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HANCOCK COUNTY, MISSISSIPPI

Audited Primary Government Financial Statements and Special Reports

For the Year Ended September 30, 2004

HANCOCK COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION	
Independent Auditors' Report	3
Primary Government Financial Statements	
Exhibit 1 Statement of Net Assets	6
Exhibit 2 Statement of Activities	7
Exhibit 3 Balance Sheet – Governmental Funds	8
Exhibit 3.1 Reconciliation of Governmental Funds Balance Sheet To the Statement of Net Assets	9
Exhibit 4 Statement of Revenues, Expenditures, and Changes In Fund Balances, Governmental Funds	10
Exhibit 4.1 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances To the Statement of Activities	11
Exhibit 5 Statement of Net Assets – Proprietary Funds	12
Exhibit 6 Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	13
Exhibit 7 Statement of Cash Flows – Proprietary Funds	14
Exhibit 8 Statement of Fiduciary Assets and Liabilities	15
NOTES TO FINANCIAL STATEMENTS	16
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedules	
General County Fund	36
Road Maintenance Fund	37
SUPPLEMENTAL INFORMATION	
Schedule of Expenditures of Federal Awards	41
SPECIAL REPORTS	
Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of the Primary Government Financial Statements Performed in Accordance with "Government Auditing Standards"	44
Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	46
Independent Auditors' Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972))	48
Limited Internal Control and Compliance Review Management Report	52
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	54
AUDITEE'S CORRECTIVE ACTION PLAN	58

HANCOCK COUNTY

FINANCIAL SECTION

HANCOCK COUNTY

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

Members of the Board of Supervisors
Hancock County, Mississippi

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

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of Hancock County, Mississippi, as of September 30, 2004, and the respective changes in financial position 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 30, 2005, on

our consideration of Hancock County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Hancock 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 Schedule 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 inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Hancock 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. 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.

WRIGHT & KING, CPA'S
June 30, 2005

HANCOCK COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

HANCOCK COUNTY
Statement of Net Assets
September 30, 2004

Exhibit 1

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
ASSETS	
Cash	\$ 13,839,740
Property tax receivable	9,597,057
Fines receivable (net of allowance for uncollectibles of \$517,580)	33,554
Loans receivable	74,000
Intergovernmental receivables	567,752
Other receivables	7,125
Restricted assets	163,636
Non-depreciable capital assets	2,308,920
Depreciable capital assets (net of \$25,004,237 accumulated depreciation)	14,226,469
Total Assets	<u>40,818,253</u>
LIABILITIES	
Claims payable	1,567,526
Retainage payable	41,889
Intergovernmental payables	402,819
Internal balances - agency fund liability	9,439
Accrued interest payable	430,114
Deferred revenue	9,716,947
Other payables	252,882
Long-term liabilities	
Due within one year:	
Capital debt	598,404
Non-capital debt	485,000
Due in more than one year:	
Capital debt	6,002,795
Non-capital debt	9,652,635
Total Liabilities	<u>29,160,450</u>
NET ASSETS	
Invested in capital assets, net of related debt	9,934,190
Restricted:	
Expendable:	
Debt service	895,000
Other purposes	70,000
Unrestricted	758,613
Total Net Assets	<u>\$ 11,657,803</u>

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

HANCOCK COUNTY
Statement of Activities
For the Year Ended September 30, 2004

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 Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 5,766,216	25,335	44,346		(5,696,535)
Public safety	7,117,594	1,382,292	513,795	98,243	(5,123,264)
Public works	8,640,959	782,266	772,396	1,077,429	(6,008,868)
Health and welfare	739,586		7,668		(731,918)
Culture and recreation	1,864,307	187,720	104,214		(1,572,373)
Education	20,000				(20,000)
Conservation of natural resources	180,153				(180,153)
Economic development and assistance	435,571				(435,571)
Interest on long-term debt	1,416,866				(1,416,866)
Total Governmental Activities	\$ <u>26,181,252</u>	<u>2,377,613</u>	<u>1,442,419</u>	<u>1,175,672</u>	<u>(21,185,548)</u>
General revenues:					
Property taxes				\$ 14,528,304	
Road & bridge privilege taxes				594,241	
Grants and contributions not restricted to specific programs				4,692,641	
Unrestricted investment income				384,995	
Miscellaneous				126,420	
Total General Revenues				<u>20,326,601</u>	
Changes in Net Assets				<u>(858,947)</u>	
Net Assets - Beginning				20,810,772	
Prior period adjustment				<u>(8,294,022)</u>	
Net Assets - Beginning, as restated				<u>12,516,750</u>	
Net Assets - Ending				\$ <u>11,657,803</u>	

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

HANCOCK COUNTY
Balance Sheet - Governmental Funds
September 30, 2004

Exhibit 3

	Major Funds			Total Governmental Funds
	General Fund	Road Maintenance Fund	Other Governmental Funds	
ASSETS				
Cash	\$ 6,569,488	1,129,112	6,070,630	13,769,230
Property tax receivable	5,250,000	1,117,423	3,889,634	10,257,057
Fines receivable (net of allowance for uncollectibles of \$517,580)	33,554			33,554
Loans receivable	74,000			74,000
Intergovernmental receivables	435,107	68,964	63,681	567,752
Other receivables	7,125			7,125
Due from other funds		61,059	98,846	159,905
Restricted assets			163,636	163,636
Total Assets	\$ <u>12,369,274</u>	<u>2,376,558</u>	<u>10,286,427</u>	<u>25,032,259</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Claims payable	\$ 912,418	241,786	378,909	1,533,113
Retainage payable		41,889		41,889
Intergovernmental payables	401,710		1,109	402,819
Due to other funds	169,344			169,344
Deferred revenue	5,283,554	1,117,423	3,889,634	10,290,611
Other payables	252,882			252,882
Total Liabilities	<u>7,019,908</u>	<u>1,401,098</u>	<u>4,269,652</u>	<u>12,690,658</u>
Fund balances:				
Reserved for:				
Debt service			895,000	895,000
Loans receivable	74,000			74,000
Loan Rebate Program			70,000	70,000
Unreserved, reported in:				
General Fund	5,275,366			5,275,366
Special Revenue Funds		975,460	4,695,136	5,670,596
Capital Project Funds			356,639	356,639
Total Fund Balances	<u>5,349,366</u>	<u>975,460</u>	<u>6,016,775</u>	<u>12,341,601</u>
Total Liabilities and Fund Balances	\$ <u>12,369,274</u>	<u>2,376,558</u>	<u>10,286,427</u>	<u>25,032,259</u>

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

HANCOCK COUNTY
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 September 30, 2004

