

STONE COUNTY, MISSISSIPPI

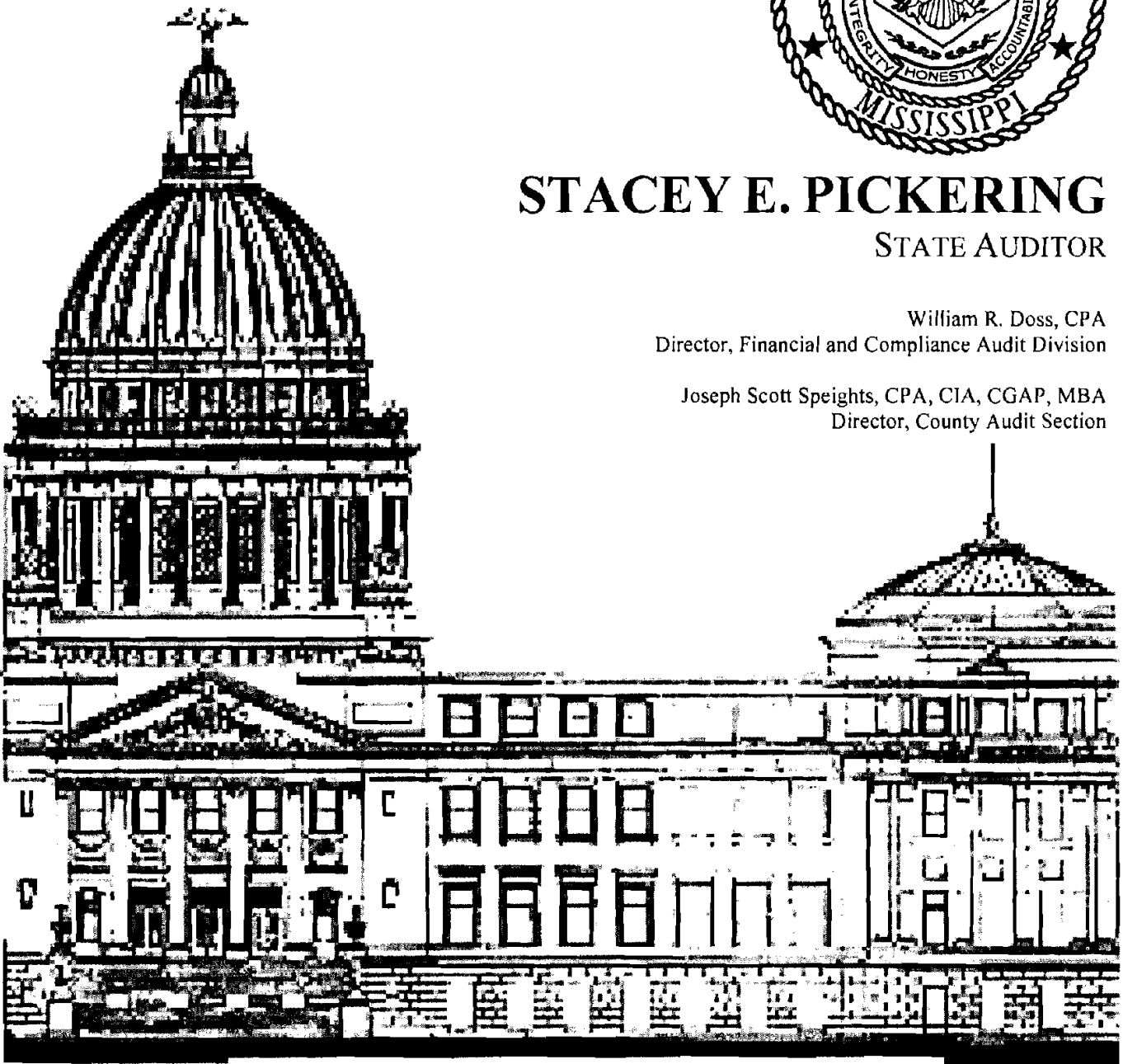
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2008



STACEY E. PICKERING STATE AUDITOR

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

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Director, County Audit Section



A Report from the County Audit Section

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STONE COUNTY
TABLE OF CONTENTS

FINANCIAL SECTION.....	1
INDEPENDENT AUDITOR'S REPORT	3
FINANCIAL STATEMENTS.....	5
Statement of Net Assets	7
Statement of Activities	8
Balance Sheet - Governmental Funds	9
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	10
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	11
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Statement of Net Assets - Proprietary Fund	13
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund	14
Statement of Cash Flows - Proprietary Fund.....	15
Statement of Fiduciary Assets and Liabilities	16
Notes to Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION	35
Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) General Fund.....	36
Hurricane Katrina Fund.....	37
Road and Bridge Fund.....	38
Notes to the Required Supplementary Information	39
SUPPLEMENTAL INFORMATION	41
Schedule of Expenditures of Federal Awards	42
Reconciliation of Operating Costs of Solid Waste	45
SPECIAL REPORTS	47
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards	49
Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133	51
Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972)).....	53
Limited Internal Control and Compliance Review Management Report	59
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	61

STONE COUNTY

FINANCIAL SECTION

STONE COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements do not include financial data for the county's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for this component unit to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the discretely presented component unit is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed previously, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the discretely presented component unit of Stone County, Mississippi, as of September 30, 2008, or the changes in financial position thereof for the year then ended.

