

STONE COUNTY, MISSISSIPPI

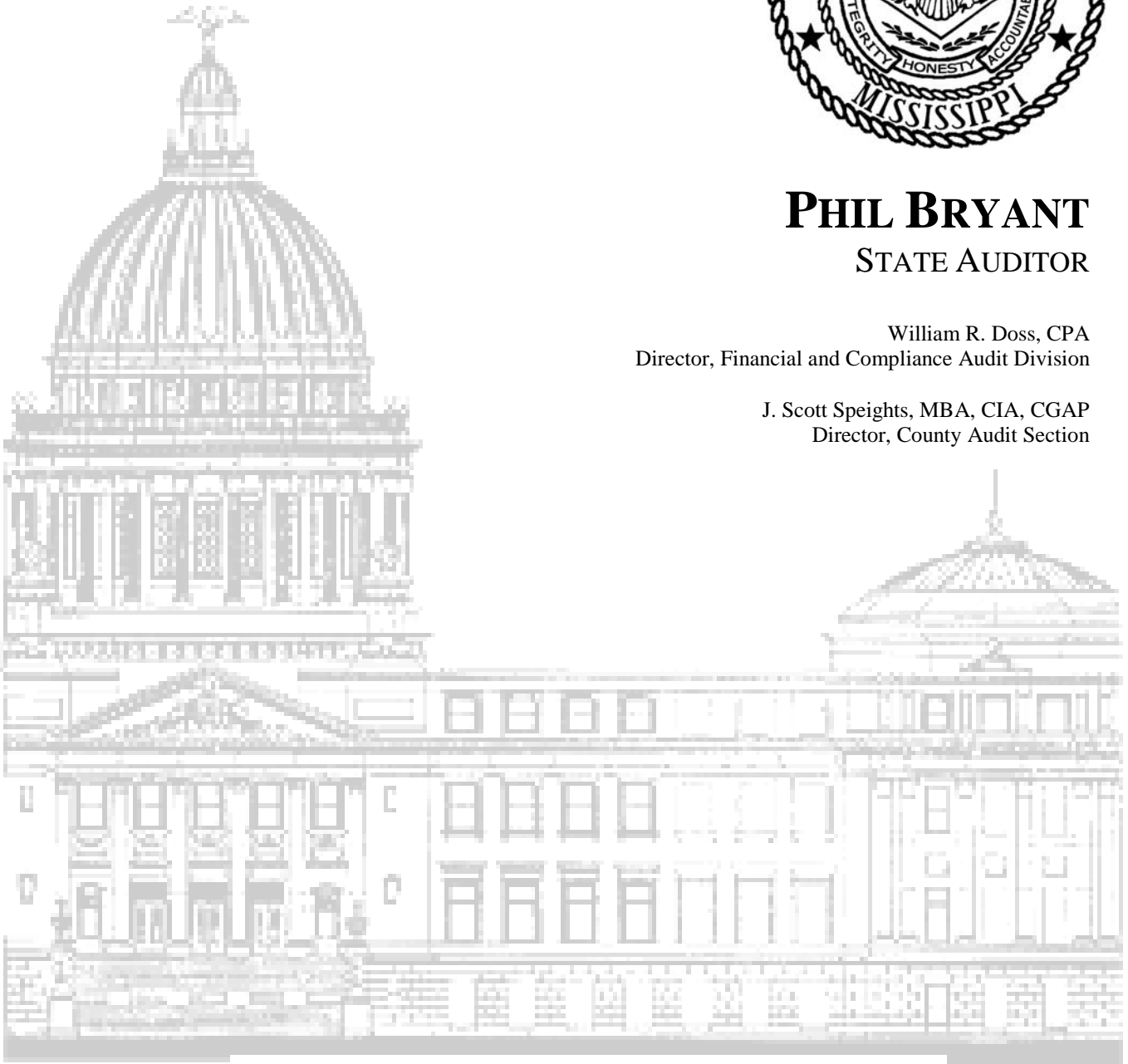
Audited Primary Government Financial Statements and Special Reports
For the Year Ended September 30, 2006



PHIL BRYANT
STATE AUDITOR

William R. Doss, CPA
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Director, County Audit Section



A Report from the County Audit Section

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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, 2006, 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, 2006, 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, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2007, 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.

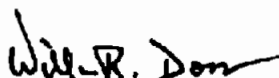
Stone County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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, 2007
[Except for Note 18 to which the date is June 29, 2007]

STONE COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

STONE COUNTY
Statement of Net Assets
September 30, 2006

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 2,396,589	2,792,196	5,188,785
Property tax receivable	3,279,956		3,279,956
Fines receivable (net of allowance for uncollectibles of \$265,776)	141,692		141,692
Loans receivable	22,439		22,439
Allowance for uncollectible accounts	(22,439)		(22,439)
Intergovernmental receivables	2,984,442	308,022	3,292,464
Other receivables	2,303		2,303
Internal balances	147,881	(147,881)	
Capital assets:			
Land and construction in progress	394,452	12,957	407,409
Other capital assets, net	5,624,570	4,523,455	10,148,025
Total Assets	<u>14,971,885</u>	<u>7,488,749</u>	<u>22,460,634</u>
LIABILITIES			
Claims payable	3,255,965	76,734	3,332,699
Claims and judgments payable	154,349		154,349
Intergovernmental payables	172,333		172,333
Accrued interest payable		119,680	119,680
Deferred revenue	3,279,956		3,279,956
Unearned revenue	265,580		265,580
Other payables	25,441		25,441
Long-term liabilities			
Due within one year:			
Capital debt	589,567	252,690	842,257
Due in more than one year:			
Capital debt	2,728,883	4,700,000	7,428,883
Non-capital debt	76,689	26,478	103,167
Total Liabilities	<u>10,548,763</u>	<u>5,175,582</u>	<u>15,724,345</u>
NET ASSETS			
Invested in capital assets, net of related debt	2,700,572	(416,278)	2,284,294
Restricted:			
Expendable:			
Debt service	117,570		117,570
Public safety	10,515	2,729,445	2,739,960
Public works	887,777		887,777
Health and welfare	95		95
Culture and recreation	5,365		5,365
Economic development	94,912		94,912
Unemployment compensation	43,592		43,592
Unrestricted	562,724		562,724
Total Net Assets	<u>\$ 4,423,122</u>	<u>2,313,167</u>	<u>6,736,289</u>