Exhibit 3-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 12,341,601
Amounts reported for governmental services in the Statement of Net Assets (Exhibit 1) 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 \$25,004,237.	16,535,389
Debt service expenditures are recognized only when payment is due, and, therefore, are not reported in the funds.	(430,114)
Fines Receivable are deferred	33,554
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(16,738,834)
Internal Service Funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.	(83,793)
Total Net Assets - Governmental Activities	\$ <u><u>11,657,803</u></u>

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

HANCOCK COUNTY

Exhibit 4

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

For the Year Ended September 30, 2004

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Road Maintenance Fund		
REVENUES				
Property taxes	\$ 6,694,326	1,163,025	6,670,953	14,528,304
Road and bridge privilege taxes		594,241		594,241
Licenses, commissions and other revenue	789,548		13,070	802,618
Fines and forfeitures	561,320		21,327	582,647
Intergovernmental revenues	2,710,239	1,738,567	2,135,971	6,584,777
Charges for services	430,543		1,277,095	1,707,638
Interest income	241,022	24,296	118,121	383,439
Miscellaneous revenues	204,124	26,806	39,698	270,628
Total Revenues	<u>11,631,122</u>	<u>3,546,935</u>	<u>10,276,235</u>	<u>25,454,292</u>
EXPENDITURES				
Current:				
General government	4,674,308		1,097,698	5,772,006
Public safety	5,948,569		1,088,283	7,036,852
Public works	268,460	3,621,335	6,134,773	10,024,568
Health and welfare	689,586		50,000	739,586
Culture and recreation	594,122		1,279,067	1,873,189
Education	20,000			20,000
Conservation of natural resources	165,133		9,525	174,658
Economic development and assistance	419,415		12,959	432,374
Debt service:				
Principal	17,092	57,494	1,009,610	1,084,196
Interest	1,253	3,296	1,138,654	1,143,203
Total Expenditures	<u>12,797,938</u>	<u>3,682,125</u>	<u>11,820,569</u>	<u>28,300,632</u>
Excess of Revenues over (under) Expenditures	<u>(1,166,816)</u>	<u>(135,190)</u>	<u>(1,544,334)</u>	<u>(2,846,340)</u>
OTHER FINANCING SOURCES (USES)				
Long-term capital debt issued			67,300	67,300
Transfers in	1,038,932		271,865	1,310,797
Transfers out	(271,864)		(1,038,933)	(1,310,797)
Total Other Financing Sources and Uses	<u>767,068</u>	<u>-</u>	<u>(699,768)</u>	<u>67,300</u>
Net Changes in Fund Balances	<u>(399,748)</u>	<u>(135,190)</u>	<u>(2,244,102)</u>	<u>(2,779,040)</u>
Fund Balances - Beginning	<u>5,749,114</u>	<u>1,110,650</u>	<u>8,260,877</u>	<u>15,120,641</u>
Fund Balances - Ending	<u>\$ 5,349,366</u>	<u>975,460</u>	<u>6,016,775</u>	<u>12,341,601</u>

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

HANCOCK COUNTY
 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, 2004

Exhibit 4-1

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (2,779,040)
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 \$2,091,602 exceeded depreciation of \$444,069 in the current period.	1,647,533
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 loss of \$134,282.	(134,282)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because an increase in the allowance for doubtful accounts would have been required on the Statement of Activities using the full-accrual basis of accounting.	(246,110)
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 repayments of \$1,084,196 exceeded debt proceeds of \$67,300.	1,016,896
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
Increase in accrued interest payable	(246,368)
An Internal Service Fund is used by management to charge the cost of insurance to individual funds. The net revenue (expense) is reported within governmental activities.	(117,576)
Change in Net Assets of Governmental Activities	\$ <u><u>(858,947)</u></u>

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

HANCOCK COUNTY
Statement of Net Assets – Proprietary Funds
September 30, 2004

Exhibit 5

	Governmental Activities
	<u>Internal Service Fund</u>
ASSETS	
Cash and cash equivalents	\$ 70,510
Total Assets	<u>70,510</u>
LIABILITIES	
Accounts Payable	34,413
Unearned premium revenue	119,890
Total Liabilities	<u>154,303</u>
NET ASSETS	
Unrestricted	(83,793)
Total Net Assets	<u>(83,793)</u>
Total Liabilities and Net Assets	\$ <u>70,510</u>

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

HANCOCK COUNTY Exhibit 6
Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2004

	Governmental Activities
	Internal Service Fund
Operating Revenues	
Premiums	\$ 1,553,233
Refunds	206,693
Total Operating Revenues	1,759,926
Operating Expenses	
Claims payments	1,556,919
Administrative	65,415
Insurance premiums	255,168
Total Operating Expenses	1,877,502
Operating Income (Loss)	(117,576)
Nonoperating Revenues (Expenses)	
Interest income	1,556
Net Nonoperating Revenue (Expenses)	1,556
Net Income (Loss) Before Capital Contributions, Special and Extraordinary Items and Transfers	(116,020)
Changes in Net Assets	(116,020)
Net Assets - Beginning	32,227
Net Assets - Ending	\$ (83,793)

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

HANCOCK COUNTY
Statement of Cash Flows - Proprietary Fund
For the Year Ended September 30, 2004

Exhibit 7

	Governmental Activities
	<u>Internal Service Fund</u>
Cash Flows From Operating Activities	
Receipts for premiums	\$ 1,483,708
Payments for claims	(1,529,733)
Payments to administrator for services	(65,415)
Payments for insurance premiums	(255,168)
Other operating cash receipts	<u>206,693</u>
Net Cash Provided (Used) by Operating Activities	<u>(159,915)</u>
Cash Flows From Investing Activities	
Interest and dividends on investments	<u>1,556</u>
Net Cash Provided (Used) by Investing Activities	<u>1,556</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(158,359)
Cash and Cash Equivalents at Beginning of Year	228,869
Adjustments to Beginning of Year Cash Due to Fund Reclassification	
Cash and Cash Equivalents at End of Year	<u>\$ 70,510</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (117,576)
Increase (decrease) in claims payable	27,186
Increase (decrease) in deferred revenue	<u>(69,525)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (159,915)</u>

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

HANCOCK COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2004

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 520,824
Intergovernmental receivables	4,660
Internal balance due from General Fund	9,439
Property tax receivable	635,328
Total Assets	<u><u>1,170,251</u></u>
LIABILITIES	
Other accrued liabilities	1,095,681
Intergovernmental payables	74,570
Total Liabilities	<u><u>\$ 1,170,251</u></u>

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

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Hancock 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 Hancock County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the county.

