



**STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR**

PHIL BRYANT
State Auditor

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

J. SCOTT SPEIGHTS, MBA, CIA, CGAP
Director, County Audit Section

STONE COUNTY, MISSISSIPPI

**Audited Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2005**

STONE COUNTY

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STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

INDEPENDENT AUDITOR'S REPORT ON THE PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Members of the Board of Supervisors
Stone County, Mississippi

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

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

The financial statements referred to above include only the primary government of 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 unit, 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, 2005, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the 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, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2006, on our consideration of Stone County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

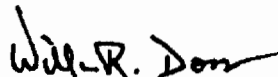
Stone County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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



PHIL BRYANT
State Auditor



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

March 23, 2006
[Except for Note 19 to which the date is December 11, 2006]

STONE COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

STONE COUNTY
Statement of Net Assets
September 30, 2005

Exhibit 1

| | Primary Government | | Total |
|---|----------------------------|-----------------------------|-------------------|
| | Governmental Activities | Business-type Activities | |
| ASSETS | | | |
| Cash | \$ 1,206,431 | 2,352,647 | 3,559,078 |
| Property tax receivable | 3,352,931 | | 3,352,931 |
| Fines receivable (net of allowance for uncollectibles of \$202,442) | 110,842 | | 110,842 |
| Loans receivable | 22,439 | | 22,439 |
| Allowance for uncollectible accounts | (22,439) | | (22,439) |
| Intergovernmental receivables | 2,610,463 | 384,978 | 2,995,441 |
| Other receivables | 55,496 | | 55,496 |
| Internal balances | 139,110 | (139,110) | |
| Capital assets, net | 6,522,682 | 4,635,889 | 11,158,571 |
| Total Assets | 13,997,955 | 7,234,404 | 21,232,359 |
| LIABILITIES | | | |
| Claims payable | 2,592,197 | 46,975 | 2,639,172 |
| Claims and judgments payable | 132,974 | | 132,974 |
| Intergovernmental payables | 247,187 | | 247,187 |
| Accrued interest payable | | 125,909 | 125,909 |
| Deferred revenue | 3,352,931 | | 3,352,931 |
| Other payables | 12,796 | | 12,796 |
| Long-term liabilities | | | |
| Due within one year: | | | |
| Capital debt | 505,169 | 246,987 | 752,156 |
| Due in more than one year: | | | |
| Capital debt | 2,980,944 | 4,952,689 | 7,933,633 |
| Non-capital debt | 75,602 | 29,435 | 105,037 |
| Total Liabilities | 9,899,800 | 5,401,995 | 15,301,795 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 3,036,569 | (563,787) | 2,472,782 |
| Restricted: | | | |
| Expendable: | | | |
| Debt service | 134,737 | | 134,737 |
| Public safety | 44,830 | 2,396,196 | 2,441,026 |
| Public works | 498,184 | | 498,184 |
| Health and welfare | 95 | | 95 |
| Culture and recreation | 3,265 | | 3,265 |
| Economic development | 81,832 | | 81,832 |
| Unemployment compensation | 54,535 | | 54,535 |
| Unrestricted | 244,108 | | 244,108 |
| Total Net Assets | \$ 4,098,155 | 1,832,409 | 5,930,564 |

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

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2005

Exhibit 2

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue and Changes in Net Assets | | |
|--|----------------------|----------------------|------------------------------------|----------------------------------|---|--------------------------|--------------------|
| | | 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 | \$ 2,570,747 | 526,571 | | 400,000 | (1,644,176) | | (1,644,176) |
| Public safety | 1,865,413 | 213,755 | 91,962 | 118,819 | (1,440,877) | | (1,440,877) |
| Public works | 4,372,260 | | 3,129,552 | 28,620 | (1,214,088) | | (1,214,088) |
| Health and welfare | 181,953 | | 53,255 | | (128,698) | | (128,698) |
| Culture and recreation | 99,270 | | | 3,000 | (96,270) | | (96,270) |
| Conservation of natural resources | 45,730 | | | | (45,730) | | (45,730) |
| Economic development and assistance | 11,484 | | | | (11,484) | | (11,484) |
| Interest on long-term debt | 95,749 | | | | (95,749) | | (95,749) |
| Total Governmental Activities | <u>9,242,606</u> | <u>740,326</u> | <u>3,274,769</u> | <u>550,439</u> | <u>(4,677,072)</u> | <u>0</u> | <u>(4,677,072)</u> |
| Business-type activities: | | | | | | | |
| Correctional Facility | <u>2,664,886</u> | <u>2,965,998</u> | <u>25,192</u> | | | <u>326,304</u> | <u>326,304</u> |
| Total Business-type Activities | <u>2,664,886</u> | <u>2,965,998</u> | <u>25,192</u> | <u>0</u> | <u>0</u> | <u>326,304</u> | <u>326,304</u> |
| Total Primary Government | <u>\$ 11,907,492</u> | <u>3,706,324</u> | <u>3,299,961</u> | <u>550,439</u> | <u>(4,677,072)</u> | <u>326,304</u> | <u>(4,350,768)</u> |
| General revenues: | | | | | | | |
| Property taxes | | | | | \$ 4,325,430 | | 4,325,430 |
| Road & bridge privilege | | | | | 163,803 | | 163,803 |
| Grants and contributions not restricted to specific programs | | | | | 251,628 | | 251,628 |
| Unrestricted interest income | | | | | 16,699 | 50,530 | 67,229 |
| Miscellaneous | | | | | <u>529,342</u> | | <u>529,342</u> |
| Total general revenues | | | | | <u>5,286,902</u> | <u>50,530</u> | <u>5,337,432</u> |
| Changes in Net Assets | | | | | <u>609,830</u> | <u>376,834</u> | <u>986,664</u> |
| Net Assets - Beginning | | | | | 3,444,898 | 1,459,253 | 4,904,151 |
| Prior period adjustment | | | | | <u>43,427</u> | <u>(3,678)</u> | <u>39,749</u> |
| Net Assets - Beginning, as restated | | | | | <u>3,488,325</u> | <u>1,455,575</u> | <u>4,943,900</u> |
| Net Assets - Ending | | | | | <u>\$ 4,098,155</u> | <u>1,832,409</u> | <u>5,930,564</u> |