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

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2006

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	\$ 3,114,052	562,032	121,602	5,500	(2,424,918)		(2,424,918)
Public safety	4,912,626	182,815	3,373,897	71,543	(1,284,371)		(1,284,371)
Public works	23,281,413		22,274,367		(1,007,046)		(1,007,046)
Health and welfare	182,159		51,098		(131,061)		(131,061)
Culture and recreation	103,027				(103,027)		(103,027)
Conservation of natural resources	44,150				(44,150)		(44,150)
Economic development and assistance	101,864		80,232		(21,632)		(21,632)
Interest on long-term debt	112,603				(112,603)		(112,603)
Total Governmental Activities	<u>31,851,894</u>	<u>744,847</u>	<u>25,901,196</u>	<u>77,043</u>	<u>(5,128,808)</u>	<u>0</u>	<u>(5,128,808)</u>
Business-type activities:							
Correctional Facility	<u>2,701,843</u>	<u>3,011,143</u>	<u>27,149</u>			<u>336,449</u>	<u>336,449</u>
Total Business-type Activities	<u>2,701,843</u>	<u>3,011,143</u>	<u>27,149</u>	<u>0</u>	<u>0</u>	<u>336,449</u>	<u>336,449</u>
Total Primary Government	<u>\$ 34,553,737</u>	<u>3,755,990</u>	<u>25,928,345</u>	<u>77,043</u>	<u>(5,128,808)</u>	<u>336,449</u>	<u>(4,792,359)</u>
General revenues:							
Property taxes					\$ 4,545,578		4,545,578
Road & bridge privilege taxes					185,964		185,964
Grants and contributions not restricted to specific programs					284,883		284,883
Unrestricted interest income					45,894	107,410	153,304
Miscellaneous					436,557		436,557
Transfers					(23,942)	23,942	0
Total General Revenues and Transfers					<u>5,474,934</u>	<u>131,352</u>	<u>5,606,286</u>
Changes in Net Assets					<u>346,126</u>	<u>467,801</u>	<u>813,927</u>
Net Assets - Beginning					4,098,155	1,832,409	5,930,564
Prior period adjustments					(21,159)	12,957	(8,202)
Net Assets - Beginning, as restated					<u>4,076,996</u>	<u>1,845,366</u>	<u>5,922,362</u>
Net Assets - Ending					<u>\$ 4,423,122</u>	<u>2,313,167</u>	<u>6,736,289</u>

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

STONE COUNTY
Balance Sheet - Governmental Funds
September 30, 2006

Exhibit 3

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Fund	Hurricane Katrina Fund		
ASSETS					
Cash	\$ 767,001	631,838	75,214	922,536	2,396,589
Property tax receivable	2,545,239	129,028		605,689	3,279,956
Fines receivable (net of allowance for uncollectibles of \$265,776)	141,692				141,692
Loans receivable	22,439				22,439
Allowance for uncollectible accounts	(22,439)				(22,439)
Intergovernmental receivables	109,008		2,875,434		2,984,442
Other receivables	2,303				2,303
Due from other funds	8,771	17,192		20,793	46,756
Advances to other funds	305,624	8,369			313,993
Total Assets	\$ 3,879,638	786,427	2,950,648	1,549,018	9,165,731
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 149,816	42,529	2,965,662	97,958	3,255,965
Claims and judgments payable	154,349				154,349
Intergovernmental payables	159,505				159,505
Due to other funds	50,813				50,813
Advances from other funds	8,369			166,514	174,883
Deferred revenue	2,686,931	129,028		605,689	3,421,648
Unearned revenue				265,580	265,580
Other payables	25,441				25,441
Total Liabilities	3,235,224	171,557	2,965,662	1,135,741	7,508,184
Fund balances:					
Reserved for:					
Debt service				117,570	117,570
Advances	305,624	8,369			313,993
Unemployment compensation				43,592	43,592
Unreserved - undesignated, reported in:					
General Fund	338,790				338,790
Special Revenue Funds		606,501	(15,014)	369,327	960,814
Capital Project Funds				(117,212)	(117,212)
Total Fund Balances	644,414	614,870	(15,014)	413,277	1,657,547
Total Liabilities and Fund Balances	\$ 3,879,638	786,427	2,950,648	1,549,018	9,165,731

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, 2006

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 1,657,547
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$3,415,702.	6,019,022
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	141,692
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(3,395,139)</u>
Total Net Assets - Governmental Activities	<u>\$ 4,423,122</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, 2006

