

HANCOCK COUNTY, MISSISSIPPI

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

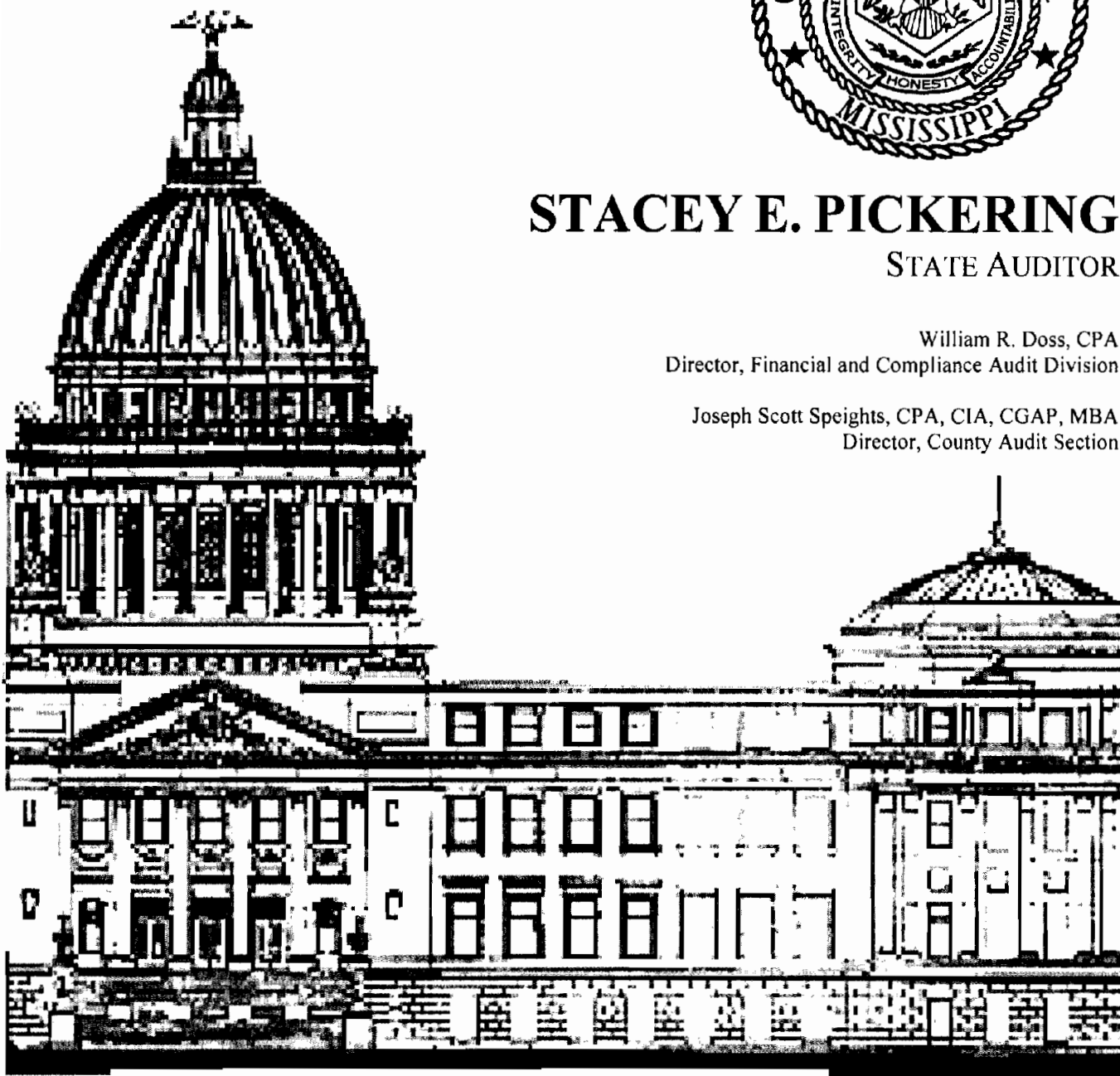


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
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A Report from the County Audit Section

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HANCOCK COUNTY

TABLE OF CONTENTS

FINANCIAL SECTION..... 1

INDEPENDENT AUDITOR'S REPORT 3

FINANCIAL STATEMENTS..... 5

 Statement of Net Assets 7

 Statement of Activities 8

 Balance Sheet - Governmental Funds 9

 Reconciliation of Governmental Funds Balance Sheet to the
 Statement of Net Assets 11

 Statement of Revenues, Expenditures and Changes in Fund Balances –
 Governmental Funds 12

 Reconciliation of the Statement of Revenues, Expenditures and Changes in
 Fund Balances of Governmental Funds to the Statement of Activities..... 14

 Statement of Net Assets - Proprietary Fund 15

 Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund 16

 Statement of Cash Flows - Proprietary Fund..... 17

 Statement of Fiduciary Assets and Liabilities 18

 Notes to Financial Statements 19

REQUIRED SUPPLEMENTARY INFORMATION 37

 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 General Fund..... 39

 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 Hurricane Katrina Fund..... 40

 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 Katrina Insurance Proceeds Fund..... 41

 Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis)
 MDA FEMA Temporary Cash Flow Loan Fund 42

 Notes to the Required Supplementary Information 43

SUPPLEMENTAL INFORMATION ` 45

 Schedule of Expenditure of Federal Awards 47

SPECIAL REPORTS 51

 Independent Auditor's Report on Internal Control Over Financial
 Reporting and on Compliance and Other Matters Based on an
 Audit of the Financial Statements Performed in Accordance with
 Government Auditing Standards 53

 Independent Auditor's Report on Compliance with Requirements Applicable to Each Major
 Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 55

 Independent Auditor's Report on Central Purchasing System, Inventory Control
 System and Purchase Clerk Schedules (Required by Section 31-7-115,
 Miss. Code Ann. (1972))..... 57

 Schedule of Purchases Not Made From the Lowest Bidder 61

 Schedule of Emergency Purchases 62

 Schedule of Purchases Made Noncompetitively From a Sole Source 63

 Limited Internal Control and Compliance Review Management Report 65

SCHEDULE OF FINDINGS AND QUESTIONED COSTS..... 69

AUDITEE'S CORRECTIVE ACTION PLAN 79

HANCOCK COUNTY

FINANCIAL SECTION

HANCOCK COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
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, 2008, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

We were not able to determine if the capital assets amount reported in the governmental activities on the accompanying Statement of Net Assets is fairly presented because subsidiary records documenting the existence, completeness and valuation of capital assets, adequate records documenting the county's infrastructure, and records documenting depreciation on capital assets were destroyed during Hurricane Katrina. The county acknowledged that they cannot produce the necessary records to document the ownership and valuation of their current capital asset listing. Accounting principles generally accepted in the United States of America require that adequate records be maintained to document the existence, completeness, and valuation of capital assets including the county's infrastructure and also that depreciation on capital assets, including infrastructure, be adequately documented. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable. Accordingly, we were unable to satisfy ourselves by means of other auditing procedures as to the fair presentation of these capital assets and related transactions of governmental activities.

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

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

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine adequate capital assets subsidiary records as described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of Hancock County, Mississippi, as of September 30, 2008, and the changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of Hancock County, Mississippi, as of September 30, 2008, 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 October 9, 2009, on our consideration of Hancock County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

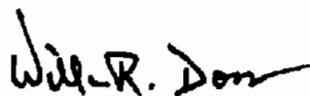
Hancock County, Mississippi, has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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



STACEY E. PICKERING
State Auditor



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

October 9, 2009

HANCOCK COUNTY

FINANCIAL STATEMENTS

HANCOCK COUNTY

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HANCOCK COUNTY
Statement of Net Assets
September 30, 2008

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental Activities</u>
ASSETS	
Cash	\$ 25,474,911
Investments	106,926
Cash with fiscal agent	538,236
Property tax receivable	12,086,048
Fines receivable (net of allowance for uncollectibles of \$442,214)	351,300
Loans receivable	74,000
Intergovernmental receivables	2,111,841
Capital assets:	
Land and construction in progress	5,453,613
Other capital assets, net	12,808,052
Total Assets	<u>59,004,927</u>
LIABILITIES	
Claims payable	2,838,925
Claims and judgments payable	64,129
Intergovernmental payables	489,235
Accrued interest payable	528,555
Deferred revenue	12,086,048
Unearned revenue	975,352
Other payables	495,353
Long-term liabilities	
Due within one year:	
Capital debt	1,623,194
Non-capital debt	295,000
Due in more than one year:	
Capital debt	13,445,172
Non-capital debt	8,930,058
Total Liabilities	<u>41,771,021</u>
NET ASSETS	
Invested in capital assets, net of related debt	3,193,299
Restricted:	
Expendable:	
General government	11,692,539
Debt service	1,510,595
Public works	3,287,778
Culture and recreation	187,572
Economic development	308,155
Capital projects	2,075,746
Unrestricted	(5,021,778)
Total Net Assets	<u>\$ 17,233,906</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, 2008

