



The following document was not prepared by the Office of the State Auditor, but was prepared by and submitted to the Office of the State Auditor by a private CPA firm. The document was placed on this web page as it was submitted. The Office of the State Auditor assumes no responsibility for its content or for any errors located in the document. Any questions of accuracy or authenticity concerning this document should be submitted to the CPA firm that prepared the document. The name and address of the CPA firm appears in the document.

ANNUAL FINANCIAL REPORT

HANCOCK COUNTY,

MISSISSIPPI

FOR THE YEAR ENDED

SEPTEMBER 30, 2006

ERICKSEN KRENTEL & LA PORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

4227 CANAL STREET
NEW ORLEANS, LOUISIANA 70119-5996
TELEPHONE (504) 486-7275 • FAX (504) 482-2516
WWW.ERICKSENKRENTEL.COM

TABLE OF CONTENTS

	<u>EXHIBIT</u>	<u>PAGE</u>
<u>FINANCIAL SECTION</u>		
<u>INDEPENDENT AUDITORS' REPORT</u>		1 – 2
<u>PRIMARY GOVERNMENT FINANCIAL STATEMENTS:</u>		
Statement of Net Assets.....	A	3
Statement of Activities	B	4
<u>Governmental Funds:</u>		
Balance Sheet	C	5
Reconciliation of Balance Sheet to the Statement of Net Assets	D	6
Statement of Revenues, Expenditures, and Changes in Fund Balances	E	7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities.....	F	8
<u>Proprietary Funds:</u>		
Statement of Net Assets	G	9
Statement of Revenues, Expenses and Changes in Fund Net Assets...	H	10
Statement of Cash Flows.....	I	11
<u>Fiduciary Funds:</u>		
Statement of Assets and Liabilities.....	J	12
NOTES TO FINANCIAL STATEMENTS.....		13 – 32
<u>REQUIRED SUPPLEMENTARY INFORMATION:</u>		
<u>SCHEDULE</u>		
Budget Comparison Schedule - Budget and Actual (GAAP Basis) General Fund.....	1	33
Notes to the Required Supplementary Information		34

TABLE OF CONTENTS (CONTINUED)

	<u>SCHEDULE</u>	<u>PAGE</u>
Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules (Required by Section 31-7-115, Miss. Code Ann. (1972))		35 – 36
Schedule of Purchases Not Made from the Lowest Bidder	2	37
Schedule of Emergency Purchases.....	3	38
Schedule of Purchases Made Noncompetitively from a Sole Source	4	39

SINGLE AUDIT SECTION

OTHER SUPPLEMENTARY INFORMATION:

Schedule of Expenditures of Federal Awards.....	5	40
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		41 – 42
Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133		43 – 44
Schedule of Findings and Questioned Costs.....		45– 46
Management’s Corrective Action Plan		47

ERICKSEN KRENTEL & LA PORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

4227 