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Fund	Hurricane Katrina Fund		
REVENUES					
Property taxes	\$ 3,477,134	2,876		1,065,568	4,545,578
Road and bridge privilege taxes		185,964			185,964
Licenses, commissions and other revenue	139,306			7,605	146,911
Fines and forfeitures	399,458			20,347	419,805
Intergovernmental revenues	501,304	707,762	24,833,117	220,939	26,263,122
Charges for services	147,281				147,281
Interest income	32,701	5,855		7,338	45,894
Miscellaneous revenues	138,318	468		110,719	249,505
Total Revenues	<u>4,835,502</u>	<u>902,925</u>	<u>24,833,117</u>	<u>1,432,516</u>	<u>32,004,060</u>
EXPENDITURES					
Current:					
General government	2,318,711		295,380	195,442	2,809,533
Public safety	1,744,366		2,965,493	356,549	5,066,408
Public works		1,264,846	21,557,400	476,827	23,299,073
Health and welfare	182,159				182,159
Culture and recreation	88,837			3,524	92,361
Conservation of natural resources	44,150				44,150
Economic development and assistance	10,223			259,641	269,864
Debt service:					
Principal	20,590	539,294		371,320	931,204
Interest	1,385	16,356		94,862	112,603
Total Expenditures	<u>4,410,421</u>	<u>1,820,496</u>	<u>24,818,273</u>	<u>1,758,165</u>	<u>32,807,355</u>
Excess of Revenues over (under) Expenditures	<u>425,081</u>	<u>(917,571)</u>	<u>14,844</u>	<u>(325,649)</u>	<u>(803,295)</u>
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	25,601	569,940		168,000	763,541
Proceeds from sale of capital assets		573,810			573,810
Compensation for loss of capital assets	8,693	1,759	176,600		187,052
Transfers in	33,266	149,250		167,909	350,425
Transfers out	(167,909)		(206,458)		(374,367)
Total Other Financing Sources and Uses	<u>(100,349)</u>	<u>1,294,759</u>	<u>(29,858)</u>	<u>335,909</u>	<u>1,500,461</u>
Net Changes in Fund Balances	<u>324,732</u>	<u>377,188</u>	<u>(15,014)</u>	<u>10,260</u>	<u>697,166</u>
Fund Balances - Beginning	385,647	237,682		403,017	1,026,346
Prior period adjustment	(65,965)				(65,965)
Fund Balances - Beginning, as restated	<u>319,682</u>	<u>237,682</u>	<u>0</u>	<u>403,017</u>	<u>960,381</u>
Fund Balances - Ending	<u>\$ 644,414</u>	<u>614,870</u>	<u>(15,014)</u>	<u>413,277</u>	<u>1,657,547</u>

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

STONE COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended September 30, 2006

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 697,166
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 \$921,202 exceeded depreciation of \$646,807 in the current period.	274,395
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of \$61,999, and the proceeds from the sale of \$573,810 and the compensation for loss of capital assets of \$187,052 in the current period.	(822,861)
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.	30,850
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 payments of \$931,204 exceeded debt proceeds of \$763,541.	167,663
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. Thus, the change in net assets differs from the change in fund balances by the amount of the increase in compensated absences.	<u>(1,087)</u>
Change in Net Assets of Governmental Activities	<u>\$ 346,126</u>

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

STONE COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2006

Exhibit 5

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Correctional Facility Fund</u>
ASSETS	
Current assets:	
Cash	\$ 2,792,196
Intergovernmental receivables	308,022
Total Current Assets	<u>3,100,218</u>
Noncurrent assets:	
Capital assets:	
Land	12,957
Other capital assets, net	4,523,455
Total Noncurrent Assets	<u>4,536,412</u>
Total Assets	<u>7,636,630</u>
LIABILITIES	
Current liabilities:	
Claims payable	76,734
Due to other funds	8,771
Advances from other funds	139,110
Accrued interest payable	119,680
Capital debt:	
Capital leases payable	7,690
Other long-term liabilities	245,000
Total Current Liabilities	<u>596,985</u>
Noncurrent liabilities:	
Capital debt:	
Other long-term liabilities	4,700,000
Non-capital debt:	
Compensated absences payable	26,478
Total Noncurrent Liabilities	<u>4,726,478</u>
NET ASSETS	
Invested in capital assets, net of related debt	(416,278)
Restricted:	
Public safety	2,729,445
Total Net Assets	<u>\$ 2,313,167</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, 2006

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Correctional Facility Fund</u>
Operating Revenues	
Charges for services	\$ 3,011,143
Operating grants	27,149
Total Operating Revenues	<u>3,038,292</u>
Operating Expenses	
Personal services	1,440,113
Contractual services	392,004
Materials and supplies	456,669
Depreciation expense	112,434
Indirect administrative cost	8,771
Total Operating Expenses	<u>2,409,991</u>
Operating Income (Loss)	<u>628,301</u>
Nonoperating Revenues (Expenses)	
Interest income	107,410
Interest expense	(291,852)
Net Nonoperating Revenue (Expenses)	<u>(184,442)</u>
Net Income (Loss) Before Transfers	443,859
Transfers in	23,942
Changes in Net Assets	<u>467,801</u>
Net Assets - Beginning	1,832,409
Prior period adjustment	12,957
Net Assets - Beginning, as restated	<u>1,845,366</u>
Net Assets - Ending	<u>\$ 2,313,167</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, 2006

Exhibit 7

	<u>Business-type Activities - Enterprise Fund</u>
	<u>Correctional Facility Fund</u>
Cash Flows From Operating Activities	
Receipts from users	\$ 3,088,099
Payments to suppliers	(818,914)
Payments to employees	(1,443,070)
Other operating cash receipts	27,149
Net Cash Provided (Used) by Operating Activities	<u>853,264</u>
Cash Flows From Noncapital and Related Financing Activities	
Cash received from other funds:	
Operating transfers in	<u>23,942</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>23,942</u>
Cash Flows From Capital and Related Financing Activities	
Principal paid on long-term debt	(246,986)
Interest paid on debt	(298,081)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(545,067)</u>
Cash Flows From Investing Activities	
Interest on deposits	<u>107,410</u>
Net Cash Provided (Used) by Investing Activities	<u>107,410</u>
Net Increase (Decrease) in Cash and Cash Equivalents	439,549
Cash and Cash Equivalents at Beginning of Year	<u>2,352,647</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,792,196</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ <u>628,301</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	112,434
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivables	76,956
Increase (decrease) in claims payable	29,759
Increase (decrease) in compensated absences liability	(2,957)
Increase (decrease) in interfund payables	8,771
Total Adjustments	<u>224,963</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 853,264</u>

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

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2006

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 228,051
Due from other funds	12,828
Other receivables	56
Total Assets	<u>\$ 240,935</u>
LIABILITIES	
Amounts held in custody for others	\$ 67,291
Intergovernmental payables	173,644
Total Liabilities	<u>\$ 240,935</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, 2006

(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 are generally financed through taxes, intergovernmental revenues and other nonexchange revenues and are reported separately from business-type activities. Business-type activities rely mainly on fees and charges for support.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2006

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

Fund Financial Statements:

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

C. Measurement Focus and Basis of Accounting.

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

The county's 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.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2006

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

The county reports the following major Governmental Funds:

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

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

Hurricane Katrina Fund - This fund is used to account for monies from specific revenue sources that are restricted for Hurricane Katrina expenditures.