Exhibit 2

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary government:				
Governmental activities:				
General government	\$ 17,859,589	1,513,961	10,174,241	(16,345,628)
Public safety	11,678,734	738,757	1,456,610	690,874
Public works	8,110,149	795,043	2,320,710	(4,632,753)
Health and welfare	1,146,502	265,127	65,346	(1,081,156)
Culture and recreation	1,985,936		295,657	36,395
Conservation of natural resources	273,486		1,350,322	6,045,113
Economic development and assistance	1,606,662			(992,963)
Interest on long-term debt	992,963			
Total Governmental Activities	\$ 43,654,021	3,312,888	14,206,276	(18,000,927)

General revenues:	\$
Property taxes	14,187,220
Road & bridge privilege taxes	605,080
Grants and contributions not restricted to specific programs	4,638,892
Unrestricted interest income	1,237,074
Miscellaneous	480,423
Total General Revenues	21,148,689
Changes in Net Assets	3,147,762
Net Assets - Beginning	15,075,804
Fund reclassification	5,543
Prior period adjustments	(995,203)
Net Assets - Beginning, as restated	14,086,144
Net Assets - Ending	\$ 17,233,906

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

HANCOCK COUNTY
Balance Sheet - Governmental Funds
September 30, 2008

Exhibit 3

	Major Funds					Total Governmental Funds
	General Fund	Hurricane Katrina Fund	Katrina Insurance Proceeds Fund	MDA FEMA Temporary Cash Flow Loan Fund	Other Governmental Funds	
ASSETS						
Cash	\$ 3,110,404		4,259,444	4,650,731	13,398,967	25,419,546
Investments					106,926	106,926
Cash with fiscal agent	6,101,671			538,236	5,984,377	538,236
Property tax receivable						12,086,048
Fines receivable (net of allowance for uncollectibles of \$442,214)	351,300					351,300
Loans receivable	74,000					74,000
Intergovernmental receivables	288,257	591,874			1,231,710	2,111,841
Due from other funds	13,107,381	2,092			258,057	13,367,530
Total Assets	\$ 23,033,013	\$ 593,966	\$ 4,259,444	\$ 5,188,967	\$ 20,980,037	\$ 54,055,427
LIABILITIES AND FUND BALANCES						
Liabilities:						
Claims payable	\$ 1,010,289	591,874	28,738		1,208,024	2,838,925
Intergovernmental payables	479,677					479,677
Due to other funds	169,395	12,937,052			45,631	13,152,078
Deferred revenue	6,452,971				5,984,377	12,437,348
Unearned revenue					975,352	975,352
Other payables	495,353					495,353
Total Liabilities	\$ 8,607,685	\$ 13,528,926	\$ 28,738	\$ 0	\$ 8,213,384	\$ 30,378,733

HANCOCK COUNTY
Balance Sheet - Governmental Funds
September 30, 2008

Exhibit 3

	Major Funds					Total Governmental Funds
	General Fund	Hurricane Katrina Fund	Katrina Insurance Proceeds Fund	MDA FEMA Temporary Cash Flow Loan Fund	Other Governmental Funds	
Fund balances:						
Reserved for:						
Debt service	74,000				2,039,150	2,039,150
Loans receivable					74,000	74,000
Unreserved - undesignated, reported in:						
General Fund	14,351,328					14,351,328
Special Revenue Funds		(12,934,960)	4,230,706	5,188,967	8,651,757	5,136,470
Capital Project Funds					2,075,746	2,075,746
Total Fund Balances	14,425,328	(12,934,960)	4,230,706	5,188,967	12,766,653	23,676,694
Total Liabilities and Fund Balances	\$ 23,033,013	593,966	4,259,444	5,188,967	20,980,037	54,055,427

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

HANCOCK COUNTY

Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2008

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 23,676,694
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$11,892,437.	18,261,665
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	351,300
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	(24,293,424)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	(528,555)
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.	<u>(233,774)</u>
Total Net Assets - Governmental Activities	\$ <u>17,233,906</u>

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

HANCOCK COUNTY

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

For the Year Ended September 30, 2008

Exhibit 4

	Major Funds							Total Governmental Funds
	General Fund	Hurricane Katrina Fund	Katrina Insurance Proceeds Fund	MDA FEMA Temporary Cash Flow Loan Fund	Other Governmental Funds	Governmental Funds	Governmental Funds	
REVENUES								
Property taxes	\$ 7,302,294				6,884,926			14,187,220
Road and bridge privilege taxes					605,080			605,080
Licenses, commissions and other revenue	544,038				15,574			559,612
Fines and forfeitures	621,247				2,793			624,040
Intergovernmental revenues	3,775,990	8,450,146			14,752,962			26,979,098
Charges for services	569,495				1,208,441			1,777,936
Interest income	570,153		156,079	129,177	381,665			1,237,074
Miscellaneous revenues	117,666	1,692	1,304		359,761			480,423
Total Revenues	13,500,883	8,451,838	157,383	129,177	24,211,202			46,450,483
EXPENDITURES								
Current:								
General government	5,534,523	507,353	1,813,471		10,233,256			18,088,603
Public safety	4,494,827	4,025,110	33,500		3,120,153			11,673,590
Public works	335,477	201,932			7,560,485			8,097,894
Health and welfare	1,146,502							1,146,502
Culture and recreation	617,188				1,368,473			1,985,661
Conservation of natural resources	211,678				61,808			273,486
Economic development and assistance	831,780				772,109			1,603,889
Debt service:								
Principal	152,547				1,408,290			1,560,837
Interest	26,508				437,900			464,408
Total Expenditures	13,351,030	4,734,395	1,846,971	0	24,962,474			44,894,870
Excess of Revenues over (under) Expenditures	149,853	3,717,443	(1,689,588)	129,177	(751,272)			1,555,613
OTHER FINANCING SOURCES (USES)								
Transfers in	48				749,577			749,625
Transfers out	(545,609)				(204,016)			(749,625)
Total Other Financing Sources and Uses	(545,561)	0	0	0	545,561			0
Net Changes in Fund Balances	(395,708)	3,717,443	(1,689,588)	129,177	(205,711)			1,555,613

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

	Major Funds						Total Governmental Funds
	General Fund	Hurricane Katrina Fund	Katrina Insurance Proceeds Fund	MDA/FEMA Temporary Cash Flow Loan Fund	Other Governmental Funds		
Fund Balances – Beginning	3,525,356			4,521,554	15,322,656		23,369,566
Fund reclassifications	11,295,680	(16,652,403)	5,920,294		(558,028)		5,543
Prior period adjustments				538,236	(1,792,264)		(1,254,028)
Fund Balances - Beginning, as restated	14,821,036	(16,652,403)	5,920,294	5,059,790	12,972,364		22,121,081
Fund Balances – Ending	\$ 14,425,328	(12,934,960)	4,230,706	5,188,967	12,766,653		23,676,694

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

HANCOCK COUNTY

Exhibit 4-1

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

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 1,555,613
Amounts reported for governmental activities in the Statement of Activities are different because:	
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	351,300
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 of the debt repayments.	1,560,837
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:	
The amount of increase in accrued interest payable	(528,555)
The amount of increase in compensated absences	(15,099)
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.	<u>223,666</u>
Change in Net Assets of Governmental Activities	\$ <u><u>3,147,762</u></u>

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

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

Exhibit 5

	Governmental Activities
	Self-insurance Internal Service Fund
	<hr/>
ASSETS	
Current assets:	
Cash	\$ <u>55,365</u>
Total Assets	\$ <u><u>55,365</u></u>
LIABILITIES	
Current liabilities:	
Claims and judgments payable	\$ 64,129
Due to other funds	<u>225,010</u>
Total Liabilities	\$ <u><u>289,139</u></u>
NET ASSETS	
Restricted for health insurance	\$ <u>(233,774)</u>
Total Net Assets	\$ <u><u>(233,774)</u></u>

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

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

Exhibit 6

	Governmental Activities
	Self-insurance Internal Service Fund
Operating Revenues	
Premiums	\$ 1,376,447
Miscellaneous	109,976
Total Operating Revenues	<u>1,486,423</u>
Operating Expenses	
Claims payments	1,135,041
Administrative fees	100,084
Insurance premiums	27,632
Total Operating Expenses	<u>1,262,757</u>
Operating Income (Loss)	<u>223,666</u>
Changes in Net Assets	223,666
Net Assets - Beginning	<u>(457,440)</u>
Net Assets - Ending	<u>\$ (233,774)</u>