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

STONE COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2005

Exhibit 3

| | Major Funds | | | Total Governmental Funds |
|---|---------------------|----------------------------|--------------------------------|--------------------------------|
| | General Fund | Road and Bridge Fund | Other Governmental Funds | |
| ASSETS | | | | |
| Cash | \$ 427,566 | 238,231 | 540,634 | 1,206,431 |
| Property tax receivable | 2,563,812 | | 789,119 | 3,352,931 |
| Fines receivable (net of allowance for uncollectibles of \$202,442) | 110,842 | | | 110,842 |
| Loans receivable | 22,439 | | | 22,439 |
| Allowance for uncollectible accounts | (22,439) | | | (22,439) |
| Intergovernmental receivables | 2,610,463 | | | 2,610,463 |
| Other receivables | 55,496 | | | 55,496 |
| Due from other funds | 29,820 | 15,595 | 58,452 | 103,867 |
| Advances to other funds | 275,804 | 8,369 | | 284,173 |
| Total Assets | \$ 6,073,803 | 262,195 | 1,388,205 | 7,724,203 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Claims payable | \$ 2,538,129 | 24,513 | 29,555 | 2,592,197 |
| Claims and judgments payable | 132,974 | | | 132,974 |
| Intergovernmental payables | 213,610 | | | 213,610 |
| Due to other funds | 107,624 | | | 107,624 |
| Advances from other funds | 8,369 | | 166,514 | 174,883 |
| Deferred revenue | 2,674,654 | | 789,119 | 3,463,773 |
| Other payables | 12,796 | | | 12,796 |
| Total Liabilities | 5,688,156 | 24,513 | 985,188 | 6,697,857 |
| Fund balances: | | | | |
| Reserved for: | | | | |
| Debt service | | | 134,737 | 134,737 |
| Advances | 275,804 | 8,369 | | 284,173 |
| Unemployment compensation | | | 54,535 | 54,535 |
| Unreserved, reported in: | | | | |
| General Fund | 109,843 | | | 109,843 |
| Special Revenue Funds | | 229,313 | 319,815 | 549,128 |
| Capital Project Funds | | | (106,070) | (106,070) |
| Total Fund Balances | 385,647 | 237,682 | 403,017 | 1,026,346 |
| Total Liabilities and Fund Balances | \$ 6,073,803 | 262,195 | 1,388,205 | 7,724,203 |

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

STONE COUNTY
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2005

Exhibit 3-1

| | <u>Amount</u> |
|--|---------------------|
| Total Fund Balance - Governmental Funds | \$ 1,026,346 |
| Amounts reported for governmental services in the Statement of Net Assets are different because: | |
| Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$3,145,433. | 6,522,682 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | 110,842 |
| Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds. | <u>(3,561,715)</u> |
| Total Net Assets - Governmental Activities | <u>\$ 4,098,155</u> |

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

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

| | Major Funds | | | Total Governmental Funds |
|---|-------------------|----------------------------|--------------------------------|--------------------------------|
| | General Fund | Road and Bridge Fund | Other Governmental Funds | |
| REVENUES | | | | |
| Property taxes | \$ 3,310,795 | 362 | 1,014,273 | 4,325,430 |
| Road and bridge privilege taxes | | 163,803 | | 163,803 |
| Licenses, commissions and other revenue | 172,615 | | 7,540 | 180,155 |
| Fines and forfeitures | 322,247 | | 63,886 | 386,133 |
| Intergovernmental revenues | 2,939,396 | 631,385 | 583,254 | 4,154,035 |
| Charges for services | 130,678 | | | 130,678 |
| Interest income | 12,289 | 567 | 3,843 | 16,699 |
| Miscellaneous revenues | 31,678 | 645 | 275,619 | 307,942 |
| Total Revenues | <u>6,919,698</u> | <u>796,762</u> | <u>1,948,415</u> | <u>9,664,875</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 2,167,544 | | 308,651 | 2,476,195 |
| Public safety | 1,756,602 | | 456,765 | 2,213,367 |
| Public works | 2,447,073 | 1,302,254 | 1,316,947 | 5,066,274 |
| Health and welfare | 181,953 | | | 181,953 |
| Culture and recreation | 77,808 | | 10,799 | 88,607 |
| Conservation of natural resources | 45,730 | | | 45,730 |
| Economic development and assistance | 11,484 | | | 11,484 |
| Debt service: | | | | |
| Principal | 33,669 | 44,449 | 696,763 | 774,881 |
| Interest | 1,385 | 2,743 | 111,329 | 115,457 |
| Total Expenditures | <u>6,723,248</u> | <u>1,349,446</u> | <u>2,901,254</u> | <u>10,973,948</u> |
| Excess of Revenues over (under) Expenditures | <u>196,450</u> | <u>(552,684)</u> | <u>(952,839)</u> | <u>(1,309,073)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | 56,267 | 521,800 | 958,118 | 1,536,185 |
| Proceeds from sale of capital assets | | 221,400 | 5,826 | 227,226 |
| Total Other Financing Sources and Uses | <u>56,267</u> | <u>743,200</u> | <u>963,944</u> | <u>1,763,411</u> |
| Net Changes in Fund Balances | <u>252,717</u> | <u>190,516</u> | <u>11,105</u> | <u>454,338</u> |
| Fund Balances - Beginning | 234,991 | 47,166 | 391,912 | 674,069 |
| Prior period adjustment | <u>(102,061)</u> | | | <u>(102,061)</u> |
| Fund Balances - Beginning, as restated | <u>132,930</u> | <u>47,166</u> | <u>391,912</u> | <u>572,008</u> |
| Fund Balances - Ending | <u>\$ 385,647</u> | <u>237,682</u> | <u>403,017</u> | <u>1,026,346</u> |