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

- Bayside Park Fire Protection District
- Clermont Harbor Lakeshore Fire Protection District
- Diamondhead Fire Protection and Waste Disposal District
- East Hancock Fire Protection District
- Fenton Fire Protection District
- Kiln Fire Protection District
- Leetown Fire Protection District
- West Hancock Fire Protection District
- Post 58 Fire Protection District
- Hancock County Human Resource Agency
- Hancock County Medical Center
- Hancock County Port and Harbor Commission

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. Individual Component Unit Disclosure.

Blended Component Unit

Certain component units, although legally separate from the primary government, are nevertheless so intertwined with the primary government that they are, in substance, the same as the primary government. Therefore, these component units are reported as if they are part of the primary government. The following component unit's balances and transactions are blended with the balances and transactions of the primary government.

HANCOCK COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

- **Hancock County Public Improvement Corporation**
The Hancock County Public Improvement Corporation, incorporated under Section 31-8-3, Miss. Code Ann. (1972), is a not-for-profit entity formed to finance the purchase/renovation of the McDonald Building to be leased to the County. The Board of Directors of the Hancock County Public Improvement Corporation is composed of the Board of Supervisors of Hancock County. The Hancock County Public Improvement Corporation is reported as a governmental fund. See Note 9 for further disclosure concerning the issuance of certificates of participation (COPs) and related capital facilities.

C. 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.

The Statement of Net Assets presents the financial condition of the governmental 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. 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. Internal service fund balances have been eliminated against the expenses and program revenue. The comparison of direct expenses with program revenues identifies the extent to which each 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 are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

D. Measurement Focus and Basis of Accounting.

The Government-wide, Proprietary Funds and Fiduciary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless

HANCOCK COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

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.

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

The county reports the following major Governmental Funds:

General Fund - Accounts for all activities of the general government for which a separate fund has not been established.

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

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

Internal Service Fund - This fund is used to account for those operations that provide services to other departments or agencies of the government, on a cost-reimbursement basis. The county's internal service fund reports on self-insurance programs for employee medical benefits.

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.

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

E. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

F. Deposits.

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.

G. Receivables.

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

H. 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.

I. Inventories and Prepaid Items.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items, such as prepaid insurance, are not reported for Governmental Fund Types since the costs of such items are accounted for as expenditures in the period of acquisition.

J. Restricted Assets.

Some Special Obligation debt issuance trust agreements require assets to be held and/or used as specified in trustee agreements have been reported as restricted assets. When both restricted and non-restricted assets are available for use, the policy is to use restricted assets first.

K. 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 governmental activities column in the government-wide financial statement. All purchased capital assets are stated at historical cost where records are

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980, are reported on the government-wide financial statements. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

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

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

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

L. Long-term liabilities.

Long-term liabilities are the un-matured principal of bonds, loans, notes or other forms of non-current 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, long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets.

M. Equity Classifications

Government-wide Financial Statements:

HANCOCK COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

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, constructions or improvements of those assets.

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

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

Fund Financial Statements:

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

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.

N. Property Tax Revenues.

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

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

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

O. Intergovernmental Revenues in Governmental Funds.

Intergovernmental revenues, consisting of grants, entitlements and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants 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.

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

P. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements and Proprietary 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.

Therefore, the county's full liability in the amount of \$78,161 for accumulated unpaid personal leave up to a maximum of 7 days per employee is reported as a liability in the Statement of Net Assets.

The county has adopted a policy of compensating overtime through compensatory time, as allowed by the Fair Labor Standards Act. 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.

Therefore, the county's full liability in the amount of \$104,474 for accumulated unpaid compensatory time is reported as a liability in the Statement of Net Assets.

(2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Hancock County Tax Increment Financing Bond Payable, Series 1996	\$ 5,000,000
Capital assets titled to discretely presented component units, net of accumulated depreciation	<u>3,294,022</u>
Total prior period adjustment	<u>\$ 8,294,022</u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2004, was \$14,360,564, and the bank balance was \$14,575,413. 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.

(4) Restricted Assets.

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

The Trust Agreement between Hancock County and its Trustee for its \$1,300,000 Miss. Development Bank Special Obligation Bonds, Series 1998 (Hancock County Library Project), requires a Debt Service Reserve Requirement of \$104,875. The Trustee shall administer the fund during the life of the Special Obligation debt. At September 30, 2004, the amount of restricted assets maintained by the Trustee was \$163,636.

Hancock County authorized the borrowing and entering into a loan with the Mississippi Development Bank for \$2,500,000 Mississippi Development Bank Special Obligation Bonds, Series 2001A (E-911 Project) on January 6, 2003. \$2,500,000 is available for the County to draw upon for this project; however, nothing has been drawn down. The restricted assets that may be required by this debt are not yet required and thus are not reflected in the financial statements.

(5) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Road Maintenance Fund	General	\$ 61,059
Other Governmental Funds	General	98,846
Agency Funds	General	9,439
Total		\$ 169,344

The receivables represent the tax revenue collected but not settled until October 2004. All interfund balances are expected to be repaid within one year from the date of the financial statements. In the fund financial statements, "Due to Other Funds" of \$169,344 exceeds "Due from Other Funds" of \$159,905 by \$9,439 "Due to Agency Funds."

B. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 1,038,932
Other Governmental Funds	General Fund	271,865
Total		\$ 1,310,797

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

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

(6) Intergovernmental Receivables.

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

Governmental Activities:

<u>Description</u>	<u>Amount</u>
Legislative tax credit	\$ 211,527
Other state general revenue	130,469
Hurricane Ivan Protective Measures	52,106
Coastal Impact Assistance	23,392
Surface Transportation Program	37,083
Public safety federal assistance	25,932
Local charges for services	62,635
Other local general revenue	<u>24,608</u>
 Total Governmental Activities	 \$ <u><u>567,752</u></u>

(7) Loans Receivable.

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

<u>Description</u>	<u>Date of Loan</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance Payable</u>
Hancock County Wastewater District	11/01/95	N/A	N/A	\$ 19,000
Hancock County Wastewater District	05/25/97	N/A	N/A	15,000
Pearlington Water and Sewer District	03/02/98	N/A	N/A	<u>40,000</u>
 Total				 \$ <u><u>74,000</u></u>

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

(8) Capital Assets.