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.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

E. Deposits and Investments.

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

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. 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.

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
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.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2006

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

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."

Fund Financial Statements:

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

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

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.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

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.

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

Governmental Activities:

<u>Explanation</u>	<u>Amount</u>
To correct beginning balance of capital assets	\$ 44,806
To correct beginning balance of intergovernmental payables	<u>(65,965)</u>
Total prior period adjustments	<u>\$ (21,159)</u>

Business-type Activities:

<u>Explanation</u>	<u>Amount</u>
To correct beginning balance of capital assets	<u>\$ 12,957</u>

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

<u>Explanation</u>	<u>Amount</u>
To correct beginning balance of intergovernmental payables	<u>\$ (65,965)</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

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

<u>Explanation</u>	<u>Amount</u>
To correct beginning balance of capital assets	\$ <u>12,957</u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$5,416,836, and the bank balance was \$5,662,780. 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.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Correctional Facility	\$ 8,771
Road and Bridge	General	17,192
Other Governmental Funds	General	20,793
Agency Funds	General	<u>12,828</u>
Total		\$ <u>59,584</u>

The General Fund receivable is the amount of indirect administrative costs due from the regional jail operations. All other receivables represent the tax revenues collected but not settled until October, 2006. All interfund balances are 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, 2006

B. Advances from/to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Correctional Facility	\$ 139,110
General	Other Governmental Funds	166,514
Road and Bridge	General	<u>8,369</u>
Total		<u>\$ 313,993</u>

The receivables represent indirect administrative costs due from 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 expected to be repaid within one year from the date of the financial statements.

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Other Governmental Funds	General Fund	\$ 167,909
General Fund	Hurricane Katrina Fund	33,266
Road and Bridge Fund	Hurricane Katrina Fund	149,250
Correctional Facility Fund	Hurricane Katrina Fund	<u>23,942</u>
Total		<u>\$ 374,367</u>

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2006, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 77,978
State domestic preparedness equipment support program	31,030
Disaster grants - public assistance	<u>2,875,434</u>
Total Governmental Activities	<u>\$ 2,984,442</u>
Business-type Activities:	
Reimbursement for housing prisoners	<u>\$ 308,022</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

(6) Loans Receivable.

Loans receivable balance at September 30, 2006, is 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.

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2006:

Governmental activities:

	<u>Balance Oct. 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments *</u>	<u>Balance Sept. 30, 2006</u>
<u>Non-depreciable capital assets:</u>					
Land	\$ 178,275	175,717		20,944	374,936
Construction in progress		19,516			19,516
Total non-depreciable capital assets	<u>178,275</u>	<u>195,233</u>	<u>0</u>	<u>20,944</u>	<u>394,452</u>
<u>Depreciable capital assets:</u>					
Infrastructure	179,810				179,810
Buildings	4,868,400		553,197	131,519	4,446,722
Mobile equipment	2,772,420	125,428	217,105	30,050	2,710,793
Furniture and equipment	173,714	5,000	5,500	69,496	242,710
Leased property under capital leases	1,495,496	595,541	521,800	(109,000)	1,460,237
Total depreciable capital assets	<u>9,489,840</u>	<u>725,969</u>	<u>1,297,602</u>	<u>122,065</u>	<u>9,040,272</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	7,127	1,600			8,727
Buildings	928,083	92,257	188,105	18,144	850,379
Mobile equipment	1,830,983	182,603	97,790	19,800	1,935,596
Furniture and equipment	157,011	13,557	990	60,259	229,837
Leased property under capital leases	222,229	356,790	187,856		391,163
Total accumulated depreciation	<u>3,145,433</u>	<u>646,807</u>	<u>474,741</u>	<u>98,203</u>	<u>3,415,702</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sept. 30, 2006
Total depreciable capital assets, net	6,344,407	79,162	822,861	23,862	5,624,570
Governmental activities capital assets, net	\$ 6,522,682	274,395	822,861	44,806	6,019,022

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

Business-type activities:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sept. 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$			12,957	12,957
Total non-depreciable capital assets	0	0	0	12,957	12,957
<u>Depreciable capital assets:</u>					
Buildings	5,078,097				5,078,097
Mobile equipment	46,386			25,496	71,882
Furniture and equipment	58,046				58,046
Leased property under capital leases	54,175			(25,496)	28,679
Total depreciable capital assets	5,236,704	0	0	0	5,236,704
<u>Less accumulated depreciation for:</u>					
Buildings	503,085	100,618			603,703
Mobile equipment	45,699			14,592	60,291
Furniture and equipment	33,350	3,010			36,360
Leased property under capital leases	18,681	8,806		(14,592)	12,895
Total accumulated depreciation	600,815	112,434	0	0	713,249
Total depreciable capital assets, net	4,635,889	(112,434)	0	0	4,523,455
Business-type activities capital assets, net	\$ 4,635,889	(112,434)	0	12,957	4,536,412

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

Depreciation expense was charged to the following functions:

	<u>Amount</u>
Governmental Activities:	
General government	\$ 86,964
Public safety	144,171
Public works	405,006
Culture and recreation	<u>10,666</u>
Total governmental activities depreciation expense	\$ <u><u>646,807</u></u>
Business-type activities:	
Correctional Facility	\$ <u><u>112,434</u></u>

Commitments with respect to unfinished capital projects at September 30, 2006, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Softball field	\$ 0	May 31, 2007

The project will be completed with donated labor.