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

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

| | <u>Amount</u> |
|--|-------------------|
| Net Changes in Fund Balances - Governmental Funds | \$ 454,338 |
| 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 of \$1,442,806 exceeded depreciation of \$458,726 in the current period. | 984,080 |
| In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$185,456 and the proceeds from the sale of \$227,226 in the current period. | (41,770) |
| Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting. | 43,360 |
| Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$1,536,185 exceeded debt repayments of \$774,881. | (761,304) |
| 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: | |
| Increase in compensated absences | (11,383) |
| Reduction in interest payable | 19,708 |
| Reduction in intergovernmental receivables | (77,199) |
| Change in Net Assets of Governmental Activities | <u>\$ 609,830</u> |

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

STONE COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2005

Exhibit 5

| | Business-type Activities - Enterprise Fund <u>Correctional Facility Fund</u> |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash | \$ 2,352,647 |
| Intergovernmental receivables | 384,978 |
| Total Current Assets | <u>2,737,625</u> |
| Noncurrent assets: | |
| Capital assets, net | 4,635,889 |
| Total Noncurrent Assets | <u>4,635,889</u> |
| Total Assets | <u>7,373,514</u> |
| LIABILITIES | |
| Current liabilities: | |
| Claims payable | 46,975 |
| Due to other funds | 29,820 |
| Advances from other funds | 109,290 |
| Accrued interest payable | 125,909 |
| Capital debt: | |
| Capital leases payable | 16,987 |
| Other long-term liabilities | 230,000 |
| Total Current Liabilities | <u>558,981</u> |
| Noncurrent liabilities: | |
| Capital debt: | |
| Capital leases payable | 7,689 |
| Other long-term liabilities | 4,945,000 |
| Non-capital debt: | |
| Compensated absences payable | 29,435 |
| Total Noncurrent Liabilities | <u>4,982,124</u> |
| NET ASSETS | |
| Invested in capital assets, net of related debt | (563,787) |
| Restricted: | |
| Public safety | 2,396,196 |
| Total Net Assets | <u>\$ 1,832,409</u> |

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

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

| | <u>Business-type Activities - Enterprise Fund Correctional Facility Fund</u> |
|-------------------------------------|--|
| Operating Revenues | |
| Charges for services | \$ 2,965,998 |
| Miscellaneous | 25,192 |
| Total Operating Revenues | <u>2,991,190</u> |
| Operating Expenses | |
| Personal services | 1,470,028 |
| Contractual services | 370,491 |
| Materials and supplies | 365,681 |
| Depreciation expense | 121,007 |
| Indirect administrative cost | 29,820 |
| Total Operating Expenses | <u>2,357,027</u> |
| Operating Income (Loss) | <u>634,163</u> |
| Nonoperating Revenues (Expenses) | |
| Interest income | 50,530 |
| Interest expense | <u>(307,859)</u> |
| Net Nonoperating Revenue (Expenses) | <u>(257,329)</u> |
| Changes in Net Assets | <u>376,834</u> |
| Net Assets - Beginning | 1,459,253 |
| Prior period adjustment | <u>(3,678)</u> |
| Net Assets - Beginning, as restated | <u>1,455,575</u> |
| Net Assets - Ending | <u>\$ 1,832,409</u> |

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

STONE COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2005

Exhibit 7

| | Business-type Activities - <u>Enterprise Fund</u> Correctional Facility <u>Fund</u> |
|--|--|
| Cash Flows From Operating Activities | |
| Receipts from users | \$ 2,944,478 |
| Payments to suppliers | (765,756) |
| Payments to employees | (1,464,420) |
| Other operating cash receipts | 25,192 |
| Net Cash Provided (Used) by Operating Activities | <u>739,494</u> |
| Cash Flows From Capital and Related Financing Activities | |
| Acquisition and construction of capital assets | (94,472) |
| Principal paid on long-term debt | (237,936) |
| Interest paid on debt | (290,576) |
| Net Cash Provided (Used) by Capital and Related Financing Activities | <u>(622,984)</u> |
| Cash Flows From Investing Activities | |
| Interest on deposits | 50,530 |
| Net Cash Provided (Used) by Investing Activities | <u>50,530</u> |
| Net Increase (Decrease) in Cash and Cash Equivalents | 167,040 |
| Cash and Cash Equivalents at Beginning of Year | <u>2,185,607</u> |
| Cash and Cash Equivalents at End of Year | <u>\$ 2,352,647</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Operating income (loss) | \$ <u>634,163</u> |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 121,007 |
| Changes in assets and liabilities: | |
| (Increase) decrease in intergovernmental receivables | (21,520) |
| Increase (decrease) in claims payable | (6,334) |
| Increase (decrease) in compensated absences liability | (17,642) |
| Increase (decrease) in interfund payables | 29,820 |
| Total Adjustments | <u>105,331</u> |
| Net Cash Provided (Used) by Operating Activities | <u>\$ 739,494</u> |

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

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2005

Exhibit 8

| | <u>Agency Funds</u> |
|------------------------------------|-------------------------|
| ASSETS | |
| Cash | \$ 201,221 |
| Due from other funds | 33,577 |
| Other receivables | 493 |
| Total Assets | <u>\$ 235,291</u> |
| LIABILITIES | |
| Amounts held in custody for others | \$ 41,472 |
| Intergovernmental payables | 193,819 |
| Total Liabilities | <u>\$ 235,291</u> |

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2005

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 Funds and Fiduciary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic 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 Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

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

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 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.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2005

The county reports the following major Governmental Funds:

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

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

The county reports the following major Proprietary Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

PROPRIETARY FUND TYPE

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

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2005

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. 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.