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, 2008

Exhibit 7

	Governmental Activities
	<u>Self-insurance Internal Service Fund</u>
Cash Flows From Operating Activities	
Receipts for premiums	\$ 1,376,447
Payments for claims	(1,228,178)
Payments for insurance premiums	(82,027)
Other operating cash receipts	109,976
Net Cash Provided (Used) by Operating Activities	<u>176,218</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>176,218</u>
Cash and Cash Equivalents at Beginning of Year	0
Add: Prior year negative cash balance that was reported as Other Payables in the prior year audit report	<u>(120,853)</u>
Adjusted Cash and Cash Equivalents at Beginning of Year	<u>(120,853)</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 55,365</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ <u>223,666</u>
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Changes in assets and liabilities:	
Increase (decrease) in claims and judgments liability	(93,137)
Increase (decrease) in insurance premiums liability	18,057
Increase (decrease) in administrator services liability	<u>27,632</u>
Total Adjustments	<u>(47,448)</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 176,218</u></u>

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

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

Exhibit 8

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 1,515,160
Due from other funds	9,558
Total Assets	<u>\$ 1,524,718</u>
LIABILITIES	
Amounts held in custody for others	\$ 1,051,603
Intergovernmental payables	473,115
Total Liabilities	<u>\$ 1,524,718</u>

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

HANCOCK COUNTY

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

(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 all of the county's 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
- 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

HANCOCK COUNTY

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

B. Individual Component Unit Disclosures.

Blended Component Units

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 Public Improvement Corporation was incorporated as a nonprofit under Section 31-8-3, Miss. Code Ann. (1972), which allows counties to enter into lease agreements with any corporation. The corporation's board of directors is appointed by the Board of Supervisors. The corporation produces a financial benefit through its ability to finance the construction of capital facilities for the primary government and imposes a financial burden on the primary government by obligating funds to repay the debt pursuant to a lease agreement.

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/expenses. 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.

HANCOCK COUNTY

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

D. Measurement Focus and Basis of Accounting.

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

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

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

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

The county reports the following major Governmental Funds:

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

Hurricane Katrina Fund - This fund, along with others, is used to account for most federal assistance and other revenues/expenditures relating to Hurricane Katrina.

Katrina Insurance Proceeds Fund - This fund is used to account for all insurance proceeds received relating to Hurricane Katrina.

MDA FEMA Temporary Cash Flow Loan Fund - This fund is used to account for monies from the Mississippi Development Authority for hurricane recovery expenditures.

Additionally, the county reports the following fund types:

HANCOCK COUNTY

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

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 Funds - These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, 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.

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 2005 by the Government Finance Officers Association.

F. Deposits and Investments.

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

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

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.

HANCOCK COUNTY

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

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

Governmental accounting and financial reporting standards require 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. 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. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

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

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

J. Long-term Liabilities.

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

HANCOCK COUNTY

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

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.

K. Equity Classifications.

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

L. 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.

HANCOCK COUNTY

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

M. 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.

N. 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. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) Fund Reclassification.

A summary of fund reclassifications is as follows:

	General Fund	Hurricane Katrina Fund	Katrina Insurance Proceeds Fund	Other Governmental Funds
As previously reported	\$ 3,525,356			15,322,656
Fund reclassifications:				
Hurricane Katrina Fund	16,652,403	(16,652,403)		
MDA Building Fund	563,717			(563,717)
Interfund Allowance Fund	(146)			146
Katrina Insurance Proceeds Fund	(5,920,294)		5,920,294	
Justice Court Escrow Fund				5,543
Total Governmental Funds (as restated for reclassifications) \$	<u>14,821,036</u>	<u>(16,652,403)</u>	<u>5,920,294</u>	<u>14,764,628</u>

Funds were reclassified in order to reflect the proper objectives of the funds.

(3) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

Explanation	Amount
To correct prior year error in deferred federal revenue.	\$ (1,792,264)
To correct prior year errors in cash on deposit with fiscal agent.	538,236
To correct prior year errors in the classification of long-term debt.	258,825
Total prior period adjustments	\$ <u>(995,203)</u>

HANCOCK COUNTY

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

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

Explanation	Amount
To correct prior year error in deferred federal revenue.	\$ (1,792,264)
To correct prior year errors in cash on deposit with fiscal agent.	538,236
Total prior period adjustments	<u>\$ (1,254,028)</u>

(4) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2008, was \$26,990,071, and the bank balance was \$27,254,097. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

Investments:

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

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

Investment Type	Maturities	Fair Value	Rating
Peoples Bank Treasury Securities			
Money Market Mutual Funds	Less than one year	\$ <u>106,926</u>	AAA

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

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

HANCOCK COUNTY

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

Custodial Credit Risk - Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. The investments in Peoples Bank Treasury Securities Money Market Mutual Fund are uninsured and unregistered and are not backed by the full faith and credit of the federal government.

Concentration of Credit Risk. The county places no limit on the amount the county may invest in any one issuer. More than 5 percent of the county's investments are in the Peoples Bank Treasury Securities Money Market Mutual Fund. These investments are 100% of the county's total investments and are reported in the Other Governmental Funds.

(5) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	\$ 45,631
General Fund	Hurricane Katrina Fund	12,937,052
General Fund	Internal Service Fund	124,698
Hurricane Katrina Fund	Internal Service Fund	2,092
Other Governmental Funds	General Fund	159,837
Other Governmental Funds	Internal Service Fund	98,220
Agency Funds	General Fund	9,558
Total		\$ 13,377,088

The receivables represent the tax revenue collected but not settled until October, 2008, as well as a loan between the Internal Service Fund and the General Fund, Hurricane Katrina Fund, and Other Governmental Funds. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 48
Other Governmental Funds	General Fund	545,609
Other Governmental Funds	Other Governmental Funds	203,968
Total		\$ 749,625

The principal purpose of interfund transfers was to provide funds for operating expenses. 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, 2008

(6) Intergovernmental Receivables.

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

Description	Amount
Governmental Activities:	
Legislative tax credit	\$ 288,257
State and community highway safety	39,423
Violence against women formula grants	6,051
State domestic preparedness equipment support program	14,903
Disaster grants – public assistance	917,472
Community development block grants/state’s program	845,735
Total Governmental Activities	\$ 2,111,841

(7) Loans Receivable.

Loans receivable balances at September 30, 2008, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Receivable Balance
Hancock County Wastewater District	11-01-95	0%	N/A	\$ 19,000
Hancock County Wastewater District	05-25-97	0%	N/A	15,000
Pearlington Water and Sewer District	03-02-98	0%	N/A	40,000
Total				\$ 74,000

(8) Capital Assets.

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

Governmental activities:

	Balance Sept. 30, 2008
<u>Non-depreciable capital assets:</u>	
Land	\$ 611,072
Construction in progress	4,842,541
Total non-depreciable capital assets	5,453,613
<u>Depreciable capital assets:</u>	
Infrastructure	11,315,073
Buildings	6,046,906

HANCOCK COUNTY

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

	Balance <u>Sept. 30, 2008</u>
Improvements other than buildings	131,584
Mobile equipment	2,777,025
Furniture and equipment	998,226
Leased property under capital leases	<u>3,431,675</u>
Total depreciable capital assets	<u>24,700,489</u>
<u>Less accumulated depreciation for:</u>	
Infrastructure	6,681,883
Buildings	1,806,342
Improvements other than buildings	26,325
Mobile equipment	1,664,674
Furniture and equipment	490,251
Leased property under capital leases	<u>1,222,962</u>
Total accumulated Depreciation	<u>11,892,437</u>
Total depreciable capital assets, net	<u>12,808,052</u>
Governmental activities capital assets, net	\$ <u><u>18,261,665</u></u>

Commitments with respect to unfinished capital projects at September 30, 2008, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Countywide Paving Project	\$ 1,224,017	April 2009
Texas Flat Road Engineering	5,200,000	April 2009

HANCOCK COUNTY

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

(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 \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2008, to January 1, 2009. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The county 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. Each employee pays \$44.94 of his/her premium through a payroll deduction. Hancock County pays the remaining portion of the premium on a single coverage policy for its 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 mitigate this potential loss:

The county has purchased coinsurance which functions on specific stop loss coverage. This coverage is purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$60,000; however, the specific coverage is limited to a maximum benefit for specific losses of \$940,000.

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, 2008, the amount of these liabilities was \$64,129. An analysis of claims activities is presented below:

		Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2006 – 2007	\$	194,835	1,661,259	1,698,828	157,266
2007 – 2008	\$	157,266	1,135,041	1,228,178	64,129

HANCOCK COUNTY

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

(10) Capital Leases.

Following is a schedule by years of the total payments due from the county as lessee as of September 30, 2008:

Year Ending September 30	Governmental Activities	
	Principal	Interest
2009	\$ 786,537	38,748
2010	292,613	18,024
2011	243,835	6,284
2012	42,375	409
Total	\$ 1,365,360	63,465

(11) Long-term Debt.