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

Governmental activities:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments	Balance Sept. 30, 2004
<u>Non-depreciable capital</u>					
Land	\$ 611,072				611,072
Construction in progress	1,387,433	1,473,645	(1,742,142)	578,912	1,697,848
Total non-depreciable capital assets	<u>1,998,505</u>	<u>1,473,645</u>	<u>(1,742,142)</u>	<u>578,912</u>	<u>2,308,920</u>
<u>Depreciable capital assets:</u>					
Infrastructure	27,748,231	177,904			27,926,135
Buildings	10,386,496	1,825,543		(5,757,840)	6,454,199
Improvements other than buildings		131,584			131,584
Mobile equipment	4,390,119	158,745	(529,419)	(332,370)	3,687,075
Furniture and equipment	432,851		(60,383)		372,468
Leased property under capital leases	383,818	67,300	(159,325)	367,452	659,245
Total depreciable capital	<u>43,341,515</u>	<u>2,361,076</u>	<u>(749,127)</u>	<u>(5,722,758)</u>	<u>39,230,706</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	19,111,433	42,596			19,154,029
Buildings	3,814,295	129,058		(2,166,168)	1,777,185
Improvements other than buildings		10,526			10,526
Mobile equipment	3,549,235	222,227	(414,534)	(68,826)	3,288,102
Furniture and equipment	350,518	14,948	(40,745)		324,721
Leased property under capital leases	199,115	24,714	(159,325)	385,170	449,674
Total accumulated	<u>27,024,596</u>	<u>444,069</u>	<u>(614,604)</u>	<u>(1,849,824)</u>	<u>25,004,237</u>
Total depreciable capital assets, net	<u>16,316,919</u>	<u>1,917,007</u>	<u>(134,523)</u>	<u>(3,872,934)</u>	<u>14,226,469</u>
Governmental activities assets, net	<u>\$ 18,315,424</u>	<u>3,390,652</u>	<u>(1,876,665)</u>	<u>(3,294,022)</u>	<u>16,535,389</u>

A \$3,294,022 net prior period adjustment to beginning fixed assets deleted capital assets titled to discretely presented component units.

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 95,792
Public safety	181,057
Public works	129,713
Culture and recreation	36,598
Economic development	909
Total governmental activities depreciation expense	\$ 444,069

Commitments with respect to unfinished capital projects at September 30, 2004, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Texas Flat Road Engineering	\$ 1,234,992	9/30/2006

(9) Claims and Judgments.

Risk Financing

The county finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement, fire fighters and road construction personnel and \$400,000 for all other employees for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2004, to January 1, 2005. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The county is exposed to risk of loss relating to employee health, accident and dental coverage. Beginning in 2002 and pursuant to Section 25-15-101, Miss. Code Ann. (1972), the county established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss.

Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Hancock County pays the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The county has a minimum uninsured risk retention, to the extent that actual claims submitted exceed the predetermined premium. The county has implemented the following plans to minimize this potential loss:

The county has purchased coinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$50,000, and the aggregate policy covers all submitted claims in excess of \$1,550,664.

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

Claims expenditures 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). At September 30, 2004, the amount of these liabilities was \$34,413. An analysis of claims activities is presented below:

	<u>Beginning of Fiscal Year Liability</u>	<u>Current Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at Fiscal Year End</u>
2002-2003	\$ 105,903	1,729,252	1,842,382	7,227
2003-2004	\$ 7,227	1,556,919	1,529,733	34,413

(10) Operating Leases.

As Lessee:

The county has entered into certain operating leases which do not give rise to property rights. Total costs for such leases were \$209,074 for the year ended September 30, 2004. The future minimum lease payments for these leases are as follows:

<u>Year Ended September 30</u>	<u>Amount</u>
2005	\$ 35,042
2006	35,042
2007	<u>170,681</u>
Total Minimum Payments Required	<u>\$ 240,765</u>

(11) Capital Leases.

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 354,635
Other furniture and equipment	<u>304,610</u>
Total	659,245
Less: Accumulated depreciation	<u>(449,674)</u>
Leased Property Under Capital Leases	<u>\$ 209,571</u>

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

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

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 149,648	4,555
2006	30,546	793
2007	<u>13,888</u>	<u>132</u>
Total	<u>\$ 194,082</u>	<u>5,480</u>

(12) Long-term Debt.

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

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General Obligation Bonds:			
Sand Beach Construction	\$ 220,000	4.75 to 5.40	02-05
1993 Refunding Bonds	110,000	4.00 to 4.60	02-07
Public Improvement Bonds, Series 1997	<u>4,935,000</u>	4.50 to 6.00	12-17
Total General Obligation Bonds	<u>\$ 5,265,000</u>		
B. Limited Obligation Debt:			
Miss. Development Bank Special Obligation Bonds, Series 1998 (Hancock County Library Project)	\$ 1,035,000	4.60 to 6.10	07-18
Miss. Development Bank Special Obligation Bonds, Series 2001 (Hancock County Sand Beach Project)	1,885,000	3.55 to 4.95	07-16
Miss. Development Bank Special Obligation Bonds, Series 2001A (E-911 Project)			
The entire amount from this \$2,500,000 issuance, authorized 01-03, is available to be drawn down by the County.	0	Not yet set	07-31
General Obligation MBIA Bonds, Series 2001 (Lockheed Martin Corporation Project)	2,850,000	1.00	12-16
Tax Increment Limited Obligation Bonds, Series 1996 (Wellman, Inc. Project)	5,000,000	8.75	02-19
Certificates of Participation (Hancock County Public Building Project)	<u>327,117</u>	5.38	03-12
Total Limited Obligation Bonds & Other Debt	<u>\$ 11,097,117</u>		

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
C. Capital Leases:			
Four Sheriff's Office Crown Victoria's	\$ 14,978	5.50	07-05
Computer Equipment (Tax Office)	64,107	5.39	11-05
Computer Equipment (Justice Court Office)	9,085	4.88	07-05
Three Mowers	38,546	4.69	08-05
Tractor	11,834	3.18	05-05
Beach Sweeper	30,764	3.04	02-07
Broom Sweeper	27,768	3.05	03-07
Total Capital Leases	\$ 194,082		

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		Limited Obligation Debt	
	Principal	Interest	Principal	Interest
2005	\$ 580,000	238,783	353,756	617,031
2006	260,000	218,201	360,620	606,053
2007	275,000	205,494	377,526	595,531
2008	290,000	192,075	384,556	584,105
2009	305,000	178,325	401,657	572,201
2010 - 2014	1,770,000	656,632	2,273,992	2,654,223
2015 - 2019	1,785,000	179,255	6,945,000	2,285,159
Total	\$ 5,265,000	1,868,765	11,097,117	7,914,303

Legal Debt Margin - The amount of debt, excluding specific exempted debt can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2004, the amount of outstanding debt was equal to 1.49% of the latest property assessments.

Tax Increment Financing (TIF) Limited Obligation Bonds, Series 1996 (Wellman Redevelopment Project) – TIF Bonds are commonly issued to encourage economic development in a defined area. TIF Bonds are repaid from the incremental ad valorem tax revenue over the amount of the base ad valorem tax revenue (the amount available before the TIF district is established). In April, 1996, Hancock County issued \$5,000,000 Limited Obligation Tax Increment Financing (TIF) 20-year 8.75% Bonds to purchase and make site improvements to land located in the Port Bienville Industrial Park for the Wellman Redevelopment Project.