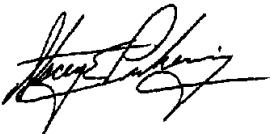
In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of September 30, 2008, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2009, on our consideration of Stone County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

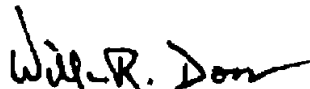
Stone County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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



STACEY E. PICKERING
State Auditor



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

June 26, 2009

STONE COUNTY

FINANCIAL STATEMENTS

STONE COUNTY

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STONE COUNTY
Statement of Net Assets
September 30, 2008

Exhibit 1

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash	\$ 1,266,324		1,266,324
Investments		3,459,576	3,459,576
Property tax receivable	3,993,724		3,993,724
Fines receivable (net of allowance for uncollectibles of \$452,317)	257,292		257,292
Loans receivable	22,439		22,439
Allowance for uncollectible accounts	(22,439)		(22,439)
Intergovernmental receivables	581,860	346,076	927,936
Other receivables	4,572		4,572
Internal balances	(22,071)	22,071	0
Capital assets:			
Land	459,256	12,957	472,213
Other capital assets, net	7,588,953	4,549,288	12,138,241
Total Assets	14,129,910	8,389,968	22,519,878
LIABILITIES			
Claims payable	278,996	37,610	316,606
Claims and judgments payable	146,525		146,525
Intergovernmental payables	169,536		169,536
Short-term note	472,816		472,816
Accrued interest payable	5,920	106,138	112,058
Deferred revenue	3,993,724		3,993,724
Other payables	36,303		36,303
Long-term liabilities			
Due within one year:			
Capital debt	752,673	309,207	1,061,880
Due in more than one year:			
Capital debt	2,616,360	4,212,591	6,828,951
Non-capital debt	117,227	44,531	161,758
Total Liabilities	8,590,080	4,710,077	13,300,157
NET ASSETS			
Invested in capital assets, net of related debt	4,679,176	40,447	4,719,623
Restricted:			
Expendable:			
General government	92,745		92,745
Debt service	13,195		13,195
Public safety	123,688	3,639,444	3,763,132
Public works	548,022		548,022
Health and welfare	1,162		1,162
Culture and recreation	65,436		65,436
Economic development	73,731		73,731
Unemployment compensation	38,523		38,523
Unrestricted	(95,848)		(95,848)
Total Net Assets	\$ 5,539,830	3,679,891	9,219,721

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

STONE COUNTY
Statement of Activities
For the Year Ended September 30, 2008

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		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 3,597,611	853,686	180,634	244,331	(2,318,960)		(2,318,960)
Public safety	2,764,403	197,449	1,244,046	510,996	(811,912)		(811,912)
Public works	3,623,684		837,438	150,864	(2,635,382)		(2,635,382)
Health and welfare	420,828		107,653	1,115,909	802,734		802,734
Culture and recreation	163,113				(163,113)		(163,113)
Education	111,333				(111,333)		(111,333)
Conservation of natural resources	44,360				(44,360)		(44,360)
Economic development and assistance	67,718		73,876	22,470	28,628		28,628
Interest on long-term debt	128,360				(128,360)		(128,360)
Total Governmental Activities	<u>10,921,410</u>	<u>1,051,135</u>	<u>2,443,647</u>	<u>2,044,570</u>	<u>(5,382,058)</u>	<u>0</u>	<u>(5,382,058)</u>
Business-type activities:							
Correctional facility	3,331,200	3,793,426				462,226	462,226
Total Business-type Activities	<u>3,331,200</u>	<u>3,793,426</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>462,226</u>	<u>462,226</u>
Total Primary Government	<u>\$ 14,252,610</u>	<u>4,844,561</u>	<u>2,443,647</u>	<u>2,044,570</u>	<u>(5,382,058)</u>	<u>462,226</u>	<u>(4,919,832)</u>
General revenues:							
Property taxes					\$ 4,840,893		4,840,893
Road & bridge privilege taxes					195,310		195,310
Grants and contributions not restricted to specific programs					274,856		274,856
Unrestricted interest income					83,882	85,730	169,612
Miscellaneous					263,657	33,573	297,230
Total General Revenues					<u>5,658,598</u>	<u>119,303</u>	<u>5,777,901</u>
Changes in Net Assets					<u>276,540</u>	<u>581,529</u>	<u>858,069</u>
Net Assets - Beginning					5,252,547	3,167,177	8,419,724
Prior period adjustments					<u>10,743</u>	<u>(68,815)</u>	<u>(58,072)</u>
Net Assets - Beginning, as restated					<u>5,263,290</u>	<u>3,098,362</u>	<u>8,361,652</u>
Net Assets - Ending					<u>\$ 5,539,830</u>	<u>3,679,891</u>	<u>9,219,721</u>

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

STONE COUNTY
Balance Sheet - Governmental Funds
September 30, 2008

Exhibit 3

	Major Funds				Total Governmental Funds
	General Fund	Hurricane Katrina Fund	Road and Bridge Fund	Other Governmental Funds	
ASSETS					
Cash	\$ 299,663	12,907	430,467	523,287	1,266,324
Property tax receivable	2,950,922		195,794	847,008	3,993,724
Fines receivable (net of allowance for uncollectibles of \$452,317)	257,292				257,292
Loans receivable	22,439				22,439
Allowance for uncollectible accounts	(22,439)				(22,439)
Intergovernmental receivables	561,763			20,097	581,860
Other receivables	4,572				4,572
Due from other funds			43,467	25,544	69,011
Total Assets	\$ <u>4,074,212</u>	<u>12,907</u>	<u>669,728</u>	<u>1,415,936</u>	<u>6,172,783</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Claims payable	\$ 205,165		21,807	52,024	278,996
Claims and judgements payable	146,525				146,525
Intergovernmental payables	156,474				156,474
Due to other funds	84,628			19,516	104,144
Short-term note	472,816				472,816
Deferred revenue	3,208,214		195,794	847,008	4,251,016
Other payables	36,303				36,303
Total Liabilities	<u>4,310,125</u>	<u>0</u>	<u>217,601</u>	<u>918,548</u>	<u>5,446,274</u>
Fund balances:					
Reserved for:					
Debt service				19,115	19,115
Unemployment compensation				38,523	38,523
Unreserved - undesignated, reported in:					
General Fund	(235,913)				(235,913)
Special Revenue Funds		12,907	452,127	445,283	910,317
Capital Project Funds				(5,533)	(5,533)
Total Fund Balances	<u>(235,913)</u>	<u>12,907</u>	<u>452,127</u>	<u>497,388</u>	<u>726,509</u>
Total Liabilities and Fund Balances	\$ <u>4,074,212</u>	<u>12,907</u>	<u>669,728</u>	<u>1,415,936</u>	<u>6,172,783</u>