Debt outstanding as of September 30, 2008, consisted of the following:

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
A. General Obligation Bonds:			
Roof & Road General Obligation Bond	\$ 3,330,000	3.00/3.50%	09-15
Unlimited General Obligation Refunding Bonds, Series 2007	4,005,000	3.75/3.95%	12-17
Total General Obligation Bonds	\$ 7,335,000		
B. Limited Obligation Bonds:			
MBIA Bonds, Series 2001	\$ 2,250,000	1.00%	12-16
Sand Beach Project, Series 2001	1,385,000	4.15/4.95%	07-16
Hancock County Library Project, Series 1998	805,000	4.50/4.90%	07-18
Total Limited Obligation Bonds	\$ 4,440,000		
C. Capital Leases:			
Caterpillar CB224E vibratory	\$ 18,981	4.04%	05-11
Caterpillar excavator	84,976	4.04%	05-11
Two beach sweepers	27,180	4.04%	11-11
Kubota tractors and equipment	316,210	3.91%	01-12
Two Caterpillar backhoe loaders	68,954	3.38%	12-08
Excavator (0 tail swing)	42,987	4.04%	05-11
Four Case 580M backhoe loaders	142,280	4.04%	05-11
Two 2007 Mack tractor trucks	113,639	3.25%	05-09

HANCOCK COUNTY

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

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
Five 2007 tandem axle dump trucks	322,783	3.25%	05-09
Two Caterpillar 12H motor graders	227,370	4.04%	05-11
Total Capital Leases	\$ 1,365,360		
D. Other Loans:			
FEMA Community Disaster loan	\$ 5,480,455	2.70%	12-10
Hancock County Public Building Project	180,649	5.38%	03-12
Mississippi Development Bank	5,382,357	4.35%	08-10
Total Other Loans	\$ 11,043,461		

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 Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 730,000	244,654	360,000	124,957
2010	785,000	218,948	365,000	114,370
2011	815,000	192,304	380,000	103,339
2012	855,000	164,479	450,000	91,393
2013	885,000	135,147	465,000	78,224
2014 – 2018	3,265,000	255,390	2,420,000	161,846
Total	\$ 7,335,000	1,210,922	4,440,000	674,129
			Other Loans	
Year Ending September 30			Principal	Interest
2009			\$ 41,657	781,785
2010			5,426,282	389,582
2011			5,526,743	38,819
2012			48,779	2,624
Total			\$ 11,043,461	1,212,810

HANCOCK COUNTY

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

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2008, the amount of outstanding debt was equal to 2.53% of the latest property assessments.

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

	Balance Oct. 1, 2007**	Additions	Reductions	Adjustments*	Balance Sept. 30, 2008	Amount Due Within One Year
Governmental Activities:						
Compensated absences	\$ 94,504	15,099			109,603	
General obligation bonds	13,537,357		695,000	(5,507,357)	7,335,000	730,000
Limited obligation bonds	4,785,000		345,000		4,440,000	360,000
Capital leases	1,980,466		481,281	(133,825)	1,365,360	786,537
Other loans	5,700,660		39,556	5,382,357	11,043,461	41,657
Total	\$ 26,097,987	15,099	1,560,837	(258,825)	24,293,424	1,918,194

* Adjustments were made to correct prior year errors in the classification of long-term debt.

** Beginning balance was adjusted by one dollar to correct prior year error in long-term note disclosure.

(12) Deficit Fund Balances of Individual Funds.

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

Fund	Deficit Amount
Hurricane Katrina Fund	\$ 12,934,960
Mississippi Development Authority PSL Department Grant Fund	27,089
Community Development Block Grant - Mississippi Development Authority MAC LLC Grant Fund	11,885
Sheriff's Department Grant Fund	134,308
Solid Waste Assistance Grant Fund	53,559
Community Development Block Grant - Katrina Supplemental Fund	305
Emergency E-911 Fund	178,115
Drug Task Force Fund	3,741
Harbor Master Fund	178
Tidelands Grant Fund	44,990
Trails Grant Fund	50,036
Courthouse Historical Windows Fund	124,999
Waste Billing Tax Office Fund	2,364
Freight Rail Loan Fund	148
Emergency Operations Construction Fund	23,450

HANCOCK COUNTY

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

(13) 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. Accordingly, 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 issued general obligation bonds to provide funds for constructing and improving capital facilities of the Hancock County Port and Harbor Commission. Such debt is being retired from pledged resources of this entity and, therefore, is reported as a liability of this entity. However, because general obligation bonds 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:

Description	Balance at Sept. 30, 2008
General Obligation Port and Harbor bonds	\$ <u>8,670,791</u>

Hospital Revenue Bond Contingencies - The county issues revenue bonds to provide funds for constructing and improving capital facilities of the Hancock County Medical Center. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2008, is \$15,383,859.

(14) No Commitment Debt (Not Included in Financial Statements).

No commitment debt is repaid only by the entities for whom the debt was issued and includes debt that either bears the county's name or for which a moral responsibility may exist that is not an enforceable promise to pay. No commitment debt explicitly states the absence of obligation by the county other than possibly an agreement to assist creditors in exercising their rights in the event of default. Because a default may adversely affect the county's own ability to borrow, the principal amount of such debt outstanding at year end is disclosed as follows:

Description	Balance at Sept. 30, 2008
Industrial revenue bond - Wellman Redevelopment Project	\$ <u>5,000,000</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 7.

HANCOCK COUNTY

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

The Hancock County Board of Supervisors is responsible for appointing a voting majority of the members of the board of 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 7.

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 Pass Christian 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 \$75,400 in fiscal year 2008. 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 St. 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 \$941,276 in fiscal year 2008. Complete financial statements for the Hancock County Library System can be obtained from 312 Highway 90, Bay St. Louis, Mississippi.

Hancock County is a participant with the Cities of Bay St. 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 paid to the joint ventures was \$923,168 in fiscal year 2008. Complete financial statements for the Hancock County Regional Solid Waste Management Authority can be obtained from 401 Gulfside Street, Waveland, Mississippi.

(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, Perry, Stone and Wayne. The governing body is a 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

Region XIII Commission for Mental Health and Mental Retardation operates in a district composed of the Counties of Hancock, Harrison, Pearl River and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$97,000 for support of the agency in fiscal year 2008.

HANCOCK COUNTY

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

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 appoints two of the 16 members of the college board of trustees. The county appropriated \$500,848 for maintenance and support of the college in fiscal year 2008.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The Hancock County Board of Supervisors appoints one of the 27 members of the board of directors. The county appropriated \$10,419 for support of the district in fiscal year 2008.

Gulf Regional Planning and Development District 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 appropriated \$8,724 for support of the district in fiscal year 2008.

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 St. Louis, Biloxi, 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 when the grants require matching funds.

Hancock County Tourism Development Bureau is jointly governed by Hancock County and the Cities of Bay St. Louis and Waveland. The Hancock County Board of Supervisors appoints four of the nine members of the board of directors. The county appropriated \$154,053 for support of the agency in fiscal year 2008.

(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 rate at September 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2008, 2007 and 2006 were \$1,003,801, \$769,285 and \$1,119,489, respectively, equal to the required contributions for each year.

HANCOCK COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK COUNTY

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 7,445,174	7,778,198	7,778,198	0
Licenses, commissions and other revenue	875,276	1,058,683	1,058,683	0
Fines and forfeitures	578,000	653,044	653,044	0
Intergovernmental revenues	2,496,339	3,207,289	4,028,698	821,409
Charges for services	171,600	265,127	310,094	44,967
Interest income	377,422	612,747	572,728	(40,019)
Miscellaneous revenues	21,000	83,941	77,473	(6,468)
Total Revenues	<u>11,964,811</u>	<u>13,659,029</u>	<u>14,478,918</u>	<u>819,889</u>
EXPENDITURES				
Current:				
General government	5,231,080	5,701,963	5,478,571	223,392
Public safety	5,116,291	4,787,280	4,733,899	53,381
Public works	282,415	319,577	319,577	0
Health and welfare	767,789	943,632	937,506	6,126
Culture and recreation	586,174	630,276	610,344	19,932
Conservation of natural resources	200,574	174,325	172,308	2,017
Economic development and assistance	1,044,245	987,359	982,250	5,109
Total Expenditures	<u>13,228,568</u>	<u>13,544,412</u>	<u>13,234,455</u>	<u>309,957</u>
Excess of Revenues over (under) Expenditures	<u>(1,263,757)</u>	<u>114,617</u>	<u>1,244,463</u>	<u>1,129,846</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,111,360	318,403	406,126	87,723
Transfers out	<u>(596,400)</u>	<u>(548,355)</u>	<u>(478,071)</u>	<u>70,284</u>
Total Other Financing Sources and Uses	<u>514,960</u>	<u>(229,952)</u>	<u>(71,945)</u>	<u>158,007</u>
Net Change in Fund Balance	(748,797)	(115,335)	1,172,518	1,287,853
Fund Balances – Beginning	<u>13,086,880</u>	<u>15,157,364</u>	<u>13,871,303</u>	<u>(1,286,061)</u>
Fund Balances – Ending	<u>\$ 12,338,083</u>	<u>15,042,029</u>	<u>15,043,821</u>	<u>1,792</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)
 Hurricane Katrina Fund
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental revenues	\$ 10,000,000	7,858,272	7,858,272	0
Miscellaneous revenues		1,692	1,692	0
Total Revenues	<u>10,000,000</u>	<u>7,859,964</u>	<u>7,859,964</u>	<u>0</u>
EXPENDITURES				
Current:				
General government		2,213,687	506,710	1,706,977
Public safety	8,000,000	4,980,745	4,979,596	1,149
Public works		220,914	220,914	0
Culture and recreation		2,692	(2,181)	4,873
Economic development and assistance		288,781		288,781
Total Expenditures	<u>8,000,000</u>	<u>7,706,819</u>	<u>5,705,039</u>	<u>2,001,780</u>
Excess of Revenues over (under) Expenditures	<u>2,000,000</u>	<u>153,145</u>	<u>2,154,925</u>	<u>2,001,780</u>
Net Change in Fund Balance	2,000,000	153,145	2,154,925	2,001,780
Fund Balances – Beginning	<u>(18,032,020)</u>	<u>(13,090,197)</u>	<u>(15,091,977)</u>	<u>(2,001,780)</u>
Fund Balances – Ending	<u>\$ (16,032,020)</u>	<u>(12,937,052)</u>	<u>(12,937,052)</u>	<u>0</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)
 Katrina Insurance Proceeds Fund
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Interest income	\$ 48,500	156,079	156,079	0
Miscellaneous revenues		1,303	1,303	0
Total Revenues	<u>48,500</u>	<u>157,382</u>	<u>157,382</u>	<u>0</u>
EXPENDITURES				
Current:				
General government		1,818,233	1,784,733	33,500
Public safety			33,500	(33,500)
Total Expenditures	<u>0</u>	<u>1,818,233</u>	<u>1,818,233</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>48,500</u>	<u>(1,660,851)</u>	<u>(1,660,851)</u>	<u>0</u>
Net Change in Fund Balance	48,500	(1,660,851)	(1,660,851)	0
Fund Balances – Beginning	<u>5,871,794</u>	<u>5,920,295</u>	<u>5,920,295</u>	<u>0</u>
Fund Balances – Ending	<u>\$ 5,920,294</u>	<u>4,259,444</u>	<u>4,259,444</u>	<u>0</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)
 MDA FEMA Temporary Cash Flow Loan Fund
 For the Year Ended September 30, 2008