As part of the April 17, 1996 Inducement Agreement, Wellman agreed to pay a fee in lieu of taxes for 10 years, pursuant to Section 27-31-104, and was granted a 10 year exemption from all ad valorem taxation in the State,

HANCOCK COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

except ad valorem taxes levied for school purposes, for a period not to exceed 10 years, pursuant to Section 57-10-439(2), Miss. Code Ann. (1972). The fee in lieu of taxes is used to retire the interest on the TIF Bonds. The first payment on the TIF Bonds was due February 5, 2000. As of September 30, 2004, the TIF bond principal outstanding is \$5,000,000. The County is not obligated to repay the debt if the tax increment is insufficient to make the annual payment

Certificate of Participation Limited Obligation Debt (Public Building Project) - As discussed in Note 1, the County's blended component unit, the Hancock County Public Improvement Corporation, issued \$520,000 Certificates of Participation in 1996 to finance the renovation and conversion of the McDonald Building to Justice Court and Emergency Management purposes to be leased to the County. The outstanding balance is \$327,117.

Mississippi Development Bank Special Obligation Bonds – The Mississippi Development Bank is authorized to issue its bonds and to loan the proceeds thereof to a county in exchange for a Note of the County. The Note does not constitute a general obligation of the County and the County has not pledged the levy of any tax for the repayment of the Note. The Principal and Interest of the Note and other amounts due under the Loan Agreement are to be paid from the legally available revenues including revenues derived from, but not limited to, taxes collected pursuant to Sections 65-33-45 and 65-33-47, Miss. Code Ann. (1972). The County has been covenanted in the Loan Agreement to take such actions as may be necessary to include all the Note Payments and amounts due under the Loan Agreement in its annual budget. In addition, the Act and Loan Agreement provide for the intercept of local taxes from the Miss. State Tax Commission if the County is deficient in its payments.

Mississippi Business Investment Act (MBIA) General Obligation Bonds (Lockheed Martin Project) – The Mississippi Development Authority issued MBIA General Obligation Bonds and loaned \$3,300,000 of the proceeds to the County under the provisions of Section 57-61-1 *et seq.*, Miss. Code Ann. (1972). This debt is not subject to the 15% and 20% general obligation debt limit of the County. The Hancock County Port and Harbor Commission is responsible for \$310,000 of the \$3,300,000 loan, payable at \$31,000 per year for 10 years. The first such payment to the County was made in August 2002.

Prior Year Defeasance of Debt - In prior years, the county defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the county's financial statements. On September 30, 2004, \$125,000 of bonds outstanding was considered defeased. .

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

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

	Balance Oct. 1, 2003	Addition	Reductions	Adjustment	Balance Sept. 30, 2004	Amount within one year
Governmental Activities:						
Compensated absences	\$ 92,269	104,474	(14,108)		182,635	
Claims and judgments					0	
General obligation	11,910,000		(565,000)	(6,080,500)	5,265,000	580,000
Limited obligation			(342,078)	11,439,195	11,097,117	353,756
Capital leases	309,216	67,300	(177,118)	(5,316)	194,082	149,648
Other loans	359,195			(359,195)	0	
Total	\$ 12,670,680	171,774	(1,098,304)	4,994,684	16,738,834	1,083,404

(13) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2004:

Fund	Deficit Amount
CDBG – Pearlington Water & Sewer	\$ (74,418)
Coastal Impact Assistance Program	(74,298)
Harbor Master	(8,053)

(14) Contingencies.

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

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

General Obligation Debt Contingencies - The county issues general obligation bonds and notes-to provide funds for constructing and improving capital facilities of Hancock Medical Center and the Hancock Port and Harbor Commission. Such debt is being retired from pledged resources of these entities and, therefore, is reported as a liability of those entities. However, because general obligation bonds and notes are backed by the full faith, credit and taxing power of the county, the county remains contingently liable for its retirement. The principal amount of such debt outstanding at year end is as follows:

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

Description	Balance at Sept. 30, 2004
General obligation hospital bonds and notes	\$ 8,739,955
General obligation port & harbor bonds and notes	<u>8,229,635</u>
Total	<u><u>\$ 16,969,590</u></u>

(15) Related Organizations.

The Hancock County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Hancock County Wastewater District, but the county's accountability for this organization does not extend beyond making the appointments. The balance of the loans outstanding from this organization at year-end in the amount of \$34,000 is disclosed in Note 6.

The Hancock County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Pearlinton Water and Sewer District, but the county's accountability for this organization does not extend beyond making the appointments. The balance of the loans outstanding from this organization at year-end in the amount of \$40,000 is disclosed in Note 6.

The Hancock County Board of Supervisors is responsible for appointing a voting majority of the members of the board of the Diamondhead Water and Sewer District, but the county's accountability for this organization does not extend beyond making the appointments.

(16) Joint Ventures.

The county participates in the following joint ventures:

Hancock County is a participant with the cities of Bay Saint Louis and Waveland in a joint venture, authorized by Section 49-17-171, Miss. Code Ann. (1972), to operate the Southern Regional Wastewater Management District. The joint venture was created to provide wastewater management. The Hancock County Board of Supervisors appoints one of the three members of the board of directors. By contractual agreement, the county's appropriation to the joint venture was \$271,260 for the fiscal year ending September 30, 2004. Complete financial statements for the Southern Regional Wastewater Management District can be obtained from 401 Gulfside Street, Waveland, Mississippi.

Hancock County is a participant with the cities of Bay Saint Louis and Waveland in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Hancock County Library System. The joint venture was created to provide library service. The Hancock County Board of Supervisors appoints two of the five members of the board of directors. By contractual agreement, the county's appropriation to the joint venture was \$930,987 in the fiscal year ending September 30, 2004. Complete financial statements for the Hancock County Library System can be obtained from 312 Highway 90, Bay Saint Louis, Mississippi.

Hancock County is a participant with the cities of Bay Saint Louis and Waveland in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Hancock County Regional Solid Waste Management Authority. The joint venture was created to collect and dispose of solid waste for the members of the authority. The Hancock County Board of Supervisors appoints two of the six members of the board of directors. The county's appropriation and contractually established fees paid to the joint venture were \$920,764 and \$684,132, respectively in the fiscal year ending September 30, 2004. Complete financial statements can be obtained from the authority's office at 401 Gulfside Street, Waveland, Mississippi.

HANCOCK COUNTY

Notes to Financial Statements For the Year Ended September 30, 2004

(17) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

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, Pearl, 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 support to the organization.

Region XIII Commission for Mental Health and Mental Retardation operates in a district 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 \$100,000 for support of the agency in fiscal year ending September 30, 2004.