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$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, 2006, to January 1, 2007. 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 2005 and 2006:

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

	<u>2005</u>	<u>2006</u>
Unpaid Claims, Beginning of Fiscal Year	\$ 102,061	132,974
Plus: Incurred Claims (Including IBNRs)	1,080,529	1,171,279
Less: Claims Payments	<u>(1,049,616)</u>	<u>(1,149,904)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 132,974</u>	<u>154,349</u>

(9) Operating Leases.

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$73,464 for the year ended September 30, 2006. The future minimum lease payments for these leases are as follows:

<u>Year Ended September 30</u>	<u>Amount</u>
2007	\$ 68,414
2008	57,256
2009	41,941
2010	36,940
2011	36,940
2012 - 2016	<u>67,723</u>
Total Minimum Payments Required	<u>\$ 309,214</u>

(10) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2006:

<u>Classes of Property</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Mobile equipment	\$ 1,460,237	28,679
Less: Accumulated depreciation	<u>391,163</u>	<u>12,895</u>
Leased Property Under Capital Leases	<u>\$ 1,069,074</u>	<u>15,784</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

The following is a schedule by years of the total payments due as of September 30, 2006:

Year Ending September 30	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 335,584	35,191	7,690	76
2008	254,809	24,963		
2009	351,991	12,938		
2010	150,584	5,745		
Total	\$ <u>1,092,968</u>	<u>78,837</u>	<u>7,690</u>	<u>76</u>

(11) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2006:

Description of Debt	Balance	Additions	Reductions	Adjustments	Balance
	Oct. 1, 2005				Sept. 30, 2006
FEMA anticipation notes	\$ <u>0</u>	<u>1,473,656</u>	<u>1,473,656</u>	<u>0</u>	<u>0</u>

On May 2, 2006, the county issued \$1,473,656 of FEMA anticipation notes with an interest rate of 4.5% in order to alleviate a temporary operating cash flow deficiency due to Hurricane Katrina. The notes were repaid on September 7, 2006.

(12) Long-term Debt.

Debt outstanding as of September 30, 2006, 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>1,700,000</u>	3.30/4.50%	03-18
B. Capital Leases:			
2005 Crown Victoria	\$ 10,295	3.28%	10-07
2005 Crown Victoria	14,657	3.19%	03-08
Durapatcher	9,269	4.75%	02-07
Duratank	2,548	4.75%	02-07
Garbage trucks	64,114	2.78%	09-07

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Two motor graders	254,674	3.04%	12-08
Five tractors and mowers	143,887	3.19%	03-09
2006 Crown Victoria	23,584	4.04%	06-09
Six Mack dump trucks	<u>569,940</u>	3.75%	06-10
Total Capital Leases	<u>\$ 1,092,968</u>		
C. Other Loans:			
Big Level fire truck	\$ 74,024	4.75%	05-08
Northwest VFD grant anticipation promissory note	34,823	3.50%	06-08
Rural fire protection project note	145,343	3.50%	07-10
Series 2005 Road Department note	103,292	3.50%	07-10
Economic industrial development promissory note	<u>168,000</u>	4.10%	06-11
Total Other Loans	<u>\$ 525,482</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Correctional facility	\$ <u>4,945,000</u>	5.30/6.50%	11-19
B. Capital Leases:			
Correctional facility car	\$ <u>7,690</u>	3.05%	05-07

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
2007	\$ 110,000	56,881	143,983	19,395
2008	115,000	52,509	147,957	13,604
2009	120,000	48,631	96,755	7,615
2010	125,000	44,589	100,393	4,553
2011	130,000	40,381	36,394	1,956
2012 - 2016	750,000	130,557		
2017 - 2018	<u>350,000</u>	<u>13,020</u>		
Total	<u>\$ 1,700,000</u>	<u>386,568</u>	<u>525,482</u>	<u>47,123</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

Business-type Activities:

<u>Year Ending September 30</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 245,000	297,270
2008	255,000	263,020
2009	270,000	245,958
2010	285,000	229,630
2011	300,000	213,977
2012 - 2016	1,780,000	794,022
2017 - 2019	<u>1,810,000</u>	<u>221,472</u>
Total	<u>\$ 4,945,000</u>	<u>2,265,349</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, 2006, the amount of outstanding debt was equal to 2.48% of the latest property assessments.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance</u>	<u>Amount due</u>
	<u>Oct. 1, 2005</u>				<u>Sept. 30, 2006</u>	<u>within one</u>
						<u>year</u>
Governmental Activities:						
Compensated absences	\$ 75,602	1,087			76,689	
General obligation bonds	1,805,000		105,000		1,700,000	110,000
Capital leases	1,214,278	595,541	716,851		1,092,968	335,584
Other loans	<u>466,835</u>	<u>168,000</u>	<u>109,353</u>		<u>525,482</u>	<u>143,983</u>
Total	<u>\$ 3,561,715</u>	<u>764,628</u>	<u>931,204</u>	<u>0</u>	<u>3,395,139</u>	<u>589,567</u>
Business-type Activities:						
Compensated absences	\$ 29,435		2,957		26,478	
Limited obligation bonds	5,175,000		230,000		4,945,000	245,000
Capital leases	<u>24,676</u>		<u>16,986</u>		<u>7,690</u>	<u>7,690</u>
Total	<u>\$ 5,229,111</u>	<u>0</u>	<u>249,943</u>	<u>0</u>	<u>4,979,168</u>	<u>252,690</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

(13) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2006:

Fund	Deficit Amount
Waste Tire Disposal Grant Fund	\$ 4,951
Courthouse Renovation Bond Fund	154,145
CMI Building Fund	11,410

(14) Contingencies.

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

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

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, 2006
General obligation hospital note	\$ <u>1,585,000</u>

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2006

(15) Joint Ventures.