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Interest income	\$ 40,740	129,177	129,177	0
Total Revenues	<u>40,740</u>	<u>129,177</u>	<u>129,177</u>	<u>0</u>
EXPENDITURES				
Total Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>40,740</u>	<u>129,177</u>	<u>129,177</u>	<u>0</u>
Net Change in Fund Balance	40,740	129,177	129,177	0
Fund Balances – Beginning	<u>4,480,814</u>	<u>4,521,554</u>	<u>4,521,554</u>	<u>0</u>
Fund Balances – Ending	<u>\$ 4,521,554</u>	<u>4,650,731</u>	<u>4,650,731</u>	<u>0</u>

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

HANCOCK COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2008

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

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

	Governmental Fund Types			
	General Fund	Hurricane Katrina Fund	Katrina Insurance Proceeds Fund	MDA FEMA Temporary Cash Flow Loan Fund
Budget (Cash Basis)	\$ 1,172,518	2,154,925	(1,660,851)	129,177
Increase (Decrease)				
Net adjustments for revenue accruals	(1,384,113)	591,874		
Net adjustments for expenditure accruals	(184,113)	970,644	(28,737)	
GAAP Basis	\$ (395,708)	3,717,443	(1,689,588)	129,177

HANCOCK COUNTY

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HANCOCK COUNTY

SUPPLEMENTAL INFORMATION

HANCOCK COUNTY

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

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Agriculture - National Forest Funds Passed-through the Mississippi State Treasurer's Office - Federal Forest Service Schools and roads grants to states	10.665	N/A	\$ <u>43,440</u>
U.S. Department of Commerce Passed-through the Mississippi Department of Environmental Quality Coastal zone management administration awards	11.419	NA17OZ2168	<u>234,932</u>
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority Community development block grants/state's program*	14.228	R-103-023-01-KED	4,107,386
Community development block grants/state's program*	14.228	R-103-023-01 KCR	1,714,370
Community development block grants/state's program*	14.228	R101-06	851,126
Community development block grants/state's program*	14.228	R-103-023-02-KED	479,698
Community development block grants/state's program*	14.228	R-103-023-01-KP	180,500
Total U.S. Depart. of Housing and Urban Development			<u>7,333,080</u>
U.S. Department of Justice - Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety Edward Byrne memorial formula grant program	16.579	05NW1231	<u>32,563</u>
Violence against women formula grants	16.588	06SL1231	21,606
Violence against women formula grants	16.588	07SL1231	6,051
Violence against women formula grants	16.588	06SK1231	3,398
Subtotal			<u>31,055</u>
Edward Byrne memorial justice assistance grant program	16.738	06HR1231	<u>1,409,916</u>
Total U.S. Department of Justice			<u>1,473,534</u>
U.S. Department of Transportation - Federal Highway Administration/ Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	STP 1126 1 B	298,912
Highway planning and construction	20.205	ER 0023 14 B	80,887
Highway planning and construction	20.205	BR NBIS 068 B	8,510
Subtotal			<u>388,309</u>

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

(Continued)

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
National Highway Traffic Safety Administration/ Passed-through the Mississippi Department of Public Safety Division of Public Safety Planning Highway Safety Cluster			
State and community highway safety	20.600	08TA1231	<u>100,681</u>
Total U.S. Department of Transportation			<u>488,990</u>
U.S. Department of Homeland Security/Passed-through the Mississippi Department of Public Safety Office of Homeland Security Homeland Security Cluster			
State domestic preparedness equipment support program	97.004	07HS023	<u>14,903</u>
U.S. Department of Homeland Security Community disaster loans (Note B)*	97.030	N/A	<u>5,480,455</u>
U.S. Department of Homeland Security/ Passed-through the Mississippi Emergency Management Agency			
Disaster grants - public assistance	97.036	1604 DR MS	4,744,351
Disaster grants - public assistance	97.036	3291 DR MS	<u>325,598</u>
Subtotal			<u>5,069,949</u>
Emergency management performance grants	97.042	N/A	<u>68,506</u>
Total U.S. Department of Homeland Security			<u>10,633,813</u>
Total Expenditures of Federal Awards			<u>\$ 20,207,789</u>

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

(Continued)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

Note B - Community Disaster Loans

Hancock County was awarded a Special Community Disaster Loan on December 12, 2005, creating a line of credit in the amount of \$5,480,455 with an interest rate of 2.70% and a maturity date of December 21, 2010. The county made its first draw in the amount of \$2,500,000 on January 1, 2006, and a second draw of \$2,980,455 on February 15, 2006. Payments of principal and interest may be deferred until the loan matures, and FEMA may grant an extension for repayment or cancel repayment of all or part of the loan.

* Denotes major federal award program

HANCOCK COUNTY

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HANCOCK COUNTY

SPECIAL REPORTS

HANCOCK COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
Hancock County, Mississippi

We have audited the 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, 2008, which collectively comprise the county's basic financial statements and have issued our report thereon dated October 9, 2009. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The report also includes a qualified opinion on the governmental activities because the county's subsidiary records prior to August 29, 2005, documenting the existence, completeness and valuation of capital assets and depreciation on the county's capital assets, including infrastructure, as required by accounting principles generally accepted in the United States of America were destroyed during Hurricane Katrina. Except as noted above, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 08-1, 08-2, 08-3, 08-4, 08-5, 08-6, 08-7, 08-8 and 08-9 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 08-1, 08-2, 08-3, 08-4, 08-5, 08-6, 08-7, 08-8 and 08-9 to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 08-6 and 08-9.

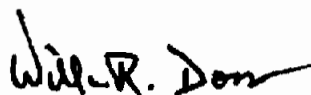
We also noted certain instances of noncompliance which we have reported to the management of Hancock County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and in the Limited Internal Control and Compliance Review Management Report dated October 9, 2009, included within this document.

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

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



STACEY E. PICKERING
State Auditor



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

October 9, 2009



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
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, 2008. 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.

As described in items 08-10, 08-11 and 08-12 in the accompanying Schedule of Findings and Questioned Costs, Hancock County, Mississippi, did not comply with requirements regarding activities allowed or unallowed, allowable costs/cost principles, cash management, and reporting that are applicable to its community disaster loans. Compliance with such requirements is necessary, in our opinion, for Hancock County, Mississippi, to comply with the requirements applicable to that program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, Hancock County, Mississippi, did not comply in all material respects with the requirements referred to above that are applicable to the community disaster loans program. Also, in our opinion, Hancock County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to its other major federal program for the year ended September 30, 2008.

Internal Control Over Compliance

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

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

A control deficiency in a county's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 08-10, 08-11 and 08-12 to be significant deficiencies.

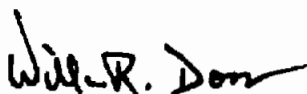
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider all of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

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

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



STACEY E. PICKERING
State Auditor



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

October 9, 2009



State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

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

Members of the Board of Supervisors
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, 2008. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of 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.