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

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.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

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

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

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

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

J. Equity Classifications.

Government-wide Financial Statements:

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

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

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

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 cannot be established until the date of original purchase occurs.

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(2) Changes in Accounting Standards.

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

(3) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

| <u>Explanation</u> | <u>Amount</u> |
|--|------------------|
| Governmental Activities: | |
| To correct errors in beginning balance of capital assets | \$ (35,681) |
| To correct errors in beginning balance of compensated absences | 81,308 |
| To correct errors in beginning balance of receivables | <u>(2,200)</u> |
| Total | <u>\$ 43,427</u> |

Business-type Activities:

| <u>Explanation</u> | <u>Amount</u> |
|--|-------------------|
| To correct errors in beginning balance of capital assets | \$ (26,928) |
| To correct errors in beginning balance of compensated absences | <u>23,250</u> |
| Total | <u>\$ (3,678)</u> |

Exhibit 4 - Statement of Revenues, Expenditure and Changes in Fund Balances.

| <u>Explanation</u> | <u>Amount</u> |
|---|---------------------|
| To reclassify claims and judgments payable to current liabilities | <u>\$ (102,061)</u> |

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

| <u>Explanation</u> | <u>Amount</u> |
|--|-------------------|
| To correct errors in beginning balance of capital assets | \$ (26,928) |
| To correct errors in beginning balance of compensated absences | <u>23,250</u> |
| Total | <u>\$ (3,678)</u> |

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(4) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$3,760,299, and the bank balance was \$3,764,570. 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.

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

(5) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|--------------------------|-----------------------|-------------------|
| General | Correctional Facility | \$ 29,820 |
| Road and Bridge | General | 15,595 |
| Other Governmental Funds | General | 58,452 |
| Agency Funds | General | <u>33,577</u> |
| Total | | <u>\$ 137,444</u> |

The General Fund receivable is the amount of indirect costs due to the regional jail operations. All other receivables represent the tax revenues collected but not settled until October, 2005. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from/to Other Funds:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|--------------------------|-------------------|
| General | Correctional Facility | \$ 109,290 |
| General | Other Governmental Funds | 166,514 |
| Road and Bridge | General | <u>8,369</u> |
| Total | | <u>\$ 284,173</u> |

The receivables represent indirect administrative costs due to the regional jail operations, courthouse renovation costs paid by the General Fund and road and bridge privilege taxes erroneously posted to the General Fund. Advances are not expected to be repaid within one year from the date of the financial statements.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(6) Intergovernmental Receivables.

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

| <u>Description</u> | <u>Amount</u> |
|---|---------------------|
| Governmental Activities: | |
| Legislative tax credit | \$ 77,294 |
| Disaster grants - public assistance | 2,223,412 |
| Highway planning and construction | 285,845 |
| State domestic preparedness equipment support program | <u>23,912</u> |
| Total Governmental Activities | \$ <u>2,610,463</u> |
| Business-type Activities: | |
| Reimbursement for housing prisoners | \$ <u>384,978</u> |
| Total Business-type Activities | \$ <u>384,978</u> |

(7) Loans Receivable.

Loans receivable balances at September 30, 2005, 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 | \$ 22,439 |
| Less: Allowance for doubtful accounts* | | | | <u>22,439</u> |
| Total (Net of allowance for doubtful accounts) | | | | \$ <u>0</u> |

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

(8) Capital Assets.

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

Governmental Activities:

| | <u>Balance Oct. 1, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments *</u> | <u>Balance Sept. 30, 2005</u> |
|--|---------------------------------|------------------|------------------|----------------------|-----------------------------------|
| <u>Non-depreciable capital assets:</u> | | | | | |
| Land | \$ <u>169,430</u> | <u>17,500</u> | <u>0</u> | <u>(8,655)</u> | <u>178,275</u> |
| <u>Depreciable capital assets:</u> | | | | | |
| Infrastructure | 179,810 | | | | 179,810 |
| Buildings | 4,899,116 | | | (30,716) | 4,868,400 |
| Mobile equipment | 2,695,999 | 241,820 | 359,438 | 194,039 | 2,772,420 |

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

| | Balance <u>Oct. 1, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments *</u> | Balance <u>Sept. 30, 2005</u> |
|---|--------------------------------|------------------|------------------|----------------------|----------------------------------|
| Furniture and equipment | 120,601 | 53,113 | | | 173,714 |
| Leased property under capital leases | 559,162 | 1,130,373 | | (194,039) | 1,495,496 |
| Total depreciable capital assets | <u>8,454,688</u> | <u>1,425,306</u> | <u>359,438</u> | <u>(30,716)</u> | <u>9,489,840</u> |
| <u>Less accumulated depreciation for:</u> | | | | | |
| Infrastructure | 5,540 | 1,587 | | | 7,127 |
| Buildings | 841,538 | 90,235 | | (3,690) | 928,083 |
| Mobile equipment | 1,823,776 | 178,082 | 317,668 | 146,793 | 1,830,983 |
| Furniture and equipment | 135,447 | 21,564 | | | 157,011 |
| Leased property under capital leases | 201,764 | 167,258 | | (146,793) | 222,229 |
| Total accumulated depreciation | <u>3,008,065</u> | <u>458,726</u> | <u>317,668</u> | <u>(3,690)</u> | <u>3,145,433</u> |
| Total depreciable capital assets, net | <u>5,446,623</u> | <u>966,580</u> | <u>41,770</u> | <u>(27,026)</u> | <u>6,344,407</u> |
| Governmental activities capital assets, net | <u>\$ 5,616,053</u> | <u>984,080</u> | <u>41,770</u> | <u>(35,681)</u> | <u>6,522,682</u> |

* Adjustments are the reclassification of paid out capital leases from leased property under capital leases to mobile equipment and to correct errors in prior year ending balances.