The county participates in the following joint ventures:

Stone County is a participant with the Counties of Covington, Greene and Perry in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board. Each county appoints one board member with the appointment of the fifth member rotating annually among the counties. By contractual agreement, the county's appropriation to the joint venture was \$46,957 in fiscal year 2006. 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 2006. Complete financial statements for the Stone-Wiggins Airport Board can be obtained from 206 Big Four Road, Wiggins, Mississippi 39577.

(16) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Stone County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$11,000 for support of the district in fiscal year 2006.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$64,148 for support of the agency in fiscal year 2006.

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 \$612,212 for maintenance and support of the college in fiscal year 2006.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2006

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 2006 fiscal year was \$358,823.

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 2006.

(17) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the county is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 11.30% 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, 2006, 2005 and 2004 were \$332,739, \$313,532 and \$270,178, respectively, equal to the required contributions for each year.

(18) Subsequent Events.

Subsequent to September 30, 2006, Stone County issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
03-20-07	4.34%	\$ 26,837	Capital lease	Correctional Facility revenues

Subsequent to the audit report date of March 23, 2007, 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>
05-01-07	3.96%	\$ 3,000,000	Other loan	FEMA grant (grant anticipation note)
06-04-07	4.12%	586,002	Capital lease	Tax revenue
06-04-07	4.12%	48,501	Capital lease	Tax revenue

STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,341,534	3,601,910	3,601,910	
Licenses, commissions and other revenue	179,300	202,304	202,304	
Fines and forfeitures	318,500	377,586	377,586	
Intergovernmental revenues	597,563	381,800	381,800	
Charges for services	120,000	147,281	147,281	
Interest income	15,000	31,606	31,606	
Miscellaneous revenues	86,696	126,301	126,301	
Total Revenues	<u>4,658,593</u>	<u>4,868,788</u>	<u>4,868,788</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	2,467,700	2,320,428	2,320,428	
Public safety	1,868,301	1,708,738	1,708,738	
Public works	2,000	2,000	2,000	
Health and welfare	192,280	176,841	176,841	
Culture and recreation	82,080	87,893	87,893	
Conservation of natural resources	46,030	43,691	43,691	
Economic development and assistance	12,500	10,223	10,223	
Total Expenditures	<u>4,670,891</u>	<u>4,349,814</u>	<u>4,349,814</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(12,298)</u>	<u>518,974</u>	<u>518,974</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued		25,601	25,601	
Transfers in		76,754	76,754	
Transfers out	8,473	(76,755)	(76,755)	
Other financing sources	120,771	21,193	21,193	
Total Other Financing Sources and Uses	<u>129,244</u>	<u>46,793</u>	<u>46,793</u>	<u>0</u>
Net Change in Fund Balance	116,946	565,767	565,767	0
Fund Balances - Beginning	<u>131,674</u>	<u>168,299</u>	<u>168,299</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 248,620</u>	<u>734,066</u>	<u>734,066</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, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$	130	130	
Road and bridge privilege taxes	142,000	185,964	185,964	
Intergovernmental revenues	744,360	857,013	857,013	
Interest income	1,000	5,855	5,855	
Miscellaneous revenues	97,628	468	468	
Total Revenues	<u>984,988</u>	<u>1,049,430</u>	<u>1,049,430</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works		1,802,431	1,802,431	
Total Expenditures	<u>0</u>	<u>1,802,431</u>	<u>1,802,431</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>984,988</u>	<u>(753,001)</u>	<u>(753,001)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	644,557	569,940	569,940	
Proceeds from sale of capital assets		574,910	574,910	
Compensation for loss of capital assets		1,759	1,759	
Total Other Financing Sources and Uses	<u>644,557</u>	<u>1,146,609</u>	<u>1,146,609</u>	<u>0</u>
Net Change in Fund Balance	1,629,545	393,608	393,608	0
Fund Balances - Beginning	<u>0</u>	<u>238,231</u>	<u>238,231</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 1,629,545</u>	<u>631,839</u>	<u>631,839</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)
 Hurricane Katrina Fund
 For the Year Ended September 30, 2006

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$	24,260,494	24,260,494	
Total Revenues	<u>0</u>	<u>24,260,494</u>	<u>24,260,494</u>	<u>0</u>
EXPENDITURES				
Current:				
General government		283,894	283,894	
Public safety		12,609	12,609	
Public works		25,539,030	25,539,030	
Total Expenditures	<u>0</u>	<u>25,835,533</u>	<u>25,835,533</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>(1,575,039)</u>	<u>(1,575,039)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term non-capital debt issued		1,473,653	1,473,653	
Compensation for loss of capital assets		176,600	176,600	
Total Other Financing Sources and Uses	<u>0</u>	<u>1,650,253</u>	<u>1,650,253</u>	<u>0</u>
Net Change in Fund Balance	0	75,214	75,214	0
Fund Balances - Beginning	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>75,214</u>	<u>75,214</u>	<u>0</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, 2006

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Road and</u>	<u>Hurricane</u>
	<u>Fund</u>	<u>Bridge</u>	<u>Katrina</u>
		<u>Fund</u>	<u>Fund</u>
Budget (Cash Basis)	\$ 565,767	393,608	75,214
Increase (Decrease)			
Net adjustments for revenue accruals	(89,274)	1,645	1,608,238
Net adjustments for expenditure accruals	<u>(151,761)</u>	<u>(18,065)</u>	<u>(1,698,466)</u>
GAAP Basis	<u>\$ 324,732</u>	<u>377,188</u>	<u>(15,014)</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, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	ER-0066 24B	\$ 1,070,214
Highway planning and construction	20.205	N/A	<u>9,730</u>
Total U.S. Department of Transportation			<u>1,079,944</u>
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	1604-DR-MS	<u>23,847,371</u>
Total Expenditures of Major Federal Awards			<u>24,927,315</u>
OTHER FEDERAL AWARDS			
U.S. Department of Justice - Office of Justice Programs/Passed-through the Mississippi Department of Public Safety Edward Byrne memorial justice assistance grant program	16.738	06HR1661	19,269
Edward Byrne memorial justice assistance grant program	16.738	05HR1661	<u>16,752</u>
Total U.S. Department of Justice			<u>36,021</u>
U.S. Department of Energy - Office of Environmental Management/Passed-through the Mississippi Emergency Management Agency Transport of transuranic wastes to the waste isolation pilot plant	81.106	N/A	<u>10,000</u>
General Services Administration - U.S. Election Assistance Commission/ Passed-through the Mississippi Secretary of State's Office Help America Vote Act requirements payments (Note B)	90.401	N/A	<u>90,422</u>
U.S. Department of Health and Human Services - Administration for Children and Families/Passed-through the Mississippi Secretary of State's Office Voting access for individuals with disabilities_grants to states	93.617	N/A	<u>5,500</u>