Pearl River Community College operates in a district composed of the counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion, and Pearl River. The Hancock County Board of Supervisors appropriated \$684,000 for maintenance and support of the college in the fiscal year ending September 30, 2004.

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, Stone and Wayne. The Hancock 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.

Gulf Regional Planning Commission operates in a district composed of the counties of Hancock, Harrison and Jackson. The governing body is a nine-member board of directors, three appointed by the Board of Supervisors of each member county. The county contributes a small percentage of the commission's total revenue.

Gulf Coast Community Action Agency operates in the counties of George, Greene, Hancock and Harrison. The agency's board is composed of 24 members, one each appointed by the counties of George, Greene, Hancock and Harrison and the cities of Bay Saint Louis, Gulfport and Pass Christian, with the remaining 16 appointed by the private sector. Most of the entity's funding comes through federal grants and the member governments provide only a modest amount of financial support.

(18) Defined Benefit Pension Plan.

Plan Description. Hancock 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 current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2004,

HANCOCK COUNTY

Notes to Financial Statements
For the Year Ended September 30, 2004

2003 and 2002 were \$643,246, \$596,810 and \$578,378, respectively, equal to the required contributions for each year.

(19) Subsequent Events.

Subsequent to September 30, 2004, the 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>
02/2005	3.00% to 3.50%	\$ 4,500,000	General Obligation Public Improvement Bonds, Series 2005	Property taxes
03/2005	3.01%	165,320	Operating lease: 2 Mack Trucks	Any available resource
06/2005	3.38%	138,857	Operating lease: Caterpillar 938G Wheel Loader	Any available resource
06/2005	3.38%	117,050	Operating lease: 2: 416D Backhoe Loaders	Any available resource
06/2005	3.38%	173,972	Operating lease: 2: Mack CV713 Tandem Dump Trucks	Any available resource
06/2005	3.38%	166,379	Operating lease: 2: Mack CHN613 Tractors	Any available resource

HANCOCK COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 General Fund
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 6,517,157	6,517,157	6,511,657	(5,500)
Road and bridge privilege taxes				-
Licenses, commissions and other revenue	581,666	581,666	790,555	208,889
Fines and forfeitures	388,725	388,725	566,598	177,873
Intergovernmental revenues	2,735,536	2,735,536	2,818,175	82,639
Charges for services	290,451	290,451	416,726	126,275
Interest income	173,868	173,868	240,269	66,401
Miscellaneous revenues	129,888	129,888	201,266	71,378
Total Revenues	<u>10,817,291</u>	<u>10,817,291</u>	<u>11,545,246</u>	<u>727,955</u>
EXPENDITURES				
Current:				
General government	5,234,549	5,234,549	4,559,690	674,859
Public safety	6,077,809	6,077,809	5,680,359	397,450
Public works	1,324,539	1,324,539	267,381	1,057,158
Health and welfare	725,047	725,047	690,640	34,407
Culture and recreation	668,075	668,075	498,251	169,824
Education	20,000	20,000	20,000	-
Conservation of natural resources	169,375	169,375	163,131	6,244
Economic development and assistance	421,199	421,199	417,516	3,683
Total Expenditures	<u>14,640,593</u>	<u>14,640,593</u>	<u>12,296,968</u>	<u>2,343,625</u>
Excess of Revenues over (under) Expenditures	<u>(3,823,302)</u>	<u>(3,823,302)</u>	<u>(751,722)</u>	<u>(1,615,670)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	996,401	996,401	1,058,195	61,794
Transfers out	(291,127)	(291,127)	(291,127)	-
Total Other Financing Sources and Uses	<u>705,274</u>	<u>705,274</u>	<u>767,068</u>	<u>61,794</u>
Net Change in Fund Balance	<u>\$ (3,118,028)</u>	<u>(3,118,028)</u>	15,346	<u>(1,553,876)</u>
Adjustments to GAAP basis:				
Decrease in accrued revenue			(1,000,608)	
Decrease in accrued expenditures			585,514	
Net Change in Fund Balance			<u>(399,748)</u>	
Fund Balances - Beginning			5,749,114	
Fund Balances - Ending			<u><u>5,349,366</u></u>	

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

HANCOCK COUNTY
 Budgetary Comparison Schedule -
 Budget and Actual (Non-GAAP Basis)
 Road Maintenance Fund
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 1,157,063	1,157,063	1,162,489	5,426
Road and bridge privilege taxes	544,860	544,860	580,106	35,246
Intergovernmental revenues	829,541	829,541	1,685,122	855,581
Interest income	19,169	19,169	24,296	5,127
Miscellaneous revenues			26,806	26,806
Total Revenues	<u>2,550,633</u>	<u>2,550,633</u>	<u>3,478,819</u>	<u>928,186</u>
EXPENDITURES				
Current:				
Public works	<u>2,980,075</u>	<u>2,980,075</u>	<u>3,630,037</u>	<u>(649,962)</u>
Total Expenditures	<u>2,980,075</u>	<u>2,980,075</u>	<u>3,630,037</u>	<u>(649,962)</u>
Excess of Revenues over (under) Expenditures	<u>(429,442)</u>	<u>(429,442)</u>	<u>(151,218)</u>	<u>1,578,148</u>
Net Change in Fund Balance	<u>\$ (429,442)</u>	<u>(429,442)</u>	(151,218)	<u>1,578,148</u>
Adjustments to GAAP basis:				
Increase in accrued revenue			68,116	
Increase in accrued expenditures			(52,088)	
Net Change in Fund Balance - GAAP basis			<u>(135,190)</u>	
Fund Balances - Beginning			1,110,650	
Fund Balances - Ending			<u>975,460</u>	

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

Notes to the Required Supplementary Information

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:

	Governmental Fund Types	
	General Fund	Road Maintenance Fund
Budget (Cash Basis)	\$ 15,346	(151,218)
Increase (Decrease)		
Net adjustments for revenue accruals	(1,000,608)	68,116
Net adjustments for expenditure	585,514	(52,088)
GAAP Basis	\$ (399,748)	(135,190)

D. Excess of Actual Expenditures Over Budget in Individual Funds.

The following fund had an excess of actual expenditures over budget for the year ended September 30, 2004:

<u>Fund</u>	<u>Excess</u>
Special Revenue Funds:	
Road Maintenance Fund	\$ 649,962

The Road Maintenance Fund is in violation of Section 9-11-17, Miss. Code Ann. (1972). However, the county has no liability associated with this violation.