Business-type Activities:

| | Balance <u>Oct. 1, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments **</u> | Balance <u>Sept. 30, 2005</u> |
|---|--------------------------------|------------------|------------------|-----------------------|----------------------------------|
| <u>Depreciable capital assets:</u> | | | | | |
| Buildings | \$ 5,030,861 | 94,472 | | (47,236) | 5,078,097 |
| Mobile equipment | 45,723 | | | 663 | 46,386 |
| Furniture and equipment | 38,401 | | | 19,645 | 58,046 |
| Leased property under capital leases | 54,175 | | | | 54,175 |
| Total depreciable capital assets | <u>5,169,160</u> | <u>94,472</u> | <u>0</u> | <u>(26,928)</u> | <u>5,236,704</u> |
| <u>Less accumulated depreciation for:</u> | | | | | |
| Buildings | 402,468 | 100,617 | | | 503,085 |
| Mobile equipment | 38,249 | 7,450 | | | 45,699 |
| Furniture and equipment | 27,406 | 5,944 | | | 33,350 |
| Leased property under capital leases | 11,685 | 6,996 | | | 18,681 |
| Total accumulated depreciation | <u>479,808</u> | <u>121,007</u> | <u>0</u> | <u>0</u> | <u>600,815</u> |

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

| | Balance <u>Oct. 1, 2004</u> | <u>Additions</u> | <u>Deletions</u> | <u>Adjustments</u> ** | Balance <u>Sept. 30, 2005</u> |
|--|--------------------------------|------------------|------------------|-----------------------|----------------------------------|
| Total depreciable capital assets, net | 4,689,352 | (26,535) | 0 | (26,928) | 4,635,889 |
| Business-type activities capital assets, net | \$ <u>4,689,352</u> | <u>(26,535)</u> | <u>0</u> | <u>(26,928)</u> | <u>4,635,889</u> |

** Adjustments are to correct errors in prior year ending balances.

Depreciation expense was charged to the following functions:

| | <u>Amount</u> |
|--|-----------------------|
| Governmental Activities: | |
| General government | \$ 84,265 |
| Public safety | 138,482 |
| Public works | 225,316 |
| Culture and recreation | <u>10,663</u> |
| Total governmental activities depreciation expense | \$ <u>458,726</u> |
| Business-type Activities: | |
| Correctional facility | \$ <u>121,007</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 \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

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). The following table provides changes in the balances of claims liabilities for fiscal years 2004 and 2005:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

| | <u>2004</u> | <u>2005</u> |
|---|-------------------|------------------|
| Unpaid Claims, Beginning of Fiscal Year | \$ 85,162 | 102,061 |
| Plus: Incurred Claims (Including IBNRs) | 1,024,385 | 1,080,529 |
| Less: Claims Payments | <u>1,007,486</u> | <u>1,049,616</u> |
| Unpaid Claims, End of Fiscal Year | <u>\$ 102,061</u> | <u>132,974</u> |

(10) Operating Leases.

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$77,110 for the year ended September 30, 2005. The future minimum lease payments for these leases are as follows:

| <u>Year Ended September 30</u> | <u>Amount</u> |
|---------------------------------|-------------------|
| 2006 | \$ 73,464 |
| 2007 | 68,414 |
| 2008 | 57,256 |
| 2009 | 41,941 |
| 2010 | 36,940 |
| 2011 - 2015 | <u>104,663</u> |
| Total Minimum Payments Required | <u>\$ 382,678</u> |

(11) Capital Leases.

As Lessee:

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

| <u>Classes of Property</u> | <u>Governmental Activities</u> | <u>Business-type Activities</u> |
|--------------------------------------|------------------------------------|-------------------------------------|
| Mobile equipment | \$ 1,495,496 | 54,175 |
| Less: Accumulated depreciation | <u>222,229</u> | <u>18,681</u> |
| Leased Property Under Capital Leases | <u>\$ 1,273,267</u> | <u>35,494</u> |

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

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

| Year Ending September 30 | Governmental Activities | | Business-type Activities | |
|--------------------------|-------------------------|---------------|--------------------------|------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 290,945 | 35,522 | 16,987 | 361 |
| 2007 | 293,758 | 26,168 | 7,689 | 76 |
| 2008 | 210,731 | 18,193 | | |
| 2009 | 307,829 | 8,519 | | |
| 2010 | 111,015 | 3,541 | | |
| Total | <u>\$ 1,214,278</u> | <u>91,943</u> | <u>24,676</u> | <u>437</u> |

(12) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2005:

| Description of Debt | Balance | Additions | Reductions | Adjustments | Balance |
|---------------------|-------------------|-----------|----------------|-------------|----------------|
| | Oct. 1, 2004 | | | | Sept. 30, 2005 |
| Motor graders | \$ <u>245,000</u> | <u>0</u> | <u>245,000</u> | <u>0</u> | <u>0</u> |

The County made a short-term loan to pay off the capital lease on some motor graders and later repaid the loan with the proceeds from the sale of the same motor graders.