The county did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets and has not maintained adequate records documenting depreciation on the county's capital assets, including infrastructure.

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.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our findings and recommendations and your responses are disclosed below:

Inventory Control Clerk.

1. Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. Adequate control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, cost, locations, acquisition dates, disposition dates, serial numbers, inventory control numbers (tag/sticker numbers), and other relevant information. The presence of these data elements in capital asset records helps identify and distinguish county assets one from another, thereby safeguarding county assets from loss or misappropriation. In addition, a properly maintained inventory system provides assurance with respect to the accuracy, valuation, and completeness of capital assets balances.

Test results indicated the following deficiencies in the county's capital asset records:

- a. The county's records with respect to land, buildings, construction-in-progress, and infrastructure were inaccurate and incomplete.
- b. Because the county calculated depreciation expense based upon its unreliable asset records, its depreciation expense records could not be relied upon.
- c. Certain capital assets acquired during the year, per the detailed general ledger, were not included on the capital assets acquisitions register.
- d. Certain capital asset items were not marked with an inventory control number.
- e. Certain items on the capital asset list could not be located.
- f. Certain capital assets in the county's possession were not included on the capital asset list.
- g. Certain capital assets currently in use by the county were identified in the county's records as having been destroyed by Hurricane Katrina.
- h. In certain instances, serial numbers listed on the county's records did not agree with the serial numbers on the corresponding pieces of equipment.

These deficiencies indicate material weaknesses in the county's internal controls related to capital assets. Therefore, the Independent Auditor's Report includes a qualified opinion on the financial position of the governmental activities. Failure to properly address these issues could result in the loss or misappropriation of public funds.

Recommendation

Appropriate control procedures should be established and implemented to ensure that all items are properly recorded and valued in the county's capital asset records. To ensure that the records are accurate and complete, the Inventory Control Clerk should work with all involved department managers and other individuals as necessary to perform a comprehensive physical inventory on an annual basis. All physically inspected items should be properly tagged as required, and additions and deletions should be recorded as appropriate.

Inventory Control Clerk's Response

The Board has hired personnel to review the inventory and prepare a complete current inventory and has asked the Office of the State Auditor's to review their updated listing to assure a good beginning balance. The majority of the problems with inventory control is due to Hurricane Katrina where the county lost.

2. Finding

Section 31-7-107, Miss. Code Ann. (1972), requires inventory reports to be filed with the Board of Supervisors, in triplicate with copies forwarded to the Office of the State Auditor no later than October 15th of each fiscal year. The required inventory reports were not prepared by the Inventory Control Clerk. Failure to prepare the annual reports increases the possibility of the loss or misappropriation of public funds and could result in the reporting of inaccurate amounts.

Recommendation

The Inventory Control Clerk should prepare the inventory reports, as required by law.

Inventory Control Clerk's Response

The Board has hired personnel to review the inventory and prepare a complete current inventory. When that process is complete, the inventory should be able to present an accurate accounting to the state annually and to the board monthly.

In our opinion, except for the noncompliance referred to in the preceding paragraph, Hancock County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

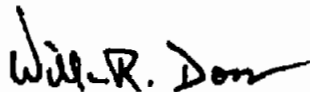
The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to 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.

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

This report is intended 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.



STACEY E. PICKERING
State Auditor



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

October 9, 2009

HANCOCK COUNTY

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HANCOCK COUNTY

Schedule I

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

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, 2008

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
04-16-08	Septic system with \$ absorption bed	4,000	Sun Coast Septics	An unhealthy raw sewage leakage existed in the septic system.
08-29-08	Crane	7,350	4-D Solutions	Used to relocate E-911 Communication Center due to the threat of Hurricane Gustav. The E-911 Communication Center is in a low-lying area.
08-29-08	Rental of truck and low boy	24,700	G&C Construction	Used to relocate E-911 Communication Center due to the threat of Hurricane Gustav. The E-911 Communication Center is in a low-lying area.
09-04-08	Rental of fuel truck	5,750	G&C Construction	There was no fuel available after Hurricane Gustav.
09-04-08	Various food items	2,664	Wal-Mart	Supplies were purchased for EOC during Hurricane Gustav.

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

Schedule 3

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

HANCOCK COUNTY

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State of Mississippi

OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Hancock County, Mississippi

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

In addition, for areas not considered material to 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 October 9, 2009, on the financial statements of Hancock County, Mississippi.

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

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

Board of Supervisors.

1. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires a complete and correct record be maintained for the proceedings of the Board of Supervisors. Interfund transfers were made without board orders spread on the minutes. The failure to obtain approval for interfund transfers could result in erroneous amounts being reported and increases the possibility of the loss or misuse of public funds.

Recommendation

The Board of Supervisors should spread complete orders on the minutes relative to interfund transfers.

Board of Supervisors' Response

The county has implemented procedures to assure that the transfers be brought to the Board for approval and inclusion in the minutes prior to transfers being made.

2. Finding

An effective system of internal control over federal grants includes properly identifying all revenues and expenditures, including accruals, on the federal grant activity schedule. The county did not complete the federal grant activity schedule for the fiscal year ended September 30, 2008. As a result, the auditors assisted the county in completing the Schedule of Expenditures of Federal Awards. The failure to properly complete the federal grant activity schedule increases the possibility of reporting incorrect amounts of federal expenditures, as well as the possibility of excluding a federal grant on the Schedule of Expenditures of Federal Awards.

Recommendation

The county should properly complete the federal grant activity schedule.

Board of Supervisors' Response

The county has relied upon the auditor to prepare financial statements in the past. This was the common practice for counties and other governmental entities. However, the Board's current staff does have the experience to complete this schedule for the auditors and will complete this schedule in the future.

3. Finding

Section 19-13-23 requires that the Chancery Clerk submit claims for Board approval prior to the county issuing warrants for the payment of claims. Prior to the Board of Supervisors' approval of the monthly claims docket, the county improperly paid medical claims related to its self-insurance activity. The failure to follow state law could result in the loss or misappropriation of public funds.

Recommendation

The county should not pay any claims prior to the approval of the Board of Supervisors.

Board of Supervisors' Response

Payments to the medical self-insurance administrator will be included in the docket in the future.

4. Finding

Section 65-7-117, Miss. Code Ann. (1972), requires the county to adopt a four year road plan. The county has not adopted a four year road plan to encompass the fiscal year ended September 30, 2008. As a result, maintenance of the county's roads and bridges may not be given appropriate priority.

Recommendation

The Board of Supervisors should adopt a four year road plan, as required by law.

Board of Supervisors' Response

The county will complete the four year plan as required by state statute.

Chancery Clerk.

5. Finding

The following deficiencies were noted in the system of accounting for land redemption.

- a. The bank statements were not reconciled to the book balance.
- b. Unsettled monies totaling \$58,143 were found in the bank account.
- c. Deposits were not being made on a timely basis.

The failure to implement the proper controls over land redemption could result in the loss or misappropriation of public funds.

Recommendation

The Chancery Clerk should adhere to the prescribed accounting system for land redemption.

Chancery Clerk's Response

The land redemption account will be brought up to date and appropriate settlements made as soon as possible.

Sheriff.

6. Finding

Effective controls over the accounting of cash include monthly reconciliations of the bank balance to the cash journal book balance. The bank statements were not reconciled to the cash journal. The failure to implement controls over cash could result in the loss or misappropriation of public funds.

Recommendation

The Sheriff should ensure the bank statement is reconciled to the cash journal book balance on a monthly basis.

Sheriff's Response

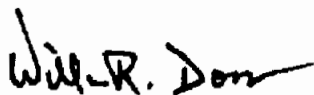
We will provide reconciliation from the cash journal to the bank statement in the future.

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

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



STACEY E. PICKERING
State Auditor



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

October 9, 2009

HANCOCK COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HANCOCK COUNTY

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HANCOCK COUNTY

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

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|---|---------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | Aggregate discretely presented component units | Adverse |
| | General Fund | Unqualified |
| | Hurricane Katrina Fund | Unqualified |
| | Katrina Insurance Proceeds Fund | Unqualified |
| | MDA FEMA Temporary Cash Flow Loan Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|----|---|---------------|
| 4. | Internal control over major programs: | |
| | a. Material weaknesses identified? | Yes |
| | b. Significant deficiencies identified that are not considered to be material weaknesses? | None Reported |
| 5. | Type of auditor's report issued on compliance for major federal programs: | |
| | Community development block grants/state's program, CFDA #14.228 | Unqualified |
| | Community disaster loans, CFDA #97.030 | Adverse |
| 6. | Any audit findings disclosed that are required to be reported in accordance with Section __.510(a) of OMB Circular A-133? | Yes |
| 7. | Federal programs identified as major programs: | |
| | a. Community development block grants/state's program, CFDA #14.228 | |
| | b. Community disaster loans, CFDA #97.030 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$606,234 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |

HANCOCK COUNTY

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

10. Prior fiscal year audit findings and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? No

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency - Material Weakness

08-1. Finding

A critical aspect of effective financial management is the preparation of accurate financial statements. Management did not have personnel who possessed the necessary expertise to prepare financial statements in accordance with generally accepted accounting principles. Due to the fact county personnel lacked the expertise to apply generally accepted accounting principles in preparing its financial statements, the risk of reporting inaccurate information has increased.

