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STONE COUNTY, MISSISSIPPI

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

Year Ended September 30, 2004

STONE COUNTY, MISSISSIPPI

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STONE COUNTY, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT ON
THE PRIMARY GOVERNMENT BASIC FINANCIAL
STATEMENTS ACCOMPANIED BY REQUIRED
SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors
Stone County, Mississippi
Wiggins, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2004, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Members of the Board of Supervisors
Stone County, Mississippi

The financial statements referred to above include only the primary government of Stone County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the County's legal entity. The financial statements do not include financial data for the County's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Stone County, Mississippi, as of September 30, 2004, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information for the primary government of Stone County, Mississippi, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2005, on our consideration of Stone County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

The Budgetary Comparison Schedules and corresponding notes on pages 42 through 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Members of the Board of Supervisors
Stone County, Mississippi

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Stone County, Mississippi's basic financial statements. The accompanying Reconciliation of Operating Costs of Solid Waste is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Nicholson & Company, P.A.
Hattiesburg, Mississippi
April 28, 2005

PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS

EXHIBIT 1

STONE COUNTY, MISSISSIPPI

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash	\$ 1,228,448	\$ 2,185,607	\$ 3,414,055
Property tax receivable	2,800,140	-	2,800,140
Accounts receivable	-	346,650	346,650
Fines receivable, net	67,482	-	67,482
Loans receivable	22,439	-	22,439
Intergovernmental receivables	204,579	16,808	221,387
Other receivables	131,148	-	131,148
Internal balances	109,290	(109,290)	-
Capital assets, net	5,616,053	4,689,352	10,305,405
Total assets	<u>\$ 10,179,579</u>	<u>\$ 7,129,127</u>	<u>\$ 17,308,706</u>
LIABILITIES			
Claims payable	\$ 382,420	\$ 53,309	\$ 435,729
Intergovernmental payables	315,016	-	315,016
Accrued interest payable	19,708	131,876	151,584
Deferred revenue	2,800,140	-	2,800,140
Other payables	245,000	-	245,000
Long-term liabilities:			
Due within one year:			
Capital debt	365,362	237,936	603,298
Non-capital debt	102,061	-	102,061
Due in more than one year:			
Capital debt	2,359,447	5,199,676	7,559,123
Non-capital debt	145,527	47,077	192,604
Total liabilities	<u>6,734,681</u>	<u>5,669,874</u>	<u>12,404,555</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,891,244	(748,260)	2,142,984
Restricted:			
Expendable:			
General government	199,338	-	199,338
Debt service	262,767	-	262,767
Public safety	(356)	-	(356)
Public works	322,754	-	322,754
Culture and recreation	4,331	-	4,331
Economic development	75,192	-	75,192
Unemployment compensation	55,884	-	55,884
Capital projects	(395,398)	-	(395,398)
Other purposes	41,739	-	41,739
Unrestricted	(12,597)	2,207,513	2,194,916
Total net assets	<u>\$ 3,444,898</u>	<u>\$ 1,459,253</u>	<u>\$ 4,904,151</u>

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

EXHIBIT 2

STONE COUNTY, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2004

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental activities:							
General government	\$ 2,058,270	\$ 518,697	\$ 9,592	\$ 467,297	\$ (1,062,684)	\$ -	\$ (1,062,684)
Public safety	1,594,240	157,028	200,586	50,869	(1,185,757)	-	(1,185,757)
Public works	1,653,851	-	634,224	61,873	(957,754)	-	(957,754)
Health and welfare	187,400	-	-	-	(187,400)	-	(187,400)
Culture and recreation	173,026	-	91,877	8,850	(72,299)	-	(72,299)
Education	-	-	-	-	-	-	-
Conservation of natural resources	45,391	-	-	-	(45,391)	-	(45,391)
Economic development and assistance	12,264	-	-	-	(12,264)	-	(12,264)
Interest on long-term debt	120,151	-	-	-	(120,151)	-	(120,151)
Total governmental activities	<u>5,844,593</u>	<u>675,725</u>	<u>936,279</u>	<u>588,889</u>	<u>(3,643,700)</u>	<u>-</u>	<u>(3,643,700)</u>
Business-type activities:							
Correctional facility	2,613,847	2,947,068	-	-	-	333,221	333,221
Total business-type activities	<u>2,613,847</u>	<u>2,947,068</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>333,221</u>	<u>333,221</u>
Total primary government	<u>\$ 8,458,440</u>	<u>\$ 3,622,793</u>	<u>\$ 936,279</u>	<u>\$ 588,889</u>	<u>(3,643,700)</u>	<u>333,221</u>	<u>(3,310,479)</u>
General revenues:							
Taxes:							
Property taxes					3,662,058	-	3,662,058
Road and bridge privilege taxes					157,045	-	157,045
Grants and contributions not restricted to specific programs					246,585	-	246,585
Unrestricted investment income					25,925	17,755	43,680
Miscellaneous					384,914	31,673	416,587
Total general revenues					<u>4,476,527</u>	<u>49,428</u>	<u>4,525,955</u>
CHANGES IN NET ASSETS					<u>832,827</u>	<u>382,649</u>	<u>1,215,476</u>
NET ASSETS - BEGINNING					2,449,224	1,076,604	3,525,828
Prior period adjustment					162,847	-	162,847
NET ASSETS - BEGINNING, AS RESTATED					<u>2,612,071</u>	<u>1,076,604</u>	<u>3,688,675</u>
NET ASSETS - ENDING					<u>\$ 3,444,898</u>	<u>\$ 1,459,253</u>	<u>\$ 4,904,151</u>