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, 2008

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 726,509
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$4,242,131.	8,048,209
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	257,292
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(3,486,260)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(5,920)</u>
Total Net Assets - Governmental Activities	<u>\$ 5,539,830</u>

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

STONE COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended September 30, 2008

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	Hurricane Katrina Fund	Road and Bridge Fund		
REVENUES					
Property taxes	\$ 3,728,744		191,027	921,122	4,840,893
Road and bridge privilege taxes			195,310		195,310
Licenses, commissions and other revenue	343,567			8,880	352,447
Fines and forfeitures	390,164			20,688	410,852
Intergovernmental revenues	1,655,785	963,264	684,116	1,466,158	4,769,323
Charges for services	163,082				163,082
Interest income	66,331		7,308	10,243	83,882
Miscellaneous revenues	120,787		7,144	92,534	220,465
Total Revenues	<u>6,468,460</u>	<u>963,264</u>	<u>1,084,905</u>	<u>2,519,625</u>	<u>11,036,254</u>
EXPENDITURES					
Current:					
General government	3,576,497			7,338	3,583,835
Public safety	2,595,354			342,514	2,937,868
Public works	474,816	950,357	1,009,700	1,239,302	3,674,175
Health and welfare	511,917			1,117,214	1,629,131
Culture and recreation	167,553			3,471	171,024
Education	111,333				111,333
Conservation of natural resources	44,360				44,360
Economic development and assistance	11,726			55,992	67,718
Debt service:					
Principal	40,073		53,420	453,957	547,450
Interest	11,854		6,816	103,770	122,440
Total Expenditures	<u>7,545,483</u>	<u>950,357</u>	<u>1,069,936</u>	<u>3,323,558</u>	<u>12,889,334</u>
Excess of Revenues over (under) Expenditures	<u>(1,077,023)</u>	<u>12,907</u>	<u>14,969</u>	<u>(803,933)</u>	<u>(1,853,080)</u>
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	539,320		36,723	318,022	894,065
Proceeds from sale of capital assets				115,199	115,199
Compensation for loss of capital assets	36,942				36,942
Transfers in				168,560	168,560
Transfers out	(168,560)				(168,560)
Total Other Financing Sources and Uses	<u>407,702</u>	<u>0</u>	<u>36,723</u>	<u>601,781</u>	<u>1,046,206</u>
Net Changes in Fund Balances	(669,321)	12,907	51,692	(202,152)	(806,874)
Fund Balances - Beginning	<u>433,408</u>	<u></u>	<u>400,435</u>	<u>699,540</u>	<u>1,533,383</u>
Fund Balances - Ending	\$ <u>(235,913)</u>	<u>12,907</u>	<u>452,127</u>	<u>497,388</u>	<u>726,509</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, 2008

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (806,874)
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 \$2,192,841 exceeded depreciation of \$727,306 in the current period.	1,465,535
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$32,127 and the proceeds from the sale of \$115,199 and insurance recoveries of \$36,942, in the current period.	(120,014)
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.	124,754
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$894,065 exceeded repayments of \$547,450.	(346,615)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The increase in compensated absences balance	(34,326)
The increase in accrued interest payable	<u>(5,920)</u>
Change in Net Assets of Governmental Activities	\$ <u>276,540</u>

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

STONE COUNTY
Statement of Net Assets - Proprietary Fund
September 30, 2008

Exhibit 5

	Business-type Activities - Enterprise Fund
	<u>Correctional Facility Fund</u>
ASSETS	
Current assets:	
Investments	\$ 3,459,576
Intergovernmental receivables	346,076
Due from other funds	22,071
Total Current Assets	<u>3,827,723</u>
Noncurrent assets:	
Capital assets:	
Land	12,957
Other capital assets, net	4,549,288
Total Noncurrent Assets	<u>4,562,245</u>
Total Assets	<u>8,389,968</u>
LIABILITIES	
Current liabilities:	
Claims payable	37,610
Accrued interest payable	106,138
Capital debt:	
Capital leases payable	39,207
Other long-term liabilities	270,000
Total Current Liabilities	<u>452,955</u>
Noncurrent liabilities:	
Capital debt:	
Capital leases payable	37,591
Other long-term liabilities	4,175,000
Noncapital debt:	
Compensated absences payable	44,531
Total Noncurrent Liabilities	<u>4,257,122</u>
NET ASSETS	
Invested in capital assets, net of related debt	40,447
Restricted for:	
Public safety	3,639,444
Total Net Assets	<u>\$ 3,679,891</u>

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

STONE COUNTY
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2008

Exhibit 6

	Business-type Activities - <u>Enterprise Fund</u>
	<u>Correctional Facility Fund</u>
Operating Revenues	
Charges for services	\$ 3,793,426
Miscellaneous	33,573
Total Operating Revenues	<u>3,826,999</u>
Operating Expenses	
Personal services	1,777,691
Contractual services	538,079
Materials and supplies	567,318
Depreciation expense	134,955
Total Operating Expenses	<u>3,018,043</u>
Operating Income (Loss)	<u>808,956</u>
Nonoperating Revenues (Expenses)	
Interest income	85,730
Interest expense	(313,157)
Net Nonoperating Revenue (Expenses)	<u>(227,427)</u>
Net Income (Loss)	<u>581,529</u>
Changes in Net Assets	<u>581,529</u>
Net Assets - Beginning	3,167,177
Prior period adjustments	(68,815)
Net Assets - Beginning, as restated	<u>3,098,362</u>
Net Assets - Ending	<u>\$ 3,679,891</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, 2008