STONE COUNTY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2006

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 Department of Public Safety Office of Homeland Security Homeland Security Cluster			
State domestic preparedness equipment support program	97.004	05LE066	31,030
State domestic preparedness equipment support program	97.004	04CS066	<u>8,761</u>
Total U.S. department of Homeland Security			<u>39,791</u>
Total Expenditures of Other Federal Awards			<u>181,734</u>
Total Expenditures of Federal Awards			<u>\$ 25,109,049</u>

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.

Note B - Help America Vote Act requirements payments (CFDA #90.401)

Of the federal expenditures presented in the schedule, federal awards totaling \$90,422 represent non-cash awards for computerized voting machines during the fiscal year ended September 30, 2006.

STONE COUNTY
Reconciliation of Operating Costs of Solid Waste
For the Year Ended September 30, 2006

Operating Expenditures, Cash Basis:

Salaries	\$	177,447
Contractual services		135,397
Expendable commodities:		
Gasoline and petroleum products		31,482
Repair parts		12,764
Clothing		1,888
Maintenance		4,266
Insurance on equipment		3,154
Supplies		7,025
Interest		<u>2,725</u>
Solid Waste Cash Basis Operating Expenditures		376,148
Full Cost Expenses:		
Indirect administrative costs		2,080
Depreciation on equipment		<u>36,726</u>
Solid Waste Full Cost Operating Expenses	\$	<u><u>414,954</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, 2006, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated March 23, 2007. 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

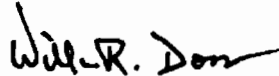
As part of obtaining reasonable assurance about whether Stone County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could 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*.

However, we noted certain immaterial instances of noncompliance which we have reported to the management of Stone County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated March 23, 2007 included within this document.

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, 2007



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 each of its major federal programs for the year ended September 30, 2006. Stone County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Stone County, Mississippi's management. Our responsibility is to express an opinion on Stone County, Mississippi's compliance based on our audit.

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

In our opinion, Stone County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

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.

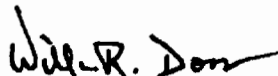
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Stone County, Mississippi's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1 and 06-2.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions described above 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, 2007



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, 2006. 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, 2007

STONE COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2006

Schedule 1

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, 2006

Schedule 2

Our test results identified that all emergency purchases were under a Hurricane Katrina emergency declaration order.

STONE COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2006

Schedule 3

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

STONE COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
PHIL BRYANT
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2006, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated March 23, 2007, on the financial statements of Stone County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your responses are disclosed below:

Chancery Clerk.

1. Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. Warrants were issued on funds which did not have sufficient money to pay the warrants. At September 30, 2006, the Waste Tire Disposal Grant Fund had a negative cash balance of \$4,951, the Courthouse Renovation Bond Fund had a negative cash balance of \$154,145 and the CMI Building Fund had a negative cash balance of \$11,410.

Recommendation

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

Chancery Clerk's Response

Each fund that did not have sufficient cash balances are reimbursable funds in which the money has to be expended before the proceeds can be reimbursed.

Sheriff.

2. Finding

An effective system of internal control over the canteen fund should include an adequate separation of duties and the maintenance and reconciliation of records documenting cash collections. Controls were inadequate over cash. The following deficiencies were noted:

- a. The duties of the bookkeeper included preparing deposits, reconciling the cash journal to the bank statements, preparing settlements and disbursing funds. The work of the bookkeeper was not reviewed by another person.
- b. Collections were not deposited on a daily basis.
- c. A cash balance was not maintained in the cash journal.
- d. The cash journal was not reconciled to the bank statements.
- e. All collections had not been settled to the proper parties. An outstanding balance of \$37,355 had not been settled.

The failure to implement adequate controls over the collection, recording and disbursement functions could result in inaccurate reporting, incomplete settlements and the increased the possibility of the loss or misappropriation of public funds.

Recommendation

The Sheriff should ensure that there is an adequate separation of duties in the collecting, recording and settlement functions. The Sheriff should ensure that funds are deposited on a daily basis, that cash journals are properly maintained and reconciled monthly to the bank statements and that funds are properly settled to the county.

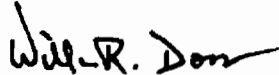
Sheriff's Response

The collections are now being deposited daily. We have new software that will keep a cash journal and will carry cash balances. We now have another employee that will take the deposits to the bank. For four years we asked the previous auditors how to settle this overage; this year we were told to settle the medical fees back into the revenue fund and the overage into the inmate welfare account; we have begun this process.