(13) Long-term Debt.

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

| Description and Purpose | Amount Outstanding | Interest Rate | Final Maturity Date |
|---------------------------------------|---------------------|---------------|---------------------|
| Governmental Activities: | | | |
| A. General Obligation Bonds: | | | |
| General obligation bonds, Series 2003 | \$ <u>1,805,000</u> | 3.30 - 4.70% | 03-18 |
| B. Capital Leases: | | | |
| 2005 crown victoria | \$ 19,479 | 3.28% | 10-07 |
| 2005 crown victoria | 24,046 | 3.19% | 03-08 |
| Tractors | 3,938 | 6.00% | 11-05 |
| Durapatcher | 16,910 | 4.75% | 02-07 |
| Duratank | 8,463 | 4.75% | 02-07 |
| Garbage trucks | 126,472 | 2.78% | 09-07 |
| Dump trucks | 521,800 | 3.19% | 07-10 |
| Two motor graders | 294,861 | 3.04% | 12-08 |
| Five tractors and mowers | <u>198,309</u> | 3.19% | 03-09 |
| Total Capital Leases | <u>\$ 1,214,278</u> | | |

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

| Description and Purpose | Amount Outstanding | Interest Rate | Final Maturity Date |
|--|-----------------------|------------------|---------------------------|
| C. Other Loans: | | | |
| Big Level fire truck | \$ 111,024 | 4.75% | 05-08 |
| Northwest VFD grant anticipation promissory note | 51,311 | 3.50% | 06-08 |
| Rural fire protection project note | 178,000 | 3.50% | 07-10 |
| Series 2005 Road Department note | <u>126,500</u> | 3.50% | 07-10 |
| Total Other Loans | <u>\$ 466,835</u> | | |

Business-type Activities:

A. Limited Obligation Bonds:

| | | | |
|-----------------------|---------------------|--------------|-------|
| Correctional facility | \$ <u>5,175,000</u> | 5.30 - 6.50% | 11-19 |
|-----------------------|---------------------|--------------|-------|

B. Capital Leases:

| | | | |
|---------------------------|---------------|-------|-------|
| Correctional facility van | \$ 7,332 | 3.57% | 07-06 |
| Correctional facility car | <u>17,344</u> | 3.05% | 05-07 |

| | | | |
|----------------------|------------------|--|--|
| Total Capital Leases | <u>\$ 24,676</u> | | |
|----------------------|------------------|--|--|

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

Governmental Activities:

| Year Ending September 30 | General Obligation Bonds | | Other Loans | |
|--------------------------|--------------------------|----------------|----------------|---------------|
| | Principal | Interest | Principal | Interest |
| 2006 | \$ 105,000 | 61,824 | 109,224 | 19,784 |
| 2007 | 110,000 | 56,881 | 130,903 | 14,824 |
| 2008 | 115,000 | 52,509 | 98,049 | 9,781 |
| 2009 | 120,000 | 48,631 | 63,208 | 4,566 |
| 2010 | 125,000 | 44,589 | 65,451 | 3,389 |
| 2011 - 2015 | 715,000 | 155,270 | | |
| 2016 - 2020 | <u>515,000</u> | <u>28,688</u> | | |
| Total | <u>\$ 1,805,000</u> | <u>448,392</u> | <u>466,835</u> | <u>52,344</u> |

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

Business-type Activities:

| <u>Year Ending September 30</u> | <u>Limited Obligation Bonds</u> | |
|---------------------------------|---------------------------------|------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$ 230,000 | 294,708 |
| 2007 | 245,000 | 297,270 |
| 2008 | 255,000 | 263,020 |
| 2009 | 270,000 | 245,958 |
| 2010 | 285,000 | 229,630 |
| 2011 - 2015 | 1,685,000 | 890,438 |
| 2016 - 2020 | 2,205,000 | 339,033 |
| Total | \$ <u>5,175,000</u> | <u>2,560,057</u> |

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2005, the amount of outstanding debt was equal to 2.73% of the latest property assessments.

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

| | <u>Balance</u> | | | | <u>Balance</u> | <u>Amount due</u> |
|----------------------------------|---------------------|------------------|-------------------|----------------------|-----------------------|-------------------|
| | <u>Oct. 1, 2004</u> | <u>Additions</u> | <u>Reductions</u> | <u>Adjustments *</u> | <u>Sept. 30, 2005</u> | <u>within one</u> |
| | | | | | | <u>year</u> |
| Governmental Activities: | | | | | | |
| Compensated absences | \$ 145,527 | 11,383 | | (81,308) | 75,602 | |
| Claims and judgments | 102,061 | | | (102,061) | 0 | |
| General obligation bonds | 1,905,000 | | 100,000 | | 1,805,000 | 105,000 |
| Capital leases | 281,809 | 1,130,374 | 197,905 | | 1,214,278 | 290,945 |
| Other loans | 538,000 | 405,811 | 476,976 | | 466,835 | 109,224 |
| Total | \$ <u>2,972,397</u> | <u>1,547,568</u> | <u>774,881</u> | <u>(183,369)</u> | <u>3,561,715</u> | <u>505,169</u> |
| Business-type Activities: | | | | | | |
| Compensated absences | \$ 47,077 | 5,608 | | (23,250) | 29,435 | |
| Limited obligation bonds | 5,395,000 | | 220,000 | | 5,175,000 | 230,000 |
| Capital leases | 42,612 | | 17,936 | | 24,676 | 16,987 |
| Total | \$ <u>5,484,689</u> | <u>5,608</u> | <u>237,936</u> | <u>(23,250)</u> | <u>5,229,111</u> | <u>246,987</u> |

* Adjustments are to correct an error in the calculation of compensated absences in prior years and to reclassify claims and judgments from long-term debt to a short-term liability.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

(14) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2005:

| Fund | Deficit Amount |
|---------------------------------|-------------------|
| Waste Tire Disposal Grant Fund | \$ 1,489 |
| Rural Fire Protection Fund | 11,335 |
| Courthouse Renovation Bond Fund | 153,395 |
| Inmate Welfare Fund | 12,177 |
| Courthouse Renovation Fund | 106,070 |

(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.