Exhibit 7

	Business-type Activities - Enterprise Funds
	Correctional Facility Fund
	<u>Fund</u>
Cash Flows From Operating Activities	
Receipts from users	\$ 3,890,315
Payments to suppliers	(1,186,570)
Payments to employees	(1,766,649)
Other operating cash receipts	11,502
Net Cash Provided (Used) by Operating Activities	<u>948,598</u>
Cash Flows From Capital and Related Financing Activities	
Proceeds of long-term debt	39,650
Acquisition and construction of capital assets	(277,347)
Principal paid on long-term debt	(284,392)
Interest paid on debt	(320,064)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(842,153)</u>
Cash Flows From Investing Activities	
Interest on deposits	85,730
Net Cash Provided (Used) by Investing Activities	<u>85,730</u>
Net Increase (Decrease) in Cash and Cash Equivalents	192,175
Cash and Cash Equivalents at Beginning of Year	<u>3,267,401</u>
Cash and Cash Equivalents at End of Year	<u>\$ 3,459,576</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ <u>808,956</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	134,955
Changes in assets and liabilities:	
(Increase) decrease in intergovernmental receivables	96,889
(Increase) decrease in interfund receivable	(22,071)
Increase (decrease) in claims payable	(79,828)
Increase (decrease) in compensated absences liability	9,697
Total Adjustments	<u>139,642</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 948,598</u>

Noncash, Capital Financing Activity:

Stone County lease purchased a Kubota tractor for \$39,650 at 3.45% interest. Principal in the amount of \$29,392 was paid on lease purchased property during the year.

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

STONE COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2008

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 278,226
Due from other funds	13,062
Total Assets	<u>\$ 291,288</u>
LIABILITIES	
Amounts held in custody for others	\$ 117,410
Intergovernmental payables	173,878
Total Liabilities	<u>\$ 291,288</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, 2008

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

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

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

- Stone County Recreation Association

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

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

B. Basis of Presentation.

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

Government-wide Financial Statements:

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

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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

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. 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.

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

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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.

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

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

The county reports the following major Proprietary Fund:

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

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

PROPRIETARY FUND TYPE

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

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. Any outstanding balances between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the applicable governmental or business-type activities column in the government-wide financial statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

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

Capital assets acquired or constructed for Proprietary Fund operations are capitalized at cost in the respective funds in which they are utilized. No interest is capitalized on self-constructed assets because noncapitalization of interest does not have a material effect on the county's financial statements. Donated capital assets are recorded at their fair value at the time of donation.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

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.

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 improvement of those assets.

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

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

Fund Financial Statements:

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

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

K. Property Tax Revenues.

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

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

L. Intergovernmental Revenues in Governmental Funds.

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

M. Compensated Absences.

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

(2) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

<u>Explanation</u>	<u>Amount</u>
Governmental Activities	
To correct prior year errors in capital assets	\$ <u>10,743</u>
Business-type Activities	
To correct prior year errors in capital assets	\$ <u>(68,815)</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

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

<u>Explanation</u>	<u>Amount</u>
To correct prior year errors in capital assets	\$ <u>(68,815)</u>

(3) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2008, was \$1,544,550, and the bank balance was \$1,941,739. 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.

Investments:

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

Investments balances at September 30, 2008, are as follows:

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
SEI Daily Income Trust Mutual Fund	Less than one year	\$ <u>3,459,576</u>	AAA

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

Credit Risk. State law limits investments to those authorized by Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments choices or one that addresses credit risk.

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk.

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2008:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Fund	General	\$ 23,951
Road and Bridge Fund	Other Governmental Funds	19,516
Other Governmental Funds	General	25,544
Correctional Facility	General	22,071
Agency Funds	General	<u>13,062</u>
Total		<u>\$ 104,144</u>

The receivables represent the tax revenue collected but not settled until October, 2008, and the correction of certain errors in posting revenue during the year. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Courthouse Renovation Bond Fund	General Fund	<u>\$ 168,560</u>

The principal purpose of interfund transfers was to provide funds for the principal and interest payments on the General Obligation Bonds, Series 1993. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2008, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 85,696
Community development block grants	55,054
Hazard mitigation grant	221,812
Disaster grants - public assistance	202,358
State and community highway safety	<u>16,940</u>
Total Governmental Activities	<u>\$ 581,860</u>
Business-type Activities:	
Housing prisoner reimbursement	<u>\$ 346,076</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(6) Loans Receivable.

Loans receivable balance at September 30, 2008, is as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Emergency Medical Services District	June, 1987	N/A	N/A	\$ 22,439
Less: Allowance for doubtful accounts*				<u>(22,439)</u>
Total				\$ <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, 2008:

Governmental activities:

	Balance Oct. 1, 2007	Additions	Deletions	Adjustments *	Balance Sept. 30, 2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 459,256				459,256
Construction in progress	188,197	1,236,803		(1,425,000)	
Total non-depreciable capital assets	647,453	1,236,803	0	(1,425,000)	459,256
<u>Depreciable capital assets:</u>					
Infrastructure	179,810			(112,920)	66,890
Buildings	4,716,564			1,425,000	6,141,564
Mobile equipment	3,484,170	98,638	244,191	16,351	3,354,968
Furniture and equipment	259,002	313,370	5,500	5,000	571,872
Leased property under capital leases	1,241,705	544,030		(89,945)	1,695,790
Total depreciable capital assets	9,881,251	956,038	249,691	1,243,486	11,831,084
<u>Less accumulated depreciation for:</u>					
Infrastructure	10,327	402		(8,719)	2,010
Buildings	936,969	115,090		3,774	1,055,833
Mobile equipment	2,329,424	254,872	125,717	(221,320)	2,237,259
Furniture and equipment	246,236	69,263	3,960	(51,463)	260,076
Leased property under capital leases	313,803	287,679		85,471	686,953
Total accumulated depreciation	3,836,759	727,306	129,677	(192,257)	4,242,131
Total depreciable capital assets, net	6,044,492	228,732	120,014	1,435,743	7,588,953
Governmental activities capital assets, net	\$ 6,691,945	1,465,535	120,014	10,743	8,048,209

* Adjustments are to correct errors in the capital asset records and to reflect certain routine reclassifications.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

Business-type activities:

	Balance Oct. 1, 2007	Additions	Deletions	Adjustments *	Balance Sept. 30, 2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 12,957				12,957
Total non-depreciable capital assets	<u>12,957</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>12,957</u>
<u>Depreciable capital assets:</u>					
Buildings	5,078,097	200,000		(47,236)	5,230,861
Mobile equipment	100,561			(36,961)	63,600
Furniture and equipment	58,046	37,697			95,743
Leased property under capital leases	<u>74,451</u>	<u>39,650</u>			<u>114,101</u>
Total depreciable capital assets	<u>5,311,155</u>	<u>277,347</u>	<u>0</u>	<u>(84,197)</u>	<u>5,504,305</u>
<u>Less accumulated depreciation for:</u>					
Buildings	704,321	104,618		5	808,944
Mobile equipment	86,106			(28,865)	57,241
Furniture and equipment	39,370	9,796		5,721	54,887
Leased property under capital leases	<u>5,647</u>	<u>20,541</u>		<u>7,757</u>	<u>33,945</u>
Total accumulated depreciation	<u>835,444</u>	<u>134,955</u>	<u>0</u>	<u>(15,382)</u>	<u>955,017</u>
Total depreciable capital assets, net	<u>4,475,711</u>	<u>142,392</u>	<u>0</u>	<u>(68,815)</u>	<u>4,549,288</u>
Business-type activities capital assets, net	<u>\$ 4,488,668</u>	<u>142,392</u>	<u>0</u>	<u>(68,815)</u>	<u>4,562,245</u>

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

Depreciation expense was charged to the following functions:

	Amount
<u>Governmental Activities:</u>	
General government	\$ 98,613
Public safety	262,884
Public works	322,561
Health and welfare	28,500
Culture and recreation	<u>14,748</u>
Total governmental activities depreciation expense	<u>\$ 727,306</u>
<u>Business-type Activities:</u>	
Correctional facility	<u>\$ 134,955</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(8) Claims and Judgments.

Risk Financing.

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2008, to January 1, 2009. 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 2007 and 2008:

	<u>2007</u>	<u>2008</u>
Unpaid Claims, Beginning of Fiscal Year	\$ 154,349	131,399
Plus: Incurred Claims (Including IBNRs)	1,087,159	1,336,589
Less: Claims Payments	<u>(1,110,109)</u>	<u>(1,321,463)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 131,399</u>	<u>146,525</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 \$56,952 for the year ended September 30, 2008. The future minimum lease payments for these leases are as follows:

<u>Year Ended September 30</u>	<u>Amount</u>
2009	\$ 41,949
2010	36,948
2011	36,948
2012	36,948
2013	<u>36,948</u>
Total Minimum Payments Required	<u>\$ 189,741</u>

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(10) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2008:

<u>Classes of Property</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Mobile equipment	\$ 1,651,156	114,101
Furniture and equipment	44,634	
Less: Accumulated depreciation	<u>686,953</u>	<u>33,945</u>
Leased Property Under Capital Leases	<u>\$ 1,008,837</u>	<u>80,156</u>

The following is a schedule by years of the total payments due as of September 30, 2008:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 457,725	31,921	39,207	2,342
2010	431,208	33,376	30,695	767
2011	164,048	7,817	6,896	70
2012	105,052	2,051		
2013	<u>7,168</u>	<u>98</u>		
Total	<u>\$ 1,165,201</u>	<u>75,263</u>	<u>76,798</u>	<u>3,179</u>

(11) Short-term Debt and Liquidity.

The following is a summary of short-term debt activity for the year ended September 30, 2008:

<u>Description of Debt</u>	<u>Balance Oct. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance Sept. 30, 2008</u>
FEMA anticipation notes	\$ <u>0</u>	<u>472,816</u>	<u>0</u>	<u>0</u>	<u>472,816</u>

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

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(12) Long-term Debt.

Debt outstanding as of September 30, 2008, 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>1,475,000</u>	3.30/3.70%	03-2018
B. Capital Leases:			
2006 Crown Victoria	\$ 6,694	4.04%	06-2009
Garbage trucks	13,488	4.36%	07-2010
IBM Turnkey System	42,571	3.27%	06-2013
2008 Ford F250 truck	17,568	3.42%	03-2011
Two 2007 Crown Victorias	42,747	3.54%	02-2011
2008 Ford F150 truck	14,266	3.45%	04-2011
Two 2008 Crown Victorias	53,360	3.04%	08-2011
Two motor graders	170,545	3.04%	12-2008
2008 Ford F450 truck	26,006	4.36%	10-2010
Two 2008 Mack garbage trucks	297,657	2.86%	06-2010
Five tractors and mowers	29,701	3.19%	03-2009
Six Mack dump trucks	<u>450,598</u>	4.12%	06-2012
Total Capital Leases	\$ <u>1,165,201</u>		
C. Other Loans:			
Health Department	\$ 350,035	3.80%	09-2013
Rural fire protection project note	75,363	3.50%	07-2010
Series 2005 Road Department note	53,559	3.50%	07-2010
Economic industrial development promissory note	105,125	4.10%	06-2011
MDA Cap loan	<u>144,750</u>	3.00%	06-2017
Total Other Loans	\$ <u>728,832</u>		
Business-type Activities:			
A. Limited Obligation Bonds:			
Correctional Facility	\$ <u>4,445,000</u>	5.30/6.50%	11-2019
B. Capital Leases:			
Correctional Facility van	\$ 13,396	4.34%	03-2010
Two Correctional Facility Crown Victorias	29,017	4.12%	06-2010
Kubota tractor	<u>34,385</u>	3.45%	03-2011
Total Capital Leases	\$ <u>76,798</u>		

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

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
2009	\$ 120,000	48,631	174,948	26,575
2010	125,000	44,589	181,205	20,041
2011	130,000	40,381	120,459	13,261
2012	135,000	36,009	86,924	8,647
2013	145,000	31,334	90,173	5,399
2014 – 2018	820,000	76,234	75,123	5,473
Total	\$ 1,475,000	277,178	728,832	79,396

Business-type Activities:

Year Ending September 30	Limited Obligation Bonds	
	Principal	Interest
2009	\$ 270,000	245,958
2010	285,000	229,630
2011	300,000	213,977
2012	320,000	197,238
2013	335,000	179,385
2014 – 2018	1,980,000	581,054
2019 – 2023	955,000	57,817
Total	\$ 4,445,000	1,705,059

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, 2008, the amount of outstanding debt was equal to 1.87% of the latest property assessments.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2008:

	Balance Oct. 1, 2007	Additions	Reductions	Adjustments	Balance Sept. 30, 2008	Amount due within one year
Governmental Activities:						
Compensated absences	\$ 82,901	34,326			117,227	
General obligation bonds	1,590,000		115,000		1,475,000	120,000
Capital leases	901,908	544,030	280,737		1,165,201	457,725
Other loans	530,510	350,035	151,713		728,832	174,948
Total	\$ 3,105,319	928,391	547,450	0	3,486,260	752,673
Business-type Activities:						
Compensated absences	\$ 34,834	9,697			44,531	
Limited obligation bonds	4,700,000		255,000		4,445,000	270,000
Capital leases	66,540	39,650	29,392		76,798	39,207
Total	\$ 4,801,374	49,347	284,392	0	4,566,329	309,207

(13) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2008:

Fund	Deficit Amount
General Fund	\$ 235,913
Waste Tire Disposal Grant fund	15,496
Roadway Safety fund	21,889
Rural Fire Protection fund	6,717
SSBG Health Department fund	1,306
Perk Elementary Shelter	3,300
Stone Elementary Shelter	3,300

(14) Contingencies.

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

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

(15) Joint Ventures.

The county participates in the following joint ventures:

Stone County is a participant with the Counties of Covington, Greene and Perry in a joint venture, authorized by Section 39-3-9, Miss. Code Ann. (1972), to operate the Pine Forest Regional Library. This joint venture was created to provide free library service for the citizens of the respective counties and is governed by a five-member board.

STONE COUNTY

Notes to Financial Statements For the Year Ended September 30, 2008

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 \$64,287 in fiscal year 2008. 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 2008. 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 2008.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$27,500 for support of the agency in fiscal year 2008.

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 \$593,973 for maintenance and support of the college in fiscal year 2008.

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 2008 fiscal year was \$328,901.

Southeast Mississippi Air Ambulance District operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry, Stone and Walthall. The Stone County Board of Supervisors appoints one of the ten members of the board of directors. The county contributed \$36,300 for support of the District in fiscal year 2008.

STONE COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2008

(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, 2008 was 11.85% 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, 2008, 2007 and 2006 were \$453,798, \$389,716 and \$332,739, respectively, equal to the required contributions for each year.

(18) Subsequent Events.

Subsequent to September 30, 2008, 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>
10-13-08	3.09%	\$	45,864	Capital lease	Tax revenue
12-23-08	3.20%		105,000	Capital lease	Tax revenue
12-26-08	3.24%		27,169	Capital lease	Tax revenue
12-26-08	3.24%		163,715	Capital lease	Tax revenue
02-24-09	3.25%		257,621	Other loan	Tax revenue/FEMA reimbursement

STONE COUNTY

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STONE COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

STONE COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 3,894,346	3,730,823	3,730,823	
Licenses, commissions and other revenue	313,801	392,321	391,275	(1,046)
Fines and forfeitures	446,000	378,225	378,225	
Intergovernmental revenues	1,907,267	1,177,368	1,177,368	
Charges for services	150,000	163,082	163,082	
Interest income	55,000	66,838	66,838	
Miscellaneous revenues	205,349	203,836	185,927	(17,909)
Total Revenues	6,971,763	6,112,493	6,093,538	(18,955)
EXPENDITURES				
Current:				
General government	3,583,296	4,579,352	4,561,447	17,905
Public safety	2,998,032	2,601,164	2,601,164	
Public works	2,000	2,000	2,000	
Health and welfare	467,709	867,936	867,936	
Culture and recreation	134,590	168,075	168,075	
Conservation of natural resources	48,922	44,922	44,922	
Economic development and assistance	90,828	61,996	61,996	
Debt service:				
Principal	54,268	40,448	40,448	
Interest	3,476	11,854	11,854	
Total Expenditures	7,383,121	8,377,747	8,359,842	17,905
Excess of Revenues over (under) Expenditures	(411,358)	(2,265,254)	(2,266,304)	(1,050)
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	499,617	1,312,033	1,312,033	
Compensation for loss of capital assets		36,942	36,942	
Transfers in	86,459	188,220	188,220	
Transfers out	(264,306)	(299,168)	(299,168)	
Total Other Financing Sources and Uses	321,770	1,238,027	1,238,027	0
Net Change in Fund Balance	(89,588)	(1,027,227)	(1,028,277)	(1,050)
Fund Balances – Beginning	248,657	572,033	572,033	0
Fund Balances – Ending	\$ 159,069	(455,194)	(456,244)	(1,050)

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, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 1,859,000	687,193	687,193	
Total Revenues	<u>1,859,000</u>	<u>687,193</u>	<u>687,193</u>	<u>0</u>
EXPENDITURES				
Current:				
General government	65,250			
Public works	1,443,750	980,028	980,028	
Total Expenditures	<u>1,509,000</u>	<u>980,028</u>	<u>980,028</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>350,000</u>	<u>(292,835)</u>	<u>(292,835)</u>	<u>0</u>
Net Change in Fund Balance	350,000	(292,835)	(292,835)	0
Fund Balances – Beginning	<u>0</u>	<u>305,742</u>	<u>305,742</u>	<u>0</u>
Fund Balances – Ending	<u>\$ 350,000</u>	<u>12,907</u>	<u>12,907</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, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 195,552	189,810	189,810	
Road and bridge privilege taxes	179,000	194,669	194,669	
Licenses, commissions and other revenue	2,500	2,551	2,551	
Intergovernmental revenues	680,728	717,947	717,947	
Interest income	12,000	7,308	7,308	
Miscellaneous revenues		158,925	158,925	
Total Revenues	<u>1,069,780</u>	<u>1,271,210</u>	<u>1,271,210</u>	<u>0</u>
EXPENDITURES				
Current:				
Public works	1,322,082	1,212,236	1,212,236	
Principal	68,126	54,716	54,716	
Interest	5,883	6,816	6,816	
Total Expenditures	<u>1,396,091</u>	<u>1,273,768</u>	<u>1,273,768</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>(326,311)</u>	<u>(2,558)</u>	<u>(2,558)</u>	<u>0</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued	340,000	45,864	45,864	
Transfers out	(12,775)	(24,016)	(24,016)	
Total Other Financing Sources and Uses	<u>327,225</u>	<u>21,848</u>	<u>21,848</u>	<u>0</u>
Net Change in Fund Balance	914	19,290	19,290	0
Fund Balances – Beginning	<u>418,533</u>	<u>411,177</u>	<u>411,177</u>	<u>0</u>
Fund Balances – Ending	<u>\$ 419,447</u>	<u>430,467</u>	<u>430,467</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, 2008