HANCOCK COUNTY

SUPPLEMENTAL INFORMATION

HANCOCK COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditure
MAJOR FEDERAL AWARDS			
U.S. Department of Transportation – Federal Highway Administration Highway Planning and Construction (Federal-Aid Highway Program)/ Passed through Miss. Department of Transportation			
Local Surface Transportation Program: Texas Flat Road	20.205	STP 1126 1 B	\$ 1,096,004
Bridge Inspection	20.205	BR NBIS 059 B	2,310
Bridge Inspection	20.205	BR NBIS 060 B	4,670
Total U.S. Department of Transportation			<u>1,102,984</u>
U.S. Federal Emergency Management Agency			
Project Impact-Building Disaster Resistant Communities	83.551	EMA-2001-GR-0078	<u>91,868</u>
Total Expenditures of Major Federal Awards			<u>1,194,852</u>
OTHER FEDERAL AWARDS			
U.S. Department of Commerce/Passed through Miss. Department of Environmental Quality			
Coastal Zone Administration Awards	11.419	13-1450-1-302	<u>852,793</u>
U.S. Department of Justice			
Bulletproof vest partnership	16.607		445
COPS FAST	16.710		12,383
Total Direct Department of Justice			<u>12,828</u>
Passed through Miss. Department of Public Safety			
Juvenile Accountability Incentive Block Grant	16.523	1JB1231	17,604
Victim/Witness	16.525	2NW1232	59,763
Child Abuse	16.547	2NP1234	69,427
Miss. Leadership Council on Aging	16.548	4CA1231	8,000
Byrne Formula Grant	16.579	99-DB-BX0028	33,707
Stop Violence Against Women	16.588	1SL1231	4,600
Stop Violence Against Women	16.588	2SL1231	23,921
Local Law Enforcement Block Grant	16.592	3LB1231	2,100
Crime Prevention	16.609	1NC1232	32,296
Total Passed through Miss. Department of Public Safety			<u>251,418</u>
Total Department of Justice			<u>264,246</u>
U.S. Department of Homeland Security/Passed through Miss. Emergency Management Agency			
State Domestic Preparedness Equipment Support Program	97.004	2DPG21	24,920
Public Assistant Grants-Hurricane Ivan	97.036	FEMA-1550-DR-MS	52,106
Total Department of Homeland Security			<u>77,026</u>

HANCOCK COUNTY
 Schedule of Expenditures of Federal Awards
 For the Year Ended September 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditure
Total Expenditures of Other Federal Awards			<u>1,194,065</u>
Total Expenditures of Federal Awards			<u>\$ 2,388,917</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.

HANCOCK COUNTY

SPECIAL REPORTS



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

Members of the Board of Supervisors
Hancock County, Mississippi

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

Compliance

As part of obtaining reasonable assurance about whether Hancock County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance which we have reported to the management of Hancock County, Mississippi in the Limited Internal Control and Compliance Review Management Report dated June 30, 2005, included within this document.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hancock County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hancock County, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 04-1, 04-2, 04-3, 04-4 and 04-5.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 04-1 to be a material weakness.

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

WRIGHT & KING, CPA'S
June 30, 2005



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INDEPENDENT AUDITORS' 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
Hancock County, Mississippi

Compliance

We have audited the compliance of Hancock 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, 2004. Hancock 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 Hancock County, Mississippi's management. Our responsibility is to express an opinion on Hancock 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 Hancock 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 Hancock County, Mississippi's compliance with those requirements.

In our opinion, Hancock 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, 2004.

Internal Control Over Compliance

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

We noted certain matters involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Hancock County, Mississippi's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item 04-6.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management and 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.

WRIGHT & KING, CPA'S
June 30, 2005



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INDEPENDENT AUDITORS' 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
Hancock County, Mississippi

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

The Board of Supervisors of Hancock 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 Hancock 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, Hancock 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 Hancock 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.

WRIGHT & KING, CPA'S
June 30, 2005

HANCOCK COUNTY
Schedule of Purchases Not Made From the Lowest Bidder
For the Year Ended September 30, 2004

Schedule 1

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

HANCOCK COUNTY
 Schedule of Emergency Purchases
 For the Year Ended September 30, 2004

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
05/13/2004	Fire Alarm	\$ 33,000	SoTec	Fire Alarm failure in Jail 2 nd floor
07/23/2004	Computer system and network	33,868	Data System Management	Computer failure caused Justice Court cancellations

HANCOCK COUNTY
Schedule of Purchases Made Noncompetitively From a Sole Source
For the Year Ended September 30, 2004

Schedule 3

<u>Date</u>	<u>Item Purchased</u>		<u>Amount Paid</u>	<u>Vendor</u>
02/12/2004	Hoop-wrap Cylinders	\$	4,770	Bay Fire Products



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LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Hancock County, Mississippi

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

In addition, for areas not considered material to Hancock 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 30, 2005, on the financial statements of Hancock County, Mississippi.

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 immaterial instances of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your response are disclosed below:

Board of Supervisors.

1. Finding

During our review of the minutes, we noted that in some instances, appropriate documentation was not presented at the time an action item came before the board.

Recommendation

In Hancock County, the Minutes of the Board of Supervisors serve as the county's central reference. Every effort should be taken to ensure completeness of the county's records by requiring department heads or others present applicable documentation at the time of Board action request.

Board of Supervisors' Response

We will comply with the recommendation.

Chancery Clerk.

1. Finding

Section 27-31-85, Miss. Code Ann. (1972), requires all mineral stamp collections be settled by the 15th day of the next succeeding month. During the audited fiscal year, mineral stamps were settled twice. Additionally, during audit procedures, one mineral stamp sale was not properly recorded and two mineral stamps were not accounted for.

Recommendation

We recommend settling all mineral stamps by the 15th of the next succeeding month. Regular settlements and accounting should help prevent unrecorded and unaccounted for mineral stamps.

Chancery Clerk's Response

We will comply with the recommendation.

County Administrator.

1. Finding

Section 19-11-11, Miss. Code Ann. (1972) requires the county to adopt its budget in the prescribed format. A budget must be adopted for each individual fund and spread upon the minutes with that level of detail. While the county does adopt a budget for each individual fund, the budget entered into its minutes was a consolidated fund group budget.

Recommendation

We recommend spreading the legally adopted budget for each individual fund on the minutes.

County Administrator's Response

We will comply with the recommendation.

2. Finding

The Road Maintenance fund had a \$649,962 excess of actual expenditures over budget for the year ended September 30, 2004, in violation of Section 9-11-17, Miss. Code Ann. (1972). Two expenditures for wetland mitigation, totaling \$759,092, were erroneously expended from revenue. Correcting the error caused the budget to be exceeded.

Recommendation

Basic accountability requires that expenditures be charged as expenditures. Controls should be established to provide assurances of the integrity of the accounting and legal budgetary compliance systems.