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 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 amount of such debt outstanding at year-end is as follows:

| Description | Balance at Sept. 30, 2005 |
|----------------------------------|------------------------------|
| General obligation hospital note | \$ <u>1,735,000</u> |

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2005

(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 \$46,624 in fiscal year 2005. 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 2005. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

(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 \$11,000 for support of the district in fiscal year 2005.

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 \$65,417 for support of the agency in fiscal year 2005.

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 \$537,283 for maintenance and support of the college in fiscal year 2005.

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 2005 fiscal year was \$235,276.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2005

The Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the ten members of the Board of Directors. The county contributed \$36,300 for the support of the District in fiscal year 2005.

(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, MS 39201-1005 or by calling 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2005 was 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2005, 2004 and 2003 were \$313,532, \$270,178 and \$252,871, respectively, equal to the required contributions for each year.

(19) Subsequent Events.

Subsequent to September 30, 2005, 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> |
|-------------------|----------------------|---------------------|--------------------------|--------------------------------|
| 11-10-05 | 4.50% | \$ 1,133,000 | Short-term note | State Aid grant reimbursements |
| 11-10-05 | 4.50% | 405,000 | Short-term note | FEMA grant reimbursements |
| 11-22-05 | 4.40% | 25,601 | Lease purchase | General Fund revenue |

Subsequent to the audit report date of March 23, 2006, 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> |
|-------------------|----------------------|---------------------|--------------------------|------------------------------|
| 05-16-06 | 3.75% | \$ 569,940 | Lease purchase | Road and Bridge Fund revenue |
| 06-26-06 | 4.10% | 168,000 | Other loan | Economic development revenue |

STONE COUNTY

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STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY

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

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ 3,133,549 | 3,133,032 | 3,140,272 | 7,240 |
| Licenses, commissions and other revenue | 173,451 | 201,786 | 194,546 | (7,240) |
| Fines and forfeitures | 294,500 | 296,968 | 296,968 | |
| Intergovernmental revenues | 453,737 | 410,147 | 410,147 | |
| Charges for services | 120,000 | 130,678 | 130,678 | |
| Interest income | 15,000 | 12,238 | 12,238 | |
| Miscellaneous revenues | 107,383 | 108,676 | 108,676 | |
| Total Revenues | <u>4,297,620</u> | <u>4,293,525</u> | <u>4,293,525</u> | <u>0</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 2,246,328 | 2,289,941 | 2,289,941 | |
| Public safety | 1,754,897 | 1,816,800 | 1,816,800 | |
| Public works | 2,000 | 4,211 | 4,211 | |
| Health and welfare | 182,484 | 188,636 | 188,636 | |
| Culture and recreation | 80,780 | 78,479 | 78,479 | |
| Conservation of natural resources | 45,530 | 45,980 | 45,980 | |
| Economic development and assistance | 12,700 | 12,259 | 12,259 | |
| Total Expenditures | <u>4,324,719</u> | <u>4,436,306</u> | <u>4,436,306</u> | <u>0</u> |
| Excess of Revenues over (under) Expenditures | <u>(27,099)</u> | <u>(142,781)</u> | <u>(142,781)</u> | <u>0</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | | 27,637 | 27,637 | |
| Transfers in | | 72,177 | 72,177 | |
| Other financing sources | 28,000 | | | |
| Total Other Financing Sources and Uses | <u>28,000</u> | <u>99,814</u> | <u>99,814</u> | <u>0</u> |
| Net Change in Fund Balance | 901 | (42,967) | (42,967) | |
| Fund Balances - Beginning | <u>130,773</u> | <u>211,266</u> | <u>211,266</u> | |
| Fund Balances - Ending | <u>\$ 131,674</u> | <u>168,299</u> | <u>168,299</u> | <u>0</u> |

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

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Road and Bridge Fund
 For the Year Ended September 30, 2005

| | Original Budget | Final Budget | Actual (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|---|--------------------|--------------------|--------------------------------|---|
| REVENUES | | | | |
| Property taxes | \$ | 440 | 440 | |
| Road and bridge privilege taxes | 142,000 | 160,309 | 160,309 | |
| Intergovernmental revenues | 625,500 | 631,365 | 631,365 | |
| Charges for services | 2,000 | | | |
| Interest income | | 567 | 567 | |
| Miscellaneous revenues | | 45 | 45 | |
| Total Revenues | <u>769,500</u> | <u>792,726</u> | <u>792,726</u> | <u>0</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | <u>1,456,573</u> | <u>1,914,702</u> | <u>1,914,702</u> | |
| Total Expenditures | <u>1,456,573</u> | <u>1,914,702</u> | <u>1,914,702</u> | <u>0</u> |
| Excess of Revenues over (under) Expenditures | <u>(687,073)</u> | <u>(1,121,976)</u> | <u>(1,121,976)</u> | <u>0</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Long-term capital debt issued | | 849,230 | 849,230 | |
| Proceeds from sale of capital assets | | 221,400 | 221,400 | |
| Compensation for loss of capital assets | | 600 | 600 | |
| Other financing sources | 689,060 | | | |
| Total Other Financing Sources and Uses | <u>689,060</u> | <u>1,071,230</u> | <u>1,071,230</u> | <u>0</u> |
| Net Change in Fund Balance | 1,987 | (50,746) | (50,746) | |
| Fund Balances - Beginning | <u>215,168</u> | <u>292,232</u> | <u>296,956</u> | <u>4,724</u> |
| Fund Balances - Ending | <u>\$ 217,155</u> | <u>241,486</u> | <u>246,210</u> | <u>4,724</u> |