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 Fund</u>	<u>Hurricane Katrina Fund</u>	<u>Road and Bridge Fund</u>
Budget (Cash Basis)	\$ (1,028,277)	(292,835)	19,290
Increase (Decrease)			
Net adjustments for revenue accruals	385,497	276,071	(28,785)
Net adjustments for expenditure accruals	(26,541)	29,671	61,187
GAAP Basis	\$ <u>(669,321)</u>	<u>12,907</u>	<u>51,692</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, 2008

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture/ Passed-through the Mississippi State Treasurer's Office Secure payments for states and counties containing federal land	10.665	N/A	\$ <u>261,960</u>
U.S. Department of Agriculture/ Community Facilities Loans and Grants	10.766	N/A	* <u>446,720</u>
Total U. S. Department of Agriculture			<u>708,680</u>
U.S. Department of Commerce - Economic Development Administration/ Economic Development_Support for Planning Organizations	11.302	NA	<u>36,019</u>
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community Development Block Grants/state's program	14.228	1123-06-066-PF-01	* 441,000
Community Development Block Grants/state's program	14.228	R-103-066-01-KP	* <u>200,730</u>
Total U.S. Department of Housing and Urban Development			<u>641,730</u>
U.S. Department of the Interior/Payments in Lieu of Taxes/ Passed-through the Mississippi Department of Marine Resources Historic Preservation Fund Grants-In-Aid	15.904	N/A	<u>4,272</u>
U.S. Department of Transportation - Federal Highway Administration/ Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	BR NBIS 068 B (66)	11,500
Highway planning and construction	20.205	ER/STP 0066 25 B	13,028
Highway planning and construction	20.205	STP 0066 25 B	<u>28,907</u>
Subtotal			<u>53,435</u>
Passed-through the Mississippi Department of Public Safety - Office of Highway Safety State and Community Highway Safety	20.600	08-TA-166-1	<u>40,077</u>
Total U.S. Department of Transportation - Federal Highway Administration			<u>93,512</u>
U.S. Department of Health and Human Services/ Passed-through the Mississippi Department of Human Services Social services block grant	93.667	913VK161	<u>263,146</u>

STONE COUNTY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2008

(Continued)

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	1604-DR-MS	<u>950,356</u>
Hazard Mitigation Grant	97.039	1604-0010	* 402,144
Hazard Mitigation Grant	97.039	1604-27	* <u>244,331</u>
Subtotal			<u>646,475</u>
Emergency mangement performance grants/ Passed-through the Mississippi Department of Pubhic Safety	97.042	N/A	<u>8,285</u>
Law enforcement terrorism prevention program	97.074	061.E066	<u>1,594</u>
Total U.S. Department of Homeland Security			<u>1,606,710</u>
Total Expenditures of Federal Awards			<u>\$ 3,354,069</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.

* Denotes major federal award program

STONE COUNTY

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STONE COUNTY
 Reconciliation of Operating Costs of Solid Waste
 For the Year Ended September 30, 2008

Operating Expenditures, Cash Basis:

Salaries	\$ 201,619
Contractual services	172,808
Expendable Commodities:	
Gasoline and petroleum products	91,894
Repair parts	9,531
Clothing	1,475
Supplies	508
Interest	<u>2,959</u>
Solid Waste Cash Basis Operating Expenditures	480,794
Full Cost Expenses:	
Indirect administrative costs	8,564
Depreciation on equipment	<u>33,682</u>
Solid Waste Full Cost Operating Expenses	\$ <u>523,040</u>

STONE COUNTY

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STONE COUNTY

SPECIAL REPORTS

STONE COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Stone County, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Stone County, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the county's basic financial statements and have issued our report thereon dated June 26, 2009. Our report includes an adverse opinion on the discretely presented component units due to the omission of the discretely presented component unit which is required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 08-1, 08-2, 08-3, 08-4, 08-5 and 08-6 to be significant deficiencies in internal control over financial reporting. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1, 08-2, 08-3, 08-4, 08-5 and 08-6 to be material weaknesses.

Compliance and Other Matters

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

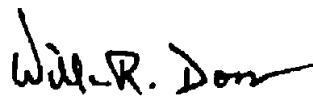
However, we noted certain matters that we reported to the management of Stone County, Mississippi, in the Limited Internal Control and Compliance Review Management Report dated June 26, 2009, included within this document.

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

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



STACEY E. PICKERING
State Auditor



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

June 26, 2009



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Stone County, Mississippi

Compliance

We have audited the compliance of Stone County, Mississippi with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. 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, 2008.

Internal Control Over Compliance

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

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

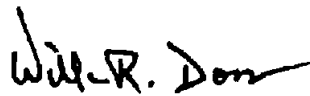
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the county's internal control.

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

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



STACEY E. PICKERING
State Auditor



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

June 26, 2009



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Stone County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Stone County, Mississippi, as of and for the year ended September 30, 2008. 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.

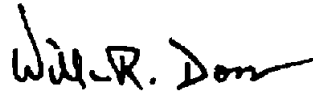
In our opinion, Stone County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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.



