, this project should be begun as soon as possible.

Board of Supervisors' Response:

The County replaces on a regular basis outdated operating systems, applications, and hardware. Departments include budgeted expenditures in their annual budgets for anticipated system upgrades.

Circuit Clerk

5. Circuit Clerk not settling accounts in a timely manner.

Finding:

The Circuit Clerk is required to settle collections for the Criminal and Civil account monthly to the County. During the fiscal year, only three settlements were made by the current Circuit Clerk to the County. Irregular settlement activity can potentially result in the loss or misappropriation of funds.

Recommendation:

The Circuit Clerk should accurately make monthly settlements with County by the 20th of the following month.

Circuit Clerk's Response:

No responses were provided by the Circuit Clerk for this finding.

Board of Supervisors

6. County signed warrants without sufficient funds.

Finding:

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the 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 nine years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. As of September 30, 2016, the following funds had negative cash balances:

- a. General Fund - \$813,240
- b. Stone County Regional Correctional Facility Revenue Fund - \$357,423

Failure to have sufficient cash balances in county funds prior to the signing and delivery of warrants on these funds resulted in the use of the cash balances of other funds for purposes other than the 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 Supervisor's Response:

Insufficient cash balance in the Stone County Regional Correctional Facility is due to a deposit in transit. Reimbursement request for the funds had been filed with The Peoples Bank, but the funds were not received in the Bank of Wiggins general depository account until November 11, 2016. Negative cash balances in the County's General Fund have been an ongoing issue for some time. Three mills were added to the fund in 2014, with an additional mill added in 2018. A County reappraisal in 2017 increased the value of a mill. Retired debt in 2018 and 2019 will provide additional funds.

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

This report is intended 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.

FORTENBERRY & BALLARD, PC

Fortenberry & Ballard, PC
November 16, 2018

Certified Public Accountants

SCHEDULE OF FINDINGS AND RESPONSES

Stone County, Mississippi

Schedule of Findings and Responses For the Year Ended September 30, 2016

Section I: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:

a. Governmental activities	Qualified
b. Business-type activities	Qualified
c. General Fund	Qualified
d. Road and Bridge Fund	Unmodified
e. Countywide Bridge and Culvert Fund	Unmodified
f. Correctional Facility Fund	Qualified
g. Aggregate Remaining Fund Information	Qualified

2. Internal control over financial reporting:
 - a. Material weaknesses identified? Yes.
 - b. Significant deficiencies identified? Yes.

3. Noncompliance material to financial statements noted? Yes.

Section II: Financial Statement Findings

The results of our tests disclosed the following findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Finding 2016-001

County signed warrants without sufficient funds.

Board of Supervisors

Material Weaknesses and Material Noncompliance

Criteria:

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same.

Condition:

As reported in the prior nine years' audit reports, warrants were issued on funds which did not have sufficient money to pay the warrants. As of September 30, 2016, the following funds had negative cash balances:

- a. General Fund \$813,240
- b. Stone County Regional Correctional Facility Revenue Fund \$357,423

Cause:

Insufficient cash balances.

Effect:

Failure to have sufficient cash balances in County funds prior to the signing and delivery of warrants on these funds resulted in the use of the cash balances of other funds for purposes other than the 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 Supervisor's Response:

Insufficient cash balance in the Stone County Regional Correctional Facility is due to a deposit in transit. Reimbursement request for the funds had been filed with The Peoples Bank, but the funds were not received in the Bank of Wiggins general depository account until November 21, 2016. Negative cash balances in the County's General Fund have been an ongoing issue for some time. Three mills were added to the fund in 2014, with an additional mill added in 2018. A County reappraisal in 2017 increased the value of a mill. Retired debt in 2018 and 2019 will provide additional funds.

Finding 2016-002

Cash collections and general ledger maintenance functions are not adequately segregated.

Board of Supervisors

Material Weaknesses

Criteria:

An effective system of internal controls should include an adequate segregation of duties.

Condition:

As reported in the prior eight year's audit reports, cash collections 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.