Recommendation

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

Significant Deficiency - Material Weakness

08-2. Finding

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

Recommendation

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

HANCOCK COUNTY

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

Significant Deficiency - Material Weakness

08-3. Finding

An effective system of internal control over financial reporting includes accounting for revenues and expenditures in the appropriate funds. The county failed to properly recognize in its self-insurance fund the full amount of revenues and expenditures associated with its self-insurance activities. Instead, the county recognized those expenditures and revenues in various other funds through its general ledger accounting system. No internal control activities were found to be in place to prevent or detect these issues. As a result, the county's financial records with respect to its self-insurance fund were incomplete. This material weakness in internal controls could result in inaccurate or incomplete financial reporting and increases the risk of loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should implement effective internal controls to ensure that all revenues and expenditures associated with self-insurance are recorded in the self-insurance fund.

Significant Deficiency - Material Weakness

08-4. Finding

An effective system of internal control over cash includes safeguarding the county against the loss or misappropriation of public funds by limiting access to the county's checking accounts. The county has granted to its self-insurance plan administrator the ability to print and electronically sign checks on behalf of county management for the payment of medical claims from the general depository checking account. No internal controls were found to be in place to mitigate the resulting risk of loss or misappropriation of public funds. This material weakness in internal controls could result in the loss or misappropriation of public funds.

Recommendation

The Board of Supervisors should implement effective internal controls to limit check-signing authority to county management.

Board of Supervisors/County Administrator.

Significant Deficiency - Material Weakness

08-5. Finding

Section 19-13-43, Miss. Code Ann. (1972), prohibits the signing of warrants or the delivery of warrants until there is sufficient money in the fund upon which it is drawn to pay the same. Warrants were issued on funds which did not have sufficient money to pay the warrants. At September 30, 2008, the following funds had negative cash balances:

- Hurricane Katrina Fund had a negative cash balance of \$12,934,960.
- Mississippi Development Authority PSL Department Grant Fund had a negative cash balance of \$27,089.
- Community Development Block Grant – Mississippi Development Authority MAC LLC Grant Fund had a negative cash balance of \$11,885.
- Sheriff's Department Grant Fund had a negative cash balance of \$134,308.

HANCOCK COUNTY

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

- Solid Waste Assistance Grant Fund had a negative cash balance of \$53,559.
- Community Development Block Grant – Katrina Supplemental Fund had a negative cash balance of \$305.
- Emergency E-911 Fund had a negative cash balance of \$178,115.
- Drug Task Force Fund had a negative cash balance of \$3,741.
- Harbor Master Fund had a negative cash balance of \$178.
- Tidelands Grant Fund had a negative cash balance of \$44,990.
- Trails Grant Fund had a negative cash balance of \$50,036.
- Courthouse Historical Windows Fund had a negative cash balance of \$124,999.
- Waste Billing Tax Office Fund had a negative cash balance of \$2,364.
- Freight Rail Loan Fund had a negative cash balance of \$148.
- Emergency Operations Construction Fund had a negative cash balance of \$23,450.

Recommendation

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

Chancery Clerk.

Significant Deficiency - Material Weakness
Material Noncompliance

08-6. Finding

Section 19-3-27, Miss. Code Ann. (1972), requires the Clerk of the Board of Supervisors to keep and preserve a complete and correct record of all board proceedings. As of March 4, 2009, the board minutes were complete only through July 7, 2008. The lack of signed board minutes makes it undeterminable what actions the Board of Supervisors has legally taken and increases the risk of loss or misappropriation of public funds.

Recommendation

The Chancery Clerk should keep a complete and correct record of all board proceedings, as required by law.

Significant Deficiency - Material Weakness

08-7. Finding

An effective system of internal control over investments should include accurate subsidiary records. It should also include reconciliation of the subsidiary records to the general ledger. Investments in the amount of \$106,926 were erroneously deleted from the general ledger for the fiscal year 2008. Also, appropriate subsidiary records were not kept by the county. Failure to keep appropriate and accurate subsidiary records and to reconcile the subsidiary records to the general ledger could result in reporting incorrect amounts in the financial statements and increases the risk of loss or misappropriation of public funds.

HANCOCK COUNTY

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

Recommendation

The Chancery Clerk should keep appropriate and accurate subsidiary records and ensure that these records are reconciled to the general ledger.

Significant Deficiency - Material Weakness

08-8. Finding

An effective system of internal control over long-term liabilities includes maintenance of accurate subsidiary records. The ending balances of long-term liabilities as reported in the prior year audit report did not agree to the county's records. As a result, large adjustments to beginning balances of long-term liabilities were necessary to balance to the county's records as of September 30, 2008. The failure to maintain an effective system of accounting for long-term liabilities could result in the reporting of inaccurate amounts and increases the possibility of the loss or misappropriation of public funds.

Recommendation

The Chancery Clerk should implement procedures necessary to maintain accurate subsidiary records documenting the existence, completeness and valuation of long-term liabilities.

Inventory Control Clerk.

Significant Deficiency - Material Weakness Material Noncompliance

08-9. Finding

Section 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. Adequate control over capital assets requires that certain data elements be captured in capital asset records for all capital assets. Required data elements include descriptions of assets, cost, locations, acquisition dates, disposition dates, serial numbers, inventory control numbers (tag/sticker numbers), and other relevant information. The presence of these data elements in capital asset records help identify and distinguish county assets one from another, thereby safeguarding county assets from loss or misappropriation. In addition, a properly maintained inventory system provides assurance with respect to the accuracy, valuation, and completeness of capital assets balances.

Test results indicated the following deficiencies in the county's capital asset records:

- a. The county's records with respect to land, buildings, construction-in-progress, and infrastructure were inaccurate and incomplete.
- b. Because the county calculated depreciation expense based upon its unreliable asset records, its depreciation expense records could not be relied upon.
- c. Certain capital assets acquired during the year, per the detailed general ledger, were not included on the capital assets acquisitions register.
- d. Certain capital asset items were not marked with an inventory control number.
- e. Certain items on the capital asset list could not be located.

HANCOCK COUNTY

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

- f. Certain capital assets in the county's possession were not included on the capital asset list.
- g. Certain capital assets currently in use by the county were identified in the county's records as having been destroyed by Hurricane Katrina.
- h. In certain instances, serial numbers listed on the county's records did not agree with the serial numbers on the corresponding pieces of equipment.

These deficiencies indicate material weaknesses in the county's internal controls related to capital assets. Therefore, the Independent Auditor's Report includes a qualified opinion on the financial position of the governmental activities. Failure to properly address these issues could result in the loss or misappropriation of public funds.

Recommendation

Appropriate control procedures should be established and implemented to ensure that all items are properly recorded and valued in the county's capital asset records. To ensure that the records are accurate and complete, the Inventory Control Clerk should work with all involved department managers and other individuals as necessary to perform a comprehensive physical inventory on an annual basis. All physically inspected items should be properly tagged as required, and additions and deletions should be recorded as appropriate.

Section 3: Federal Award Findings and Questioned Costs

08-10. Finding

97.030 Community Disaster Loans
 Grant Number - N/A
 U.S. Department of Homeland Security

Questioned Costs: \$351,403

Significant Deficiency – Material Weakness
Material Noncompliance

Compliance Requirement: Activities Allowed or Unallowed and Allowable Costs/Cost Principles – Controls Over Activities Allowed or Unallowed and Allowable Costs/Cost Principles Should Be Strengthened.

On August 29, 2005, Hurricane Katrina hit the Mississippi Gulf Coast resulting in tremendous devastation for the coastal area of the state, including Hancock County. Subsequently, Hancock County applied for and received a Community Disaster Loan to help the county during the recovery period. According to the original award letter, the Community Disaster Loans proceeds are not to be used for "investment with the intention of earning interest or reducing the cost of the loan." The county deposited the proceeds into an interest bearing checking account into a fund styled CDL Loan Repayment Reserve Fund during the fiscal year ended September 30, 2006, and has since earned \$351,403 as of September 30, 2008, in interest on the proceeds. This is a direct violation of the activities allowed or unallowed compliance requirement, as well as the allowable costs/cost principles compliance requirement. The county's lack of adequate internal controls led to this misapplication of federal funds. According to the original award letter, "the misapplication of funds received... will constitute loan default and result in a request for immediate repayment of all outstanding principal and interest."