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

EXHIBIT 3

STONE COUNTY, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2004**

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	County Wide Road and Bridge	County Wide Road and Bridge Debt Service	Courthouse Renovation		
ASSETS						
Cash	\$ 65,686	\$ 288,975	\$ 265,326	\$ 103,332	\$ 505,129	\$ 1,228,448
Property tax receivable	2,252,108	-	84,210	-	463,822	2,800,140
Fines receivable, net	67,482	-	-	-	-	67,482
Loans receivable	22,439	-	-	-	-	22,439
Intergovernmental receivables	82,960	-	-	32,172	12,248	127,380
Other receivables	81,925	16,024	-	-	33,199	131,148
Due from other funds	166,514	12,159	2,050	-	14,731	195,454
Advances to other funds	110,861	9,940	-	-	-	120,801
Total assets	\$ 2,849,975	\$ 327,098	\$ 351,586	\$ 135,504	\$ 1,029,129	\$ 4,693,292
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Claims payable	\$ 140,282	\$ 33,361	\$ -	\$ 165,604	\$ 43,173	\$ 382,420
Intergovernmental payables	106,605	-	-	198,784	-	305,389
Due to other funds	38,567	-	-	166,514	-	205,081
Advances from other funds	9,940	1,571	-	-	-	11,511
Deferred revenue	2,319,590	-	84,210	-	466,022	2,869,822
Other payables	-	245,000	-	-	-	245,000
Total liabilities	<u>2,614,984</u>	<u>279,932</u>	<u>84,210</u>	<u>530,902</u>	<u>509,195</u>	<u>4,019,223</u>
FUND BALANCES						
Reserved for:						
Debt service	-	-	267,376	-	15,099	282,475
Loans receivable	22,439	-	-	-	-	22,439
Advances	110,861	9,940	-	-	-	120,801
Unemployment compensation	-	-	-	-	55,884	55,884
Unreserved, reported in:						
General fund	101,691	-	-	-	-	101,691
Special revenue funds	-	37,226	-	-	448,951	486,177
Capital project funds	-	-	-	(395,398)	-	(395,398)
Total fund balances	<u>234,991</u>	<u>47,166</u>	<u>267,376</u>	<u>(395,398)</u>	<u>519,934</u>	<u>674,069</u>
Total liabilities and fund balances	\$ 2,849,975	\$ 327,098	\$ 351,586	\$ 135,504	\$ 1,029,129	\$ 4,693,292

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

EXHIBIT 3-1

STONE COUNTY, MISSISSIPPI

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 674,069
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:	
Capital assets net of depreciation as adjusted as of October 1, 2003	\$ 3,772,195
Plus capital outlay expenditures made during the year	2,179,597
Less depreciation expense recorded during the year	(328,607)
Less book value of capital assets sold during the year	(7,132)
	5,616,053
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds	69,682
Intergovernmental receivables were not received within sixty (60) days of year end, and are therefore not reported in the funds	77,199
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
Long-term liabilities	2,972,397
Accrued interest on bonds	19,708
	<u>(2,992,105)</u>
Total net assets - governmental activities (Exhibit 1)	<u>\$ 3,444,898</u>

EXHIBIT 4

STONE COUNTY, MISSISSIPPI

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2004

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Countywide Road and Bridge	County Wide Road and Bridge Debt Service	Courthouse Renovation		
REVENUES						
Property taxes	\$ 2,773,873	\$ 494	\$ 114,903	\$ -	\$ 772,788	\$ 3,662,058
Road and bridge privilege taxes	-	157,045	-	-	-	157,045
Licenses, commissions and other revenue	169,123	-	1,636	-	17,993	188,752
Fines and forfeitures	269,561	-	-	-	19,047	288,608
Intergovernmental revenues	379,453	704,896	-	397,257	208,315	1,689,921
Charges for services	133,316	-	-	-	-	133,316
Interest income	11,737	963	1,578	8,259	3,388	25,925
Miscellaneous revenues	113,703	-	-	-	278,342	392,045
Total revenues	<u>3,850,766</u>	<u>863,398</u>	<u>118,117</u>	<u>405,516</u>	<u>1,299,873</u>	<u>6,537,670</u>
EXPENDITURES						
Current:						
General government	1,920,222	-	-	1,911,112	11,314	3,842,648
Public safety	1,409,690	-	-	-	308,927	1,718,617
Public works	-	745,850	-	-	831,492	1,577,342
Health and welfare	187,400	-	-	-	-	187,400
Culture and recreation	77,499	-	-	-	95,527	173,026
Conservation of natural resources	45,391	-	-	-	-	45,391
Economic development and assistance	12,264	-	-	-	-	12,264
Debt Service:						
Principal	72,726	270,881	26,602	-	292,627	662,836
Interest	3,111	10,727	4,575	-	134,432	152,845
Total expenditures	<u>3,728,303</u>	<u>1,027,458</u>	<u>31,177</u>	<u>1,911,112</u>	<u>1,674,319</u>	<u>8,372,369</u>
Excess of revenues over (under) expenditures	<u>122,463</u>	<u>(164,060)</u>	<u>86,940</u>	<u>(1,505,596)</u>	<u>(374,446)</u>	<u>(1,834,699)</u>
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued	-	-	-	-	187,122	187,122
Transfers in	-	-	-	-	204,624	204,624
Transfers out	-	-	-	(204,624)	-	(204,624)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(204,624)</u>	<u>391,746</u>	<u>187,122</u>
Net changes in fund balances	122,463	(164,060)	86,940	(1,710,220)	17,300	(1,647,577)
FUND BALANCES - BEGINNING	<u>112,528</u>	<u>211,226</u>	<u>180,436</u>	<u>1,314,822</u>	<u>502,634</u>	<u>2,321,646</u>
FUND BALANCES - ENDING	<u>\$ 234,991</u>	<u>\$ 47,166</u>	<u>\$ 267,376</u>	<u>\$ (395,398)</u>	<u>\$ 519,934</u>	<u>\$ 674,069</u>