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

STONE COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2005

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

| | <u>Governmental Fund Types</u> | |
|--|--------------------------------|----------------------------|
| | General Fund | Road and Bridge Fund |
| Budget (Cash Basis) | \$ (42,967) | (50,746) |
| Increase (Decrease) | | |
| Net adjustments for revenue accruals | 2,582,626 | (323,994) |
| Net adjustments for expenditure accruals | <u>(2,286,942)</u> | <u>565,256</u> |
| GAAP Basis | <u>\$ 252,717</u> | <u>190,516</u> |

STONE COUNTY

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STONE COUNTY

SUPPLEMENTAL INFORMATION

STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| MAJOR FEDERAL AWARDS | | | |
| U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance | 97.036 | 1604-DR-MS | \$ <u>2,223,412</u> |
| Total Expenditures of Major Federal Awards | | | <u>2,223,412</u> |
| OTHER FEDERAL AWARDS | | | |
| U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program | 14.228 | 1120-03-066-PF-01 | 42,806 |
| Community development block grants/state's program | 14.228 | 01-066-STEP-01 | <u>3,000</u> |
| Total U.S. Department of Housing and Urban Development | | | <u>45,806</u> |
| U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction | 20.205 | ER-0066(24)B | 285,845 |
| Highway planning and construction | 20.205 | N/A | 770 |
| Pipeline and Hazardous Materials Safety Administration/ Passed-through the Mississippi Emergency Management Agency Interagency hazardous materials public sector training and planning grants | 20.703 | LEP5-SC-011 | <u>1,155</u> |
| Total U.S. Department of Transportation | | | <u>287,770</u> |

STONE COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2005

| Federal Grantor/ Pass-through Grantor/ Program Title | Federal CFDA Number | Agency or Pass-through Number | Federal Expenditures |
|--|---------------------------|-------------------------------------|-------------------------|
| U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Homeland Security Cluster | | | |
| State domestic preparedness equipment support program | 97.004 | 3SSG-2052 | 21,292 |
| State domestic preparedness equipment support program | 97.004 | 3SUP-47 | 22,551 |
| State domestic preparedness equipment support program | 97.004 | 2DPG-63 | 24,976 |
| Passed-through the Mississippi Department of Public Safety/ Office of Homeland Security | | | |
| State domestic preparedness equipment support program | 97.004 | 04LE066 | 23,912 |
| Total U.S. Department of Homeland Security | | | 92,731 |
| Total Expenditures of Other Federal Awards | | | 426,307 |
| Total Expenditures of Federal Awards | | | \$ 2,649,719 |

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

STONE COUNTY
 Reconciliation of Operating Costs of Solid Waste
 For the Year Ended September 30, 2005

Operating Expenditures, Cash Basis:

| | |
|---|------------------------------|
| Salaries | \$ 176,275 |
| Contractual services | 141,727 |
| Expendable commodities: | |
| Gasoline and petroleum products | 12,730 |
| Repair parts | 6,447 |
| Clothing | 3,558 |
| Maintenance | 13,186 |
| Insurance on equipment | 4,389 |
| Debt service | <u>4,119</u> |
| Solid Waste Cash Basis Operating Expenditures | 362,431 |
| Full Cost Expenses: | |
| Indirect administrative costs | 8,643 |
| Depreciation on equipment | <u>36,732</u> |
| Solid Waste Full Cost Operating Expenses | \$ <u><u>407,806</u></u> |

STONE COUNTY

SPECIAL REPORTS

STONE COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the primary government financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated March 23, 2006. 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.

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 opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

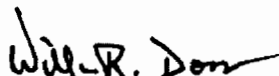
Compliance and Other Matters

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

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



PHIL BRYANT
State Auditor



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

March 23, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Stone County, Mississippi

Compliance

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

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

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

Internal Control Over Compliance

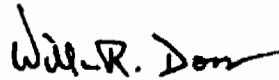
The management of Stone County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Stone County, Mississippi's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

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

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



PHIL BRYANT
State Auditor



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

March 23, 2006



State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

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

Members of the Board of Supervisors
Stone County, Mississippi

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

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

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

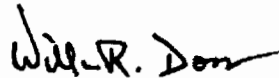
In our opinion, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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.



PHIL BRYANT
State Auditor



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

March 23, 2006

STONE COUNTY

Schedule 1

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

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

STONE COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2005

Schedule 2

| <u>Date</u> | <u>Item Purchased</u> | <u>Amount Paid</u> | <u>Vendor</u> | <u>Reason for Emergency Purchase</u> |
|-------------|-----------------------------|--------------------|--------------------|---|
| 01-04-05 | Repairs to E-911 telephones | \$ 1,162 | UCI Communications | Weekend repairs needed for the Emergency-911 telephone system |

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2005

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

STONE COUNTY

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STONE COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONE COUNTY

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STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Internal control over major programs: | |
| a. | Material weakness identified? | No |
| b. | Reportable condition identified that is not considered to be a material weakness? | No |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit finding reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal program identified as a major program: Disaster grants - public assistance, CFDA #97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section _____.315(b) of OMB Circular A-133? | No |

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Federal Award Findings and Questioned Costs

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