HANCOCK COUNTY

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

Recommendation

The Board of Supervisors should immediately notify FEMA that the county did not satisfy the requirements under activities allowed or unallowed and allowable costs/cost principles. The county should seek resolution from FEMA regarding the repayment of the improperly earned interest on the Community Disaster Loan proceeds. In addition, the Board of Supervisors should implement internal controls to ensure that the county satisfies all compliance requirements for activities allowed or unallowed and allowable costs/cost principles with respect to federal funds.

08-11. Finding

97.030 Community Disaster Loans
 Grant Number - N/A
 U.S. Department of Homeland Security

Questioned Costs: \$5,480,455

Significant Deficiency – Material Weakness
Material Noncompliance

Compliance Requirement: Cash Management – Controls Over Cash Management Should Be Strengthened.

On August 29, 2005, Hurricane Katrina hit the Mississippi Gulf Coast resulting in tremendous devastation for the coastal area of the state, including Hancock County. Subsequently, Hancock County applied for and received a Community Disaster Loan to help the county during the recovery period. According to the Code of Federal Regulations, Title 44, Section 206.371, and as described in FEMA's original award letter to the county, the purpose of the loan program is to "...allow [the] local government to carry on existing governmental functions of a municipal operating character or to expand such functions to meet disaster-related needs." In addition, OMB states that the county must "minimize the time elapsing between the transfer of funds from the U.S. Treasury, or pass-through entity, and disbursement." Furthermore, FEMA's award letter to the county reads as follows: "The misapplication of funds received, false statements on the loan application or requests for disbursement, premature drawdown of funds, or failure to provide required documentation throughout the life of the loan will constitute loan default and result in a request for immediate repayment of all outstanding principal and interest." The county drew down the funds during the fiscal year ended September 30, 2006, and as of August 13, 2009 had not expended any of the proceeds. Actions of this nature are deemed to be noncompliance with cash management regulations. This noncompliance resulted from the county's lack of adequate internal controls over cash management.

Recommendation

Based on the conditions set forth by FEMA in the original award letter, the Board of Supervisors should seek resolution from FEMA regarding the immediate repayment of all outstanding principal and interest on the loan. The Board of Supervisors should also implement internal controls to ensure that the county satisfies all cash management requirements with respect to federal funds.

HANCOCK COUNTY

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

08-12. Finding

97.030 Community Disaster Loans
 Grant Number - N/A
 U.S. Department of Homeland Security

Significant Deficiency – Material Weakness
Material Noncompliance

Compliance Requirement: Reporting – Controls Over Reporting Should Be Strengthened.

On August 29, 2005, Hurricane Katrina hit the Mississippi Gulf Coast resulting in tremendous devastation for the coastal area of the state, including Hancock County. Subsequently, Hancock County applied for and received a Community Disaster Loan to help the county during the recovery period. In accordance with the *Code of Federal Regulations*, Title 44, Section 206.375, the county is required by the loan agreement to satisfy reporting requirements for the Community Disaster Loans program by submitting an accurately completed Annual Financial Report form for each fiscal year within 90 days after the fiscal year-end. The county failed to submit the required Annual Financial Report form for the fiscal years ended 2006, 2007 and 2008. With respect to the reporting requirement, no effective internal controls were found to be in place. Because of this lack of adequate internal controls, the county failed to comply with reporting requirements dictated in the loan agreement.

Recommendation

The Board of Supervisors should implement internal controls to ensure that the county accurately and completely satisfies all reporting requirements for federal programs. The county should also immediately file the required Annual Financial Reports as required by the loan agreement.

HANCOCK COUNTY

AUDITEE'S CORRECTIVE ACTION PLAN

HANCOCK COUNTY

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BOARD OF SUPERVISORS

HANCOCK COUNTY

3068 Longfellow Drive, Unit #3

Bay St, Louis, MS 39520

Telephone (228) 467-0172

Fax (228) 466-5994

CORRECTIVE ACTION PLAN

District 1
David Yarborough
813 View Street
Waveland, MS 39576

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

Gentlemen:

District 2
President
Rodrick "Rocky" Pullman
P. O. Box 16
Pearlington, MS 39572

Hancock County respectfully submits the following corrective action plan for the year ended September 30, 2008.

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

District 3
Vice President
Lisa Coward
1005 Dunbar Avenue
Bay St. Louis, MS 39520

SECTION 2: FINANCIAL STATEMENT FINDINGS

District 4
Steve Seymour
19215 Highway 603
Kiln, MS 39556

08-1 Corrective Action Planned: The Board of Supervisors will have their staff prepare the financial statements for audits in the future.

Anticipated Completion Date: Next fiscal year end.

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller.

District 5
Patricia Cuevas
P. O. Box 428
Kiln, MS 39556

08-2 Corrective Action Planned: The Board does not plan to require annual audits for the fire districts because the cost is too great for the benefit of including all component units in the County's annual audit.

Anticipated Completion Date: Not Applicable.

Name of Contact Person Responsible for Corrective Action: Not Applicable.

Ronald J. Artigues, Jr.
Board Attorney
833 Highway 90
Suite 1
Bay St. Louis, MS 39520

08-3 Corrective Action Planned: We will transfer the amounts for medical self-insurance administrators fees and the cost of re-insurance from payroll clearing to medical self insurance clearing fund.

Anticipated Completion Date: April 30, 2009

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller.

Timothy A. (Tim) Kellar
Chancery Clerk
15180 Alsobrooks Road
Picayune, MS 39466

08-4 Corrective Action Planned: We will pay the plan administrator twice a month The total amounts due for medical payments. They will write the corresponding checks from a special account they will set up for this purpose. The payments from the county to the plan administrator will be included in the dockets.

Anticipated Completion Date: April 30, 2009.

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller .

08-5 Corrective Action Planned: The county will make the necessary adjustments at year end to eliminate the funds that have overdrafts.

Anticipated Completion Date: Next fiscal year end.

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller.

08-6 Corrective Action Planned: The Chancery Clerk will work with the staff to eliminate the backlog in the preparation of official board minutes.

Anticipated Completion Date: Immediately.

Name of Contact Person Responsible for Corrective Action: Timothy A. Kellar, Chancery Clerk.

08-7 Corrective Action Planned: The investments have been entered into the financial accounting system as required.

Anticipated Completion Date: Immediately.

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller and Timothy A. Kellar, County Administrator.

08-8 Corrective Action Planned: The records of long-term debts are currently up to date and accurate.

Anticipated Completion Date: Immediately

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller and Timothy A. Kellar, County Administrator.

08-9 Corrective Action Planned: Appropriate actions are currently being taken to correct and complete an accurate inventory.

Anticipated Completion Date: Immediately.

Name of Contact Person Responsible for Corrective Action: Timothy A. Kellar, County Administrator.

SECTION 3: FEDERAL AWARD FINDINGS

08-10 Corrective Action Planned: The money was received in February 2006, less than six months after Hurricane Katrina. The allowable expenditures were documented and occurred prior to the receipt of the funds. Although this loan was not a “reimbursement” type, the County’s staff was so used to handling reimbursement loans, they did not treat this loan differently than any other federal grant. All the documentation was given to the prior auditors for the audit of the fiscal year ending September 30, 2006. They had no findings on this program.

The problem was not one of cash management and non-compliance. The problem was that when the funds came in the County failed to transfer the monies to the accounts from which the expenditures were made. Because of this failure, it “appeared” that the funds were not expended. However, in fact, they were expended as required and there was no non-compliance with the cash management. Funds have been transferred to the appropriate funds.

Anticipated Completion Date: Completed.

Name of Contact Person Responsible for Corrective Action: Princy Harrison, Comptroller

08-11 Corrective Action Planned: Again, the County failed to transfer the receipts to the funds had the documented expenditures. Because we treated this loan as a reimbursement type, when the funds were received, the County treated the character of the funds as County funds. Therefore, any interest earned would be County interest and not a violation of the federal laws applicable to this loan.

Anticipated Completion Date: Not Applicable.

Name of Contact Person Responsible for Corrective Action: Not Applicable.

08-12 Corrective Action Planned: The County received an email from Evona Loving, the Mississippi SCDL Administrator, to send the reports to her and she would send them to the applicable Federal division. That is exactly what we did. All of the required reports were sent timely to the Mississippi SCDL Administrator at her direction.

When the auditors inquired of the Federal program administrator as to whether he had our reports, he told the auditors that he did not. Therefore, it appears that the State did not forward the reports as they said they would, or that they in fact did send them and the official at the Federal level did not know that fact. The auditors then pointed out to the County that the wording of the documentation stated that the reports should be submitted to the Federal agency.

The County was operating under a crisis situation. We did not doubt the word of the state official when we sent the reports to the state. Nor did we have the time to read the grant/loan document to challenge the State Administrator to tell her that we were to send the reports to the Federal Administrator instead.

Anticipated Completion Date: Not Applicable.

Name of Contact Person Responsible for Corrective Action: Not applicable.

Sincerely yours,

A handwritten signature in black ink, appearing to read "R. Pullman", followed by a horizontal line extending to the right.

Rodrick Pullman
President

August 19, 2009