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

EXHIBIT 4-1

STONE COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2004**

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ (1,647,577)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays (\$2,179,597) exceeded depreciation (\$328,607) in the current period.	1,850,990
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 and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss of \$7,131.	(7,131)
Intergovernmental revenue recognized on the full-accrual basis on the Statement of Activities is increased for revenues received after 60 days after year end.	79,399
Fine revenue recognized on the modified accrual basis in the funds during the year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	67,482
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments (\$662,836) exceeded debt proceeds (\$187,122).	475,714

EXHIBIT 4-1
PAGE TWO

STONE COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2004**

		<u>Amount</u>
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the statement of activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:		\$ 13,950
Decrease in accrued interest payable	\$ 32,694	
Increase in compensated absences liability	(1,845)	
Increase in claims and judgments liability	<u>(16,899)</u>	
Change in net assets of governmental activities (Exhibit 2)		<u>\$ 832,827</u>

EXHIBIT 5

STONE COUNTY, MISSISSIPPI

**STATEMENT OF NET ASSETS
PROPRIETARY FUND
SEPTEMBER 30, 2004**

	<u>Business-type Activities Enterprise Fund Correctional Facility</u>
ASSETS	
Current assets:	
Cash	\$ 2,185,607
Accounts receivable, net	346,650
Intergovernmental receivables	16,808
Total current assets	<u>2,549,065</u>
Noncurrent assets:	
Capital assets, net	<u>4,689,352</u>
Total noncurrent assets	<u>4,689,352</u>
Total assets	<u>\$ 7,238,417</u>
LIABILITIES	
Current liabilities:	
Claims payable	\$ 53,309
Advances from other funds	109,290
Accrued interest payable	131,876
Capital debt:	
Capital leases payable	17,936
Other long-term liabilities	<u>220,000</u>
Total current liabilities	<u>532,411</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	24,676
Other long-term liabilities	5,175,000
Non-capital debt:	
Compensated absences payable	<u>47,077</u>
Total noncurrent liabilities	<u>5,246,753</u>
Total liabilities	<u>5,779,164</u>
NET ASSETS	
Invested in capital assets, net of related debt	(748,260)
Unrestricted	<u>2,207,513</u>
Total net assets	<u>\$ 1,459,253</u>

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

EXHIBIT 6

STONE COUNTY, MISSISSIPPI

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2004**

	Business-type Activities Enterprise Fund Correctional Facility
OPERATING REVENUES	
Charges for services	\$ 2,947,068
Total operating revenues	<u>2,947,068</u>
OPERATING EXPENSES	
Cost of sales	
Personal services	1,468,911
Contractual services	357,843
Materials and supplies	336,167
Depreciation expense	126,202
Total operating expenses	<u>2,289,123</u>
OPERATING INCOME (LOSS)	<u>657,945</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	17,755
Miscellaneous revenue	31,673
Interest expense	(319,733)
Other expenses	(4,991)
Net nonoperating revenue (expenses)	<u>(275,296)</u>
CHANGES IN NET ASSETS	382,649
NET ASSETS - BEGINNING	<u>1,076,604</u>
NET ASSETS - ENDING	<u>\$ 1,459,253</u>

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

EXHIBIT 7

STONE COUNTY, MISSISSIPPI

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2004**

	Business-type Activities Enterprise Fund Correctional Facility
<i>CASH FLOWS FROM OPERATING ACTIVITIES</i>	
Receipts from customers	\$ 2,923,052
Payments to suppliers	(600,558)
Payments to employees	(1,443,034)
Net cash provided (used) by operating activities	<u>879,460</u>
<i>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</i>	
Other receipts	31,673
Net cash provided (used) by noncapital financing activities	<u>31,673</u>
<i>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</i>	
Proceeds of long-term debt	7,532
Principal paid on long-term debt	(226,705)
Interest paid on debt	(325,448)
Other receipts (payments)	(4,991)
Net cash provided (used) by capital and related financing activities	<u>(549,612)</u>
<i>CASH FLOWS FROM INVESTING ACTIVITIES</i>	
Interest and dividends on investments	17,755
Net cash provided (used) by investing activities	<u>17,755</u>
<i>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</i>	379,276
<i>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</i>	<u>1,806,331</u>
<i>CASH AND CASH EQUIVALENTS AT END OF YEAR</i>	<u>\$ 2,185,607</u>

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

EXHIBIT 7
PAGE TWO

STONE COUNTY, MISSISSIPPI

**STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED SEPTEMBER 30, 2004**

	<u>Business-type Activities Enterprise Fund Correctional Facility</u>
<i>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES.</i>	
Operating income (loss)	\$ 657,945
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	126,202
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(24,016)
(Increase) decrease in other receivables	(3,350)
Increase (decrease) in claims payable	31,212
Increase (decrease) in interfund payables	65,590
Increase (decrease) in compensated absences liability	25,877
Total adjustments	<u>221,515</u>
<i>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</i>	<u><u>\$ 879,460</u></u>
<i>NONCASH CAPITAL FINANCING ACTIVITY:</i>	
Property acquired under capital lease	<u><u>\$ 21,147</u></u>

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

EXHIBIT 8

STONE COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2004**

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 123,409
Intergovernmental receivables	18,405
Due from other funds	9,627
Other receivables	8,139
Total assets	<u>\$ 159,580</u>
LIABILITIES	
Intergovernmental payables	159,580
Total liabilities	<u>\$ 159,580</u>

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

NOTES TO FINANCIAL STATEMENTS

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - Stone County, Mississippi, 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 significant operational or financial relationships with the County.

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

- Stone County Recreation Association

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

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

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

Government-wide Financial Statements

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

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Fund Financial Statements

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

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

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

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

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

Countywide Road and Bridge Maintenance Fund - Accounts for monies from specific revenue sources that are restricted for road and bridge maintenance.