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



PHIL BRYANT
State Auditor



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

March 23, 2007

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, 2006

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? | None reported |
| 3. | Noncompliance material to the primary government financial statements? | No |

Federal Awards:

- | | | |
|-----|--|-------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | Yes |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | 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? | Yes |
| 7. | Federal programs identified as major programs: | |
| | a. Highway planning and construction, CFDA # 20.205 | |
| | b. Disaster grants - public assistance, CFDA # 97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$753,271 |
| 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*.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section 3: Federal Award Findings and Questioned Costs

06-1. Finding

20.205 Highway Planning and Construction
Grant number ER-0066 24B
U.S. Department of Transportation/Passed-through
the Mississippi Department of Transportation

Reportable Condition - Material Weakness

Compliance Requirement: Allowable Costs/Cost Principles - Controls over Allowable Costs Should Be Strengthened

The Basic Guidelines, Section 1j of OMB *Circular A-87*, requires that costs be adequately documented. Internal controls are required to be in place to ensure that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

The county should have an adequate monitoring system in place to ensure that the cost charged for debris removal is allowable. The monitoring system should include the custody, validity and accounting for the load tickets. Load tickets are prepared for each load of debris, then totaled to account for the amount of debris removed. During our audit testing procedures, the following deficiencies in controls were noted:

- a. The custody of the load tickets was inadequate. The boxes of the load tickets were not safeguarded; several employees had routine access to the load tickets and a log was not maintained of the distribution of the load tickets.
- b. The load tickets were pre-numbered; however, the load tickets were not used in numerical order. The monitors did not develop an adequate system of accounting for all pre-numbered tickets.
- c. The load tickets generated during the debris pickup process were not reconciled to the load tickets completed by the tower monitor at the dump site. Payment for the debris pickup was calculated based on the completed load tickets prepared at the dump site.

Recommendation

The Stone County Board of Supervisors should take steps to ensure that controls are in place to ensure costs incurred are allowable and that supporting records document these costs as being true and accurate. An effective system of controls, including the custody of pre-numbered load tickets, should be in place to monitor the debris pickup process. Prior to final approval of the contractor invoice, the load tickets completed by the tower monitor should be reconciled to the load tickets generated by the load monitor.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

06-2. Finding

97.036 Disaster Grants - Public Assistance
 Grant number 1604-DR-MS
 U.S. Department of Homeland Security/Passed-through
 the Mississippi Emergency Management Agency

Reportable Condition - Material Weakness

Compliance Requirement: Allowable Costs/Cost Principles - Controls over Allowable Costs Should Be Strengthened

The Basic Guidelines, Section 1j of OMB *Circular A-87*, requires that costs be adequately documented. Internal controls are required to be in place to ensure that federal awards are expended only for allowable activities and that the costs of goods and services charged to federal awards are allowable and in accordance with the applicable cost principles.

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The Stone County Board of Supervisors should take steps to ensure that controls are in place to ensure costs incurred are allowable and that supporting records document these costs as being true and accurate. An effective system of controls, including the custody of pre-numbered load tickets, should be in place to monitor the debris pickup process. Prior to final approval of the contractor invoice, the load tickets completed by the tower monitor should be reconciled to the load tickets generated by the load monitor.

STONE COUNTY

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STONE COUNTY

AUDITEE'S CORRECTIVE ACTION PLAN

STONE COUNTY

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STONE COUNTY

BOARD OF SUPERVISORS

P. O. DRAWER 7 • WIGGINS, MISSISSIPPI 39577
PHONE: (601) 928-5266 • FAX: (601) 928-6464



CORRECTIVE ACTION PLAN

March 23, 2007

Office of the State Auditor
P.O. Box 956
Jackson, Mississippi 39205

Gentlemen:

Stone County respectfully submits the following corrective action plan for the year ended September 30, 2006.

The findings from the Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1: Summary of Auditor's Results, does not include findings and is not addressed.

SECTION 1: FEDERAL AWARD FINDINGS

06-01 Corrective Action Planned:

In response to the internal controls finding we concur that an effective monitoring system should include pre-numbered load tickets and adequate custody of tickets. The system designed for debris pickup in Stone County was designed to that effect. However, due to the magnitude and urgency of this disaster cleanup, when it was implemented in the field, it was impossible to manage. Therefore, the point of contact was at the tower, field supervision was strengthened to ensure eligible debris was collected and properly accounted for at the tower monitoring station. We feel that this change in the monitoring system resulted in adequate security and protection of eligible debris pickup. Daily reconciliation did occur from pre-numbered load tickets with the contractor's load tickets. To implement a system in a disaster debris cleanup with numerical order load tickets would require additional personnel and would result in a significant increase in monitoring cost. In the future, attention will be given to using a pre-numbered numerical load ticket system.

Anticipated Completion Date:

September 30, 2007

Name of Contact Person Responsible for Corrective Action:

President, Mr. Duncan Hatten

Duncan Hatten
District 5
President

Jill D. Holleman
District 1
Vice-President

Robert Williams
District 2

Bobby Parker
District 3

Wendell Patton, Sr.
District 4

Gerald W. Bond
Chancery Clerk

Thomas M. Matthews, Jr.
Attorney

06-02 Corrective Action Planned:

In response to the internal controls finding we concur that an effective monitoring system should include pre-numbered load tickets and adequate custody of tickets. The system designed for debris pickup in Stone County was designed to that effect. However, due to the magnitude and urgency of this disaster cleanup, when it was implemented in the field, it was impossible to manage. Therefore, the point of contact was at the tower, field supervision was strengthened to ensure eligible debris was collected and properly accounted for at the tower monitoring station. We feel that this change in the monitoring system resulted in adequate security and protection of eligible debris pickup. Daily reconciliation did occur from pre-numbered load tickets with the contractor's load tickets. To implement a system in a disaster debris cleanup with numerical order load tickets would require additional personnel and would result in a significant increase in monitoring cost. In the future, attention will be given to using a pre-numbered numerical load ticket system.

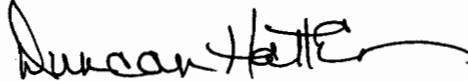
Anticipated Completion Date:

September 30, 2007

Name of Contact Person Responsible for Corrective Action:

President, Mr. Duncan Hatten

Sincerely yours,

A handwritten signature in black ink that reads "Duncan Hatten". The signature is written in a cursive style with a long, sweeping underline.

Duncan Hatten
President, Board of Supervisors
601-928-5266