Cause:

Lack of good internal controls.

Effect:

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

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 Supervisor's Response:

The County is limited by the availability of funds to hire additional personnel for segregation of all duties. At this time, the Comptroller continues to receipt funds, prepare deposits, and reconcile bank statements. The Board and Chancery Clerk will review this finding and make changes as deemed appropriate.

Finding 2016-003

Liability for postemployment benefits not recorded/note disclosures for postemployment benefits not reported.

Board of Supervisors

Material Weaknesses

Criteria:

Stone County purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage to active employees and retirees through the county's health insurance plan. Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement No. 45 *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* as a single employer defined health benefit care plan. GASB Statement No. 45 requires the County to report on an accrual basis the liability associated with other postemployment benefits.

Condition:

The County does not issue a publicly available financial report for its health insurance plan. Also, as reported in the prior three years' audit reports, the County has not recorded a liability for other postemployment benefits nor has the County reported the note disclosures which are required by accounting principles generally accepted in the United States of America.

Cause:

Noncompliance with GASB Statement No. 45.

Effect:

The failure to properly follow generally accepted accounting principles resulted in a qualified opinion on the governmental activities, business type activities and Correctional Facility Fund.

Recommendation:

The Board of Supervisors should have an actuarial valuation performed annually so that a liability for other postemployment benefits can be recorded and the appropriate note disclosures can be made in accordance with accounting principles generally accepted in the United States of America.

Board of Supervisor's Response:

Due to the exorbitant costs associated with hiring an actuary, the Board has chosen to accept this finding with no corrective action at this time.

Finding 2016-004

Processing of payroll and other payroll duties not adequately segregated.

Board of Supervisors

Material Weaknesses

Criteria:

An effective system of internal control should include an adequate segregation of duties.

Condition:

As reported in the prior eight years' audit reports, 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.
- b. Time cards/attendance records are not checked for computations of payroll period hours.
- c. Unclaimed W-2s are returned directly to the Comptroller.

Cause:

Lack of good internal controls.

Effect:

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 Supervisor's Response:

The Comptroller continues to process payrolls and also maintains the general ledger. Beginning in November 2018, time cards and attendance records are checked and hours computed by the Comptroller for selected departments. Unclaimed W2's are returned to Chancery Clerk's office personnel and placed on file in the Comptroller's office.

Finding 2016-005

Capital asset records were not maintained during the fiscal year.

Inventory Control Clerk

Material Weaknesses

Criteria:

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, costs, locations, acquisition dates, disposition dates, methods of disposition, and other relevant information. The presence of these data elements in capital asset records help 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.

Condition:

Construction in progress is not recorded in the capital asset records.

Cause:

This occurs due to not obtaining information on state aid engineering projects in a timely manner and subsequently recording the activity until completion and transfer to the appropriate asset class.

Effect/Possible Effect:

Failure to maintain an inventory control system could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation:

The Inventory Control Clerk should implement appropriate control procedures to ensure that all items are recorded, valued properly and classified properly in the county's capital asset records. Communication needs to be made on a regular basis with the county engineer regarding road and bridge projects. Information obtained from the county engineer regarding construction in progress and completed infrastructure projects not of a maintenance nature need to be communicated to the Inventory Control Clerk for proper recording in the capital assets inventory in accordance with GASB 34 requirements regarding asset recognition in the financial records.

Inventory Control Clerk's Response:

The Inventory Control Clerk and the County Engineer will comply by meeting and reviewing projects on a regular basis.

Finding 2016-006

Reconciled cash amounts were not provided for inclusion in the financial statements by the Circuit Clerk.

Board of Supervisors

Material Weakness and Material Noncompliance

Criteria:

During the course of fieldwork performed, reconciled bank statements were not provided as of September 30, 2016. These reconciled amounts for the Criminal, Civil and Bond accounts are to be included as cash and payable amounts on the financial statements.