Countywide Road and Bridge Debt Service - Accounts for monies collected from specific revenue sources that are restricted for debt payments of the Countywide Road and Bridge Maintenance Fund.

Courthouse Renovation Fund - Accounts for monies from specific revenue sources that are restricted for renovation of the courthouse.

The County reports the following major Proprietary Fund:

Stone County Regional Correctional Facility - Accounts for the County's activities of housing prisoners.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

PROPRIETARY FUND TYPES

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

FIDUCIARY FUND TYPES

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

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 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

E. Deposits and Investments - State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen (14) days to one (1) 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 (3) months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

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

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Governmental accounting and financial reporting standards allow governments meeting certain criteria to 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. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets 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.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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 business-type activities. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds.

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

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

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

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

J. Equity Classifications

Government-wide Financial Statements:

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

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

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Fund Financial Statements:

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

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

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

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 can not be established until the date of original purchase occurs.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

M. Compensated Absences - The County has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and the Proprietary 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. Therefore, the County's full liability in the amount of \$145,527 for accumulated unpaid personal leave up to a maximum of 45 days per employee payable from the Governmental Funds is reported as a liability in the Statement of Net Assets. In the Proprietary Fund, the compensated absences are reported as a liability of the fund in the amount of \$47,077, which represents an amount up to a maximum of 45 days per employee.

NOTE 2 - PRIOR PERIOD ADJUSTMENT

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To record net asset value of fully depreciated assets as of October 1, 2003	<u>\$ 162,847</u>

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2004

NOTE 3 - DEPOSITS

The carrying amount of the County's total deposits with financial institutions at September 30, 2004, was \$3,537,464, and the bank balance was \$2,488,240. 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 Depository Insurance Corporation (FDIC).

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:		
General Fund	Courthouse Renovation	\$ 166,514
Countywide Road and Bridge	General Fund	12,159
Road and Bridge Debt Service	General Fund	2,050
Nonmajor Governmental Funds	General Fund	14,731
Agency Funds	General Fund	<u>9,627</u>
Total		<u>\$ 205,081</u>

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2004

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES (Cont.)

The receivables represent amounts due from tax collections at the end of the year and renovation costs paid by the General Fund for the Courthouse Renovation Fund. All interfund balances are expected to be repaid within one (1) year from the date of the financial statements. Amounts due to Agency Funds are not shown in the Fund Financial Statement at Exhibit 3.

B. Advances From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Major Funds:		
General Fund	Countywide Road and Bridge	\$ 1,571
General Fund	Correctional Facility	109,290
Countywide Road and Bridge	General Fund	<u>9,940</u>
Total		<u>\$ 120,801</u>

The receivables represent amounts due for expenditures made on behalf of the Payable Fund. All advances are expected to be repaid within one (1) year from the date of the financial statements.

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor Governmental Funds	Courthouse Renovation Fund	<u>204,624</u>
Total		<u>\$ 204,624</u>

The principal purpose of interfund transfers was to transfer remaining bond proceeds to the corresponding bond and interest fund. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2004

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2004 consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
COPS in Schools Grant	\$ 35,904
Sports Complex Grant	74,978
Motor Vehicle License Tax	54,215
National Park Services	27,234
Other	<u>12,248</u>
Total governmental activities	<u>\$ 204,579</u>
Business-type Activities:	
Welfare Fund Activity	<u>\$ 16,808</u>
Total business-type activities	<u>\$ 16,808</u>

Intergovernmental receivables totaled \$127,380 on Exhibit 3, Balance Sheet – Governmental Funds. The \$77,199 variance from the Intergovernmental Receivable for Governmental Activities on Exhibit 1, Statement of Net Assets is due to recognition of federal revenue on the full accrual basis for revenues received after sixty (60) days after year end.

NOTE 6 - LOANS RECEIVABLE

Loans receivable balances at September 30, 2004, are as follows:

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Emergency Medical Services District	June 1987	N/A	N/A	<u>\$ 22,439</u>

County officials had expected the above loans receivable would be liquidated by the annual receipt of appropriations from the State Emergency Medical Services Operating Fund. However, because the hospital was sold to a private concern during the 1997 fiscal year, County officials are uncertain as to its collectibility.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWELVE

YEAR ENDED SEPTEMBER 30, 2004

NOTE 7 - OTHER RECEIVABLES

Other receivables at September 30, 2004 consisted of the following:

<u>Description</u>	<u>Amount</u>
General Fund:	
Emergency Management Fund reimbursement	\$ 43,343
911 service fees	14,866
Refunds	10,047
Additional privilege taxes	4,488
Other miscellaneous items	9,181
Total General Fund	<u>81,925</u>
County Wide Road and Bridge:	
Motor vehicle licenses	10,364
Gas severage tax	2,329
Other miscellaneous items	3,331
Total County Wide Road and Bridge	<u>16,024</u>
Other Governmental Funds:	
Inmate welfare sales income	32,927
Other miscellaneous items	272
Total other governmental funds	<u>33,199</u>
Total all governmental funds	<u>\$ 131,148</u>

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2004

NOTE 8 - CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2004:

	<u>Balance Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance Sep. 30, 2004</u>
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 160,775	\$ 8,655	\$ -	\$ -	\$ 169,430
Construction in progress	760,674	-	-	(760,674)	-
Total non-depreciable capital assets	<u>921,449</u>	<u>8,655</u>	<u>-</u>	<u>(760,674)</u>	<u>169,430</u>
Depreciable capital assets:					
Infrastructure	112,920	66,890	-	-	179,810
Buildings	1,879,175	1,871,859	-	1,148,082	4,899,116
Mobile equipment	1,332,546	45,071	(9,091)	1,327,473	2,695,999
Furniture and equipment	34,430	-	(13,528)	99,699	120,601
Leased property under capital leases	881,280	187,122	-	(509,240)	559,162
Total depreciable capital assets	<u>4,240,351</u>	<u>2,170,942</u>	<u>(22,619)</u>	<u>2,066,014</u>	<u>8,454,688</u>
Less accumulated depreciation for:					
Infrastructure	3,953	1,587	-	-	5,540
Buildings	441,376	90,235	-	309,927	841,538
Mobile equipment	659,283	170,373	(8,182)	1,002,302	1,823,776
Furniture and equipment	44,636	1,963	(7,305)	96,153	135,447
Leased property under capital leases	403,204	64,449	-	(265,889)	201,764
Total accumulated depreciation	<u>1,552,452</u>	<u>328,607</u>	<u>(15,487)</u>	<u>1,142,493</u>	<u>3,008,065</u>
Total depreciable capital assets, net	<u>2,687,899</u>	<u>1,842,335</u>	<u>(7,132)</u>	<u>923,521</u>	<u>5,446,623</u>
Governmental activities capital assets, net	<u>\$ 3,609,348</u>	<u>\$ 1,850,990</u>	<u>\$ (7,132)</u>	<u>\$ 162,847</u>	<u>\$ 5,616,053</u>

STONE COUNTY, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE FOURTEEN
YEAR ENDED SEPTEMBER 30, 2004**

NOTE 8 - CAPITAL ASSETS (Cont.)

	<u>Balance Oct. 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments</u>	<u>Balance Sep. 30, 2004</u>
Business-Type Activities:					
Depreciable capital assets:					
Buildings	\$ 5,030,861	\$ -	\$ -	\$ -	\$ 5,030,861
Mobile equipment	19,246	-	-	26,477	45,723
Furniture and equipment	24,645	-	-	13,756	38,401
Leased property under capital leases	73,261	21,147	-	(40,233)	54,175
Total depreciable capital assets	<u>5,148,013</u>	<u>21,147</u>	<u>-</u>	<u>-</u>	<u>5,169,160</u>
Less accumulated depreciation for:					
Buildings	301,851	100,617	-	-	402,468
Mobile equipment	9,961	3,610	-	24,678	38,249
Furniture and equipment	16,266	11,140	-	-	27,406
Leased property under capital leases	25,528	10,835	-	(24,678)	11,685
Total accumulated depreciation	<u>353,606</u>	<u>126,202</u>	<u>-</u>	<u>-</u>	<u>479,808</u>
Total depreciable capital assets, net	<u>4,794,407</u>	<u>(105,055)</u>	<u>-</u>	<u>-</u>	<u>4,689,352</u>
Business-type activities capital assets, net	<u>\$ 4,794,407</u>	<u>\$ (105,055)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,689,352</u>

Adjustments to governmental activities and business-type activities were made to reclassify leased property under capital leases and to record cost and accumulated depreciation for fully depreciated assets omitted from prior year balances.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2004

NOTE 8 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:

General government	\$ 131,932
Public safety	124,057
Public works	<u>72,618</u>

Total governmental activities depreciation expense \$ 328,607

Business-Type Activities:

Correctional Facility	<u>\$ 126,202</u>
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Total business-type activities depreciation expense \$ 126,202

NOTE 9 - CLAIMS & 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 \$500,000 for law enforcement personnel, fire fighters, and road construction personnel and \$400,000 for all other employees 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, 2004 to January 1, 2005. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The County finances its exposure to risk of loss relating to employee health and accident coverage through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the County retaining the risk of loss on all claims to which the County is exposed. Premium payments to the pool are determined on an actuarial basis. The County purchases commercial insurance to cover all claims in excess of premium contributions. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). Changes in the balances of claims liabilities during the year are as follows:

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 9 - CLAIMS & JUDGMENTS (Cont.)

Unpaid claims, beginning of fiscal year	\$ 85,162
Plus: Incurred Claims (including IBNRs)	1,024,385
Less: Claims Payments	<u>1,007,486</u>
<i>Unpaid claims, end of fiscal year</i>	<u><u>\$ 102,061</u></u>

NOTE 10 - OPERATING LEASES

The County has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$70,456 for the year ended September 30, 2004. The future minimum lease payments for these leases are as follows:

	<u>Amount</u>
Year Ending September 30:	
2005	\$ 77,110
2006	73,464
2007	68,414
2008	57,256
2009	41,941
2010 - 2014	141,603
2015 - 2019	-
2020 - 2024	-
2025 - 2029	-
2030 - 2034	-
Thereafter	-
<i>Total minimum payments required</i>	<u><u>\$ 459,788</u></u>

NOTE 11 - CAPITAL LEASES

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2004:

(See Table on Next Page)

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 11 - CAPITAL LEASES (Cont.)

<u>Classes of Property</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Mobile equipment	\$ 469,162	\$ 54,175
Other furniture and equipment	90,000	-
Total	<u>559,162</u>	<u>54,175</u>
Less: Accumulated depreciation	<u>(201,764)</u>	<u>(11,685)</u>
Leased property under capital leases	<u>\$ 357,398</u>	<u>\$ 42,490</u>

The following is a schedule by years of the total payments due as of September 30, 2004:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 126,024	\$ 7,416	\$ 17,936	\$ 1,055
2006	79,853	3,803	16,987	461
2007	75,932	1,181	7,689	75
2008	-	-	-	-
2009	-	-	-	-
2010 - 2014	-	-	-	-
Total	<u>\$ 281,809</u>	<u>\$ 12,400</u>	<u>\$ 42,612</u>	<u>\$ 1,591</u>

NOTE 12 - SHORT-TERM DEBT AND LIQUIDITY

The following is a summary of short-term debt activity for the year ended September 30, 2004:

<u>Description of Debt</u>	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2004</u>
Motor graders	\$ -	\$ 245,000	\$ -	\$ 245,000