STACEY E. PICKERING
State Auditor



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

June 26, 2009

STONE COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2008

Schedule I

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, 2008

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
12/17/2007	Paving	\$ 12,800	GeoPave	The road condition was a danger to public safety.

STONE COUNTY

Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2008

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
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Stone County, Mississippi

In planning and performing our audit of the financial statements of Stone County, Mississippi for the year ended September 30, 2008, we considered Stone County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Stone County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated June 26, 2009, 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, recommendations, and your responses are disclosed below:

Sheriff.

1. Finding

An effective system of internal control over the Sheriff's accounts should include daily deposits and daily updating of records documenting cash collections and settlements. Receipts are not posted to the cash journal on a daily basis but instead on the day of the deposit to the bank, often several days after the actual receipt of funds. Failure to receipt and deposit collections on a daily basis increases the possibility of loss or misappropriation of public funds.

Recommendation

The Sheriff should ensure that funds are deposited on a daily basis.

Sheriff's Response

The Sheriff's office personnel will comply, and ensure that funds are deposited on a daily basis by the appropriate personnel.

Chancery Clerk.

2. Finding

Various deficiencies were noted in the bonding of officials. Section 9-11-29, Miss. Code Ann. (1972), requires the Justice Court Clerk and deputies to execute a bond for \$50,000, Section 45-5-9, Miss. Code Ann. (1972), requires Sheriff's deputies to execute a bond for \$25,000, and Section 31-7-124, Miss. Code Ann. (1972), requires each Assistant Receiving Clerk to execute a bond for \$10,000. The following deficiencies were noted during our testing of officials' bonds:

- a. Two Assistant Receiving Clerks were not bonded.
- b. One of the Justice Court Deputy Clerks was not bonded.
- c. A blanket bond was issued for two Sheriff's Deputies' positions. The bond did not specifically identify the deputies.

In the event of a loss of public funds involving the aforementioned employees, the county would have been responsible for recovery of funds and might have incurred an unnecessary liability.

Recommendation


The Chancery Clerk should ensure that bonds are maintained on behalf of various personnel in the amounts prescribed by law.

Chancery Clerk's Response

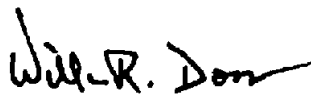
This finding has been corrected, and the Chancery Clerk's office will continue to ensure that all appropriate personnel are bonded, as necessary.

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

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



STACEY E. PICKERING
State Auditor



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

June 26, 2009

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, 2008

Section I: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Unqualified |
| | Business-type activities | Unqualified |
| | Discretely presented component unit | Adverse |
| | General Fund | Unqualified |
| | Road and Bridge Fund | Unqualified |
| | Hurricane Katrina Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified that are not considered to be material weaknesses. | None Reported |
| 3. | Noncompliance material to the financial statements noted? | No |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Significant deficiency identified that is not considered to be a material weakness. | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. CFDA #10.766, Community facilities loans and grants | |
| | b. CFDA #14.228, Community development block grants, state's program | |
| | c. CFDA #97.039, Hazard mitigation grant | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2008

- | | | |
|-----|--|----|
| 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

Board of Supervisors.

Significant Deficiency - Material Weakness

08-1. Finding

A critical aspect of effective financial management is the maintenance of accurate accounting records. As reported in the prior year's audit report, management does not have personnel who possess the necessary qualifications and training to prepare financial statements in accordance with generally accepted accounting principles. Due to the fact that county personnel lacked the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions and preparing its financial statements, the auditor was relied on to perform these tasks. Without adequate controls in place over the recording and reporting of financial records, the risk increases that inaccurate information may be reported and increases the possibility of the loss or misappropriation of public funds.

Recommendation

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

Board of Supervisors' Response

Management will consider hiring an independent accounting firm to prepare the county's financial statements prior to the financial audit of the county by the Office of the State Auditor.

Significant Deficiency - Material Weakness

08-2. Finding

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

Recommendation

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

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2008

Board of Supervisors' Response

Management will consider hiring an independent accounting firm to prepare the financial statements for the county's component unit prior to the financial audit of the county by the Office of the State Auditor.

Significant Deficiency - Material Weakness

08-3. Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. As reported in the prior year's audit report, warrants were issued on funds which did not have sufficient money to pay the warrants. At September 30, 2008, the Planning Code Fund had a negative cash balance of \$81, the Waste Tire Disposal Grant Fund had a negative cash balance of \$15,548, the Roadway Safety Fund had a negative cash balance of \$20,935, the Rural Fire Protection Fund had a negative cash balance of \$4,852, and the SSBG Health Department Fund had a negative cash balance of \$1,306. Failure to plan effectively for the cash requirements of these funds and authorize interfund loans, as required, could result in the misappropriation of funds.

Recommendation

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

Board of Supervisors' Response

Management concurs with the finding, and will endeavor to maintain positive cash balances in all funds, at all times.

Significant Deficiency - Material Weakness

08-4. Finding

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

Recommendation

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

Board of Supervisors' Response

Management will consider the reallocation of duties in the Administrative Assistant's Office at the Regional Correctional Facility. The Facility is in the process of asking all vendors to send their payments directly to the trust account rather than to the facility.

STONE COUNTY

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2008

Significant Deficiency - Material Weakness

08-5. Finding

An effective system of internal control should include an adequate segregation of duties. The maintenance of the general ledger, processing of payroll and other payroll duties are not adequately segregated for effective internal control. Based upon our test work, we noted the following internal control weakness in the payroll function:

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

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

Recommendation

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

Board of Supervisors' Response

Management will consider the reallocation of duties among personnel within the Chancery Clerk's office. Alternatively, management will consider the hiring of additional personnel.

Significant Deficiency - Material Weakness

08-6. Finding

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

Recommendation

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

Board of Supervisors' Response

Management will consider the reallocation of duties among personnel within the Chancery Clerk's office. Alternatively, management will consider the hiring of additional personnel.

Section 3: Federal Award Findings and Questioned Costs

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