Condition:

Public deposit annual reports determined that the following bank statement balances are known: a) Criminal - \$52,949.62, b) Civil - \$13,538.29 and c) Criminal Bond - \$6,067.45. In total, \$72,555.36 in unreconciled cash is known for the Circuit Clerk's office. Also, the auditor was not afforded an opportunity to verify actual cash

Cause:

Reconciled bank statements were not provided for the relevant bank accounts for September 30, 2016.

Effect/Possible Effect:

Unreconciled cash translates into actual cash position being undetermined. Without adequate records and supporting documentation provided, the cash position of the Circuit's Clerk's office cannot be determined with reliability for inclusion in the financial statements. Cash withheld from financial statement inclusion can cause material misstatements to the financial statements. This material exclusion will result in a modified opinion on the General Fund opinion unit.

Recommendation:

The Circuit Clerk should provide reconciled cash information for relevant bank accounts as of September 30, 2016 for inclusion in the financial statements.

Management's Response:

No responses were provided by the Circuit Clerk for this finding.

Finding 2016-007

Stone County should establish and test a disaster recovery process.

Board of Supervisors

Significant deficiency

Criteria:

There are a number of steps that an organization can take to prevent or minimize the damage to automated operations that may occur from unexpected events. One example is routinely backing up data files and programs and periodically restoring these files and programs as part of a formal, documented disaster recovery exercise. Such actions maintain the organization's ability to restore data files, which may be impossible to re-create. *Control Objectives for Information and Related Technology* (CobiT, Section DS4), as well as recognized industry best practices, require a written disaster recovery plan be developed and tested regularly to provide orderly recovery of vital functions in the event of a hardware or environmental disaster.

Condition:

As reported in the prior three audit reports, the County has not established a disaster recovery process. As a result, Stone County cannot fully ensure that the County's information systems can be restored in a timely manner. Disaster recovery involves defining and documenting plans to help sustain and recover critical information technology resources, information systems, and associated business functions.

Cause:

Stone County is currently using an automated system to perform daily back-ups of the AS400, but is not restoring such files as part of a formal, documented disaster recovery exercise.

Effect:

Without proper assurance that back-up files can be utilized to adequately restore all critical data in a timely manner in the event of a disaster scenario, material damage could be realized by the County and its processes should a catastrophic event occur involving the County's building and servers. Risk and probabilities of material loss escalate the longer an exposure goes unmitigated. Failure to maintain an adequate recovery plan could impede the County's ability to regain computer operations in the event of a disaster.

Recommendation:

We recommend that Stone County develop, implement, and test a plan to ensure that critical data and applications are recoverable in case of a disaster scenario. We further recommend that Stone County develop and implement a disaster recovery plan documenting procedures to be followed during an emergency. Once the plan is completed, it should be subjected to proper testing, and employees should be made aware of their responsibilities in the event of a disaster. The plan should be updated when needed in order to maintain readiness for a disaster scenario.

Board of Supervisor's Response:

The County has implemented an IT disaster recovery plan and will work with our third party vendors to test the plan.

Finding 2016-008

Stone County should implement a formal information security policy.

Board of Supervisors

Significant deficiency

Criteria:

A robust set of information technology policies should cover at least the following areas:

- Acceptable Use
- Portable Computing
- Change Management
- Encryption
- Security Incident Response
- Risk Management
- Backup and Recovery
- Business Continuity/Disaster Recovery

Condition:

As reported in the prior two audit reports, the County has not adopted a formal information security policy or enterprise security plan.

Cause:

Lack of a formal information security policy

Effect:

The lack of a formal information security policy can lead to a breakdown of basic security practices in the areas of application security, LAN/WAN security, management of the security application and internet protocol.

Recommendation:

We recommend that Stone County create a plan of compliance with industry standards to ensure progress towards a robust documented information security plan. This policy should be reviewed and approved by the County Board of Supervisors. In addition, employees that utilize technology should review and accept such policies before access to computer resources is granted to employees. Proof of approval by management and acceptance by employees should be retained for review by auditors.

Board of Supervisor's Response:

The County has not adopted a formal information security policy and will work with our third party vendors to develop a policy.