During the year ended September 30, 2004, the County refinanced an expiring capital lease with a one-year note.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHTEEN

YEAR ENDED SEPTEMBER 30, 2004

NOTE 13 - LONG-TERM DEBT

Debt outstanding as of September 30, 2004, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities			
General obligation bonds:			
General obligation bonds, Series 2003	<u>\$ 1,905,000</u>	3.30 – 4.70%	03/2018
Total general obligation bonds	<u><u>\$ 1,905,000</u></u>		
Capital leases:			
Garbage trucks	\$ 187,122	2.78%	09/2007
Tractors	28,215	6.00%	10/2005
Computer system	12,883	5.00%	03/2005
Sheriff's department vehicles	8,044	3.89%	01/2005
Durapatcher	24,198	4.75%	02/2007
Duratank	14,105	4.75%	02/2007
Chevrolet trucks	<u>7,242</u>	3.59%	05/2005
Total capital leases	<u><u>\$ 281,809</u></u>		
Other loans:			
Pumper	\$ 28,600	6.00%	12/2006
Roadway improvement loan	120,000	5.08%	10/2006
Frontage road note	84,252	4.15%	12/2006
Big Level fire truck/Sunflower fire station	148,024	4.75%	05/2008
2003A Rural fire grant anticipation	41,624	3.50%	07/2008
2003 Rural fire/Magnolia	<u>115,500</u>	3.50%	09/2009
Total other loans	<u><u>\$ 538,000</u></u>		

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 13 - LONG-TERM DEBT (Cont.)

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Business-type Activities			
Limited obligation bonds:			
Correctional facility	\$ 5,395,000	5.30 – 6.50%	11/2019
Total limited obligation bonds	<u>\$ 5,395,000</u>		
Capital leases:			
Correctional facility van	\$ 15,904	3.57%	07/2006
Correctional facility car	<u>26,708</u>	3.05%	05/2007
Total capital leases	<u>\$ 42,612</u>		

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

GOVERNMENTAL ACTIVITIES:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 100,000	\$ 66,641
2006	105,000	61,824
2007	110,000	56,881
2008	115,000	52,509
2009	120,000	48,631
2010 - 2014	685,000	178,669
2015 - 2019	670,000	49,908
2020 - 2024	-	-
2025 - 2029	-	-
2030 - 2034	-	-
Total	<u>\$ 1,905,000</u>	<u>\$ 515,063</u>

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 13 - LONG-TERM DEBT (Cont.)

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 139,338	\$ 24,208
2006	156,071	17,662
2007	146,123	10,502
2008	76,756	3,901
2009	19,712	701
2010 - 2014	-	-
2015 - 2019	-	-
2020 - 2024	-	-
2025 - 2029	-	-
2030 - 2034	-	-
Total	\$ 538,000	\$ 56,974

BUSINESS-TYPE ACTIVITIES:

<u>Year Ending September 30,</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 220,000	\$ 309,333
2006	230,000	294,708
2007	245,000	297,270
2008	255,000	263,020
2009	270,000	245,958
2010 - 2014	1,595,000	980,462
2015 - 2019	2,090,000	463,938
2020 - 2024	490,000	14,700
2025 - 2029	-	-
2030 - 2034	-	-
Total	\$ 5,395,000	\$ 2,869,389

Legal Debt Margin

The amount of debt, excluding specific exempted debt, that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a County issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2004, the amount of outstanding debt was equal to 2.69% of the latest property assessments.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 13 - LONG-TERM DEBT (Cont.)

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions
GOVERNMENTAL ACTIVITIES:		
Compensated absences	\$ 143,682	\$ 1,845
Claims and judgments	85,162	16,899
General obligation bonds	2,000,000	-
Equipment notes	19,600	-
Capital leases	465,048	187,122
Other loans	715,875	-
	<hr/>	<hr/>
Total governmental activities	\$ 3,429,367	\$ 205,866
	<hr/>	<hr/>
BUSINESS-TYPE ACTIVITIES:		
Compensated absences	\$ 21,200	\$ 25,877
Limited obligation bonds	5,605,000	-
Capital leases	30,638	28,679
	<hr/>	<hr/>
Total business-type activities	\$ 5,656,838	\$ 54,556
	<hr/>	<hr/>

NOTE 14 - DEFICITS IN FUND BALANCE OF INDIVIDUAL FUNDS

The following fund reported a deficit in fund balance at September 30, 2004:

Fund	Deficit Amount
Waste Tire Disposal Grant Fund	\$ (3,132)
Volunteer Fire	(41,115)
Courthouse Renovation	(395,398)

<u>Reductions</u>	<u>Adjustments</u>	<u>Balance Sep. 30, 2004</u>	<u>Amount Due Within One Year</u>
\$ -	\$ -	\$ 145,527	\$ -
-	-	102,061	102,061
(95,000)	-	1,905,000	100,000
(19,600)	-	-	-
(370,361)	-	281,809	126,024
<u>(177,875)</u>	<u>-</u>	<u>538,000</u>	<u>139,338</u>
<u>\$ (662,836)</u>	<u>\$ -</u>	<u>\$ 2,972,397</u>	<u>\$ 467,423</u>
\$ -	\$ -	\$ 47,077	\$ -
(210,000)	-	5,395,000	220,000
<u>(16,705)</u>	<u>-</u>	<u>42,612</u>	<u>17,936</u>
<u>\$ (226,705)</u>	<u>\$ -</u>	<u>\$ 5,484,689</u>	<u>\$ 237,936</u>

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-TWO

YEAR ENDED SEPTEMBER 30, 2004

NOTE 15 - 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. The County spent funds under a federal award from National Park Services during the year ended September 30, 2004. Compliance with additional grant conditions is required before the County will be eligible to receive the majority of these funds. As such, the contingent portion of this grant is not included in the County's financial statements (approximately \$220,000 is contingent).