County Administrator's Response

We will comply with the recommendation.

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

WRIGHT & KING, CPA'S
June 30, 2005

HANCOCK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|----|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified |
| 5. | Internal control over major programs: | |
| a. | Material weakness identified? | No |
| b. | Reportable conditions identified that are not considered to be material weaknesses? | Yes |
| 6. | Any audit finding(s) reported as required by Section ____.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | U.S. Department of Transportation, Federal Highway Administration Highway Planning and Construction (Federal-Aid Highway Program) passed through the Miss. Department of Transportation: Local Surface Transportation Program (Texas Flat Road), CFDA #20.205, STP 1126 1 B | |
| b. | U.S. Federal Emergency Management Agency, Project Impact Hazard Mitigation, CFDA #83.551 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |

10. Prior fiscal year audit finding(s) 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

Inventory Control Clerk

- 04-1. Finding
Additions to and deletions from capitalized asset records were incomplete.

Recommendation

We recommend the Inventory Control Clerk, County Administrator, Comptroller, Road Manager and Engineer establish and implement policies, procedures and practices to ensure timely completeness of the county's assets.

Justice Court Clerk

- 04-2. Finding
The county entered into a contractual relationship with an outside entity to handle alternative sentencing, including partial payments for convicted Justice Court offenders. The offender allowed partial payments by the judge is required to pay the outside entity an administrative fee of \$50 per month in addition to the partial payments for the court. The outside entity settles large amounts of cash to the justice court on a weekly basis, which the justice court clerk enters into the county's records under each paying offender's name.

Recommendation

We recommend the court establish written policies and procedures filed with the clerk of court for public record. The written policies and procedures should at a minimum ensure accountability and traceability and provide documentation for payments handled under alternative sentencing.

Sheriff

- 04-3. Finding
The Sheriff's Office bank account is not reconciled to the cash journal. The cash journal "book" properly zeroed out each month; the bank account carried a "book" balance of \$23,689 at September 30, 2004.

Recommendation

We recommend reconciling the bank statement to the cash journal "book" and settling all receipts, including interest earned, to the appropriate accounts on a timely basis.

County Administrator

- 04-4. Finding
The Community Development Block Grant/State's Program (Pearlington Sewer Improvements) requires the Mississippi Department of Environmental Quality to approve plans and specifications for the project prior to release of federal funds. During the fiscal year ended September 30, 2004, the county formally procured and purchased \$74,200 in piping for the project prior to plan and specification approval. In addition to tying up local funds for over 15

months, the transaction resulted in deficit fund balance as reported in the Note 13 to the financial statements.

Recommendation

We recommend that the county time procurement and expenditure with grant eligibility to leverage local funds with federal funds, keeping float tying up local funds to a minimum. Authorize an interfund loan to correct deficit in fund.

04-5. Finding

The Coastal Zone Management Administration Award Program (CIAP) is a reimbursable grant; reimbursement must be requested. At September 30, 2004, eligible costs had been incurred for which reimbursement was not timely processed, resulting in a deficit fund balance of \$74,298 as reported in note 13 to the financial statements. At the beginning of audit fieldwork, unreimbursed expenditures had grown to \$304,943.

Recommendation

The County should minimize the timing between incurring the expenditure and requesting the federal reimbursement.

Section 3: Federal Award Findings and Questioned Costs

04-6. Finding

Program: Project Impact Hazard Mitigation (Interest and Loan Rebate Program) CFDA #83.551, EMA-2000-GR-076, Federal Emergency Management Agency

Compliance Requirement: Program guidelines require deposit of grant funds into a non-interest bearing account, financial oversight by county personnel and quarterly updates to the Board of Supervisors.

Finding: The county received \$70,000 federal funds and deposited the funds into the county depository, a NOW accounts which is swept into a REPO account. Both of the interest-bearing accounts earn 1.70% interest. County personnel are not providing quarterly updates on the Project Impact Interest and Loan Rebate Program.

Questioned Costs: By September 30, 2004, the federal \$70,000 had earned \$668 interest, credited to the General Fund.

Recommendation

Open a non-interest bearing bank account with a county depository and move the federal \$70,000 to that account. Compute the amount of interest earned by the federal funds while in the county's interest bearing accounts and reimburse the federal government with local funds. County personnel should actively oversee the program and provide the Board of Supervisors with quarterly updates.

HANCOCK COUNTY

AUDITEE'S CORRECTIVE ACTION PLAN

June 30, 2005

Office of State Auditor
PO Box 956
Jackson, MS 39205

Gentlemen:

Hancock County respectfully submits the following corrective action plan for the year ended September 30, 2004.

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

SECTION 2: FINANCIAL STATEMENT FINDINGS

- 04-1 Corrective Action Planned: The Inventory Control Clerk will establish and implement policies, procedures and practices to ensure timely completeness of the county's assets records, including additions and disposals.

Anticipated Completion Date: September 30, 2005

Name of Contact Person Responsible for Corrective Action: Lynette Carbon

- 04-2 Corrective Action Planned: The Justice Court clerk will establish written policies and procedures filed with the clerk of court for public record. The written policies and procedures will provide accountability and traceability and provide documentation for payments handled under alternative sentencing.

Anticipated Completion Date: September 30, 2005

Name of Contact Person Responsible for Corrective Action: Elizabeth Martin

- 04-3 Corrective Action Planned: The Sheriff's Office will begin reconciling the bank statement to the records of cash and settling all receipts, including interest earned, to the appropriate accounts on a timely basis.

Anticipated Completion Date: September 30, 2005

Name of Contact Person Responsible for Corrective Action: Steve Garber and Ronald Cuevas

- 04-4 Corrective Action Planned: The County will better monitor county procurement and expenditure with grant eligibility to leverage local funds with federal funds, keeping float tying up local funds to a minimum. The County Administrator will present information to the Board of Supervisors to authorize an inter-fund loan to correct deficit in fund.

Anticipated Completion Date: September 30, 2005

Name of Contact Person Responsible for Corrective Action: Timothy Kellar

- 04-5 Corrective Action Planned: The County will minimize the timing between incurring the expenditure and requesting the federal reimbursement by submitting reimbursement requests in a more timely manner.

Anticipated Completion Date: September 30, 2005

Name of Contact Person Responsible for Corrective Action: Timothy Kellar

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- 04-6 Corrective Action Planned: The County will open a non-interest bearing bank account with a county depository and move the federal \$70,000 to that account, compute the amount of interest earned by the federal funds while in the county's interest bearing accounts and reimburse the federal government with local funds. County personnel will oversee the program and provide the Board of Supervisors with quarterly updates.

Anticipated Completion Date: September 30, 2005

Name of Contact Person Responsible for Corrective Action: Timothy Kellar