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.

General Obligation Debt Contingencies - In December 1993, the County issued \$2,800,000 in general obligation bonds for capital improvements, including start-up costs, to the Stone County Hospital, a component unit of Stone County. On December 16, 1996, the Board of Supervisors executed an asset purchase agreement with Wiggins Hospital, Inc., for the sale of the Stone County Hospital, and also secured a guaranty agreement from NetCare Health Systems, Inc., the sole shareholder of Wiggins Hospital, Inc., for one hundred percent (100%) of Wiggins Hospital Inc.'s payment obligations. Subsequently, both parties defaulted, leaving Stone County responsible for the payments due for the 2000 and the 2001 fiscal years, which amounted to \$100,000 in principal and \$161,130 in interest for the 2000 fiscal year; and \$110,000 in principal and \$153,985 in interest for the 2001 fiscal year. These payments were made from an agency fund of Stone County. The principal amount of the general obligation hospital bonds outstanding at September 30, 2001 was \$2,240,000. On March 28, 2001, the County sold Stone County Hospital to H. T. Caine for the amount of \$2,262,660. The purchaser paid \$22,660 in cash and issued a promissory note in the amount of \$2,240,000. The repayment schedule on this note reflects exactly the repayment schedule (principal and interest) for the balance due on the general obligation bonds described above. The principal balance on the promissory note is \$1,875,000 at September 30, 2004.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 16 - JOINT VENTURES

The County participates in the following joint ventures:

Stone County is a participant with the Counties of Covington, Greene, and Perry in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board. Each County appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the County's appropriation to the joint venture was \$45,624 in fiscal year 2004. Complete financial statements for the Pine Forest Regional Library can be obtained from Post Office Box 1208, Richton, Mississippi 39476.

Stone County is a participant with the City of Wiggins in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1972), to operate the Stone-Wiggins Airport Board. The joint venture was created to provide an airport for the citizens of Stone County and is governed by a board of commissioners consisting of five members, with Stone County and the City of Wiggins appointing two members each and one member appointed jointly by the City and County. By contractual agreement, the County's appropriation to the joint venture was \$2,000 in fiscal year 2004. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

NOTE 17 - 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 \$33,060 to the agency in fiscal year 2004.

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 \$64,148 for support of the agency in fiscal year 2004.

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 17 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

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

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 \$505,863 for maintenance and support of the College in fiscal year 2004.

Stone County Economic Development Partnership is governed by a 15-member board, consisting of the President of the Board of Supervisors; five members appointed by the Board of Supervisors; three members appointed by the City of Wiggins; one member appointed by the Mississippi Gulf Coast Community College; and five members appointed at large by the Partnership. The organization is supported primarily by a sales tax collected by the County and remitted to the Foundation. The amount remitted in the 2004 fiscal year was \$219,647.

The Southeast Mississippi Air Ambulance District provides air ambulance service to Stone, Forrest, Lamar, Covington, Jefferson Davis, Marion, Pearl River, Perry, Greene, and Walthall counties. The Stone County Board of Supervisors appoints one (1) of the ten (10) members of the Board of Directors. The County contributed \$36,300 for the support of the District in fiscal year 2004.

NOTE 18 - DEFINED BENEFIT PENSION PLAN

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

STONE COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2004

NOTE 18 - DEFINED BENEFIT PENSION PLAN (Cont.)

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the County is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ended September 30, 2004, 2003, and 2002 were \$270,178, \$252,871, and \$243,628, respectively, equal to the required contributions for each year.

NOTE 19 - OTHER INFORMATION

As a result of revenue shortfalls, the State Tax Commission had to withhold 6.75% of the March 2004 homestead exemption reimbursement from local governments. The amount withheld from Stone County during the 2003-2004 fiscal year was \$9,036.

NOTE 20 - SUBSEQUENT EVENTS

Subsequent to September 30, 2004, Stone County issued the following debt obligations:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
3/21/2005	3.19%	\$ 521,916	Lease purchase financing	Countywide Road and Bridge Maintenance Fund
11/1/2004	3.04%	\$ 327,430	Lease purchase financing	Countywide Road and Bridge Maintenance Fund
12/30/2004	3.19%	\$ 224,877	Lease purchase financing	Countywide Road and Bridge Maintenance Fund

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

STONE COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2004**

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ 2,800,576
Licenses, commissions and other revenue	155,626
Fines and forfeitures	297,500
Intergovernmental revenues	274,393
Charges for services	120,000
Interest income	15,000
Miscellaneous revenues	37,613
Total revenues	<u>3,700,708</u>
EXPENDITURES	
Current:	
General government	1,947,719
Public safety	1,299,615
Public works	2,000
Health and welfare	176,939
Culture and recreation	80,425
Conservation of natural resources	45,310
Economic development and assistance	12,500
Debt service:	
Principal	117,917
Interest	
Total expenditures	<u>3,682,425</u>
Excess of revenues over (under) expenditures	<u>18,283</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	106,000
Transfers out	(106,038)
Total other financing sources and uses	<u>(38)</u>
NET CHANGE IN FUND BALANCES	18,245
Fund balances - beginning	112,528
Fund balances - ending	<u>\$ 130,773</u>

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

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 2,769,947	\$ 2,769,947	\$ -
165,906	165,906	-
267,111	267,111	-
351,763	351,763	-
125,762	125,762	-
11,733	11,733	-
101,472	101,472	-
<u>3,793,694</u>	<u>3,793,694</u>	<u>-</u>
1,851,173	1,851,173	-
1,451,247	1,451,247	-
-	-	-
180,659	180,659	-
76,840	76,840	-
45,368	45,368	-
12,089	12,089	-
75,976	75,976	-
2,706	2,706	-
<u>3,696,058</u>	<u>3,696,058</u>	<u>-</u>
<u>97,636</u>	<u>97,636</u>	<u>-</u>
70,091	70,091	-
<u>(68,989)</u>	<u>(68,989)</u>	<u>-</u>
<u>1,102</u>	<u>1,102</u>	<u>-</u>
98,738	98,738	-
112,528	112,528	-
<u>\$ 211,266</u>	<u>\$ 211,266</u>	<u>\$ -</u>

SCHEDULE 2

STONE COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
COUNTYWIDE ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2004**

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ -
Road and bridge privilege taxes	142,000
Licenses, commissions and other revenue	-
Intergovernmental revenues	825,500
Interest income	2,000
Total Revenues	<u>969,500</u>
EXPENDITURES	
Current:	
Public works	1,115,444
Debt service:	
Principal	282,959
Interest	-
Total Expenditures	<u>1,398,403</u>
Excess of revenues over (under) expenditures	<u>(428,903)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	432,845
Total Other Financing Sources and Uses	<u>432,845</u>
NET CHANGE IN FUND BALANCES	3,942
Fund balances - beginning	211,226
Fund balances - ending	<u>\$ 215,168</u>

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

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 435	\$ 435	\$ -
157,253	157,253	-
-	-	-
688,872	688,872	-
963	963	-
<u>847,523</u>	<u>847,523</u>	<u>-</u>
723,716	723,716	-
33,878	33,878	-
8,923	8,923	-
<u>766,517</u>	<u>766,517</u>	<u>-</u>
<u>81,006</u>	<u>81,006</u>	<u>-</u>
-	4,724	4,724
-	<u>4,724</u>	<u>4,724</u>
81,006	85,730	4,724
211,226	211,226	-
<u>\$ 292,232</u>	<u>\$ 296,956</u>	<u>\$ 4,724</u>

STONE COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - 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.

NOTE 2 - 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 variance between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund.

For the year ended September 30, 2004, the County implemented GASB Statement No. 41 – *Budgetary Comparison Schedules – Perspective Differences, which amends Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The statement clarifies the budgetary presentation requirements. The Budgetary Comparison Schedule – Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

NOTE 3 - 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

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2004

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

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

	Governmental Fund Types	
	General Fund	County Wide Road and Bridge
Budget (cash basis)	\$ 211,266	\$ 296,956
Increase (decrease):		
Net adjustments for revenue accruals	55,970	15,875
Net adjustments for expenditure accruals	<u>(32,245)</u>	<u>(265,665)</u>
GAAP Basis	<u>\$ 234,991</u>	<u>\$ 47,166</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 3

STONE COUNTY, MISSISSIPPI

**RECONCILIATION OF OPERATING COSTS OF SOLID WASTE
YEAR ENDED SEPTEMBER 30, 2004**

Salaries	\$	129,007
Contractual services		136,505
Expendable commodities:		
Gasoline and petroleum products		27,206
Repair parts		10,344
Clothing		2,717
Maintenance		35,338
Insurance		5,428
Interest on solid waste debt		<u>2,198</u>
<i>Solid waste cash basis operating expenditures</i>		348,743
Full cost expenses:		
Indirect administrative costs		13,258
Depreciation on equipment		<u>3,632</u>
<i>Solid waste full cost operating expenses</i>	\$	<u><u>365,633</u></u>

SPECIAL REPORTS

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

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Members of the Board of Supervisors
Stone County, Mississippi
Wiggins, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2004, and have issued our report thereon dated April 28, 2005. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the County's component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Members of the Board of Supervisors
Stone County, Mississippi

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stone County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Stone County, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

Nicholson & Company P.A.
Hattiesburg, Mississippi
April 28, 2005

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INDEPENDENT AUDITOR'S REPORT ON
CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM,
AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115,
MISSISSIPPI CODE ANNOTATED [1972])

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Members of the Board of Supervisors
Stone County, Mississippi
Wiggins, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Stone County, Mississippi, as of and for the year ended September 30, 2004. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

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

Members of the Board of Supervisors
Stone County, Mississippi

In our opinion, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory, and bid requirements.

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

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

Nicholson & Company, P.A.
Hattiesburg, Mississippi
April 28, 2005

SCHEDULE 4

STONE COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2004**

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

SCHEDULE 5

STONE COUNTY, MISSISSIPPI

**SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2004**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
August, 2004	Bridge repair	\$ 66,890	Ryals Construction	To repair Kirby Creek bridge deemed unsafe for crossing by motorists.

SCHEDULE 6

STONE COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2004**

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

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LIMITED INTERNAL CONTROL AND
COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi
Wiggins, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi, for the year ended September 30, 2004, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to 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 April 28, 2005, on the financial statements of Stone County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance test, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of the 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

Members of the Board of Supervisors
Stone County, Mississippi

conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

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

Nichelsaw & Company, P.A.
Hattiesburg, Mississippi
April 28, 2005

SCHEDULE OF FINDINGS

STONE COUNTY, MISSISSIPPI

**SCHEDULE OF FINDINGS
YEAR ENDED SEPTEMBER 30, 2004**

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

1. Type of auditor's report issued on the primary government financial statements: Unqualified
2. Material noncompliance relating to the primary government financial statements? No
3. Internal control over financial reporting:
 - A. Material weakness identified? No
 - B. Reportable condition identified that is not considered to be a material weakness? Yes

SECTION 2: FINANCIAL STATEMENT FINDINGS

Board of Supervisors

04-1. Finding

The comptroller for the County reconciles the payroll clearing account but is also responsible for maintaining employee payroll records, calculating payroll and signing payroll checks.

Recommendation

Proper segregation of duties should be implemented and adhered to for payroll.

Response

The Comptroller for the County will present to the Chancery Clerk or his designated deputy clerk the payroll checks for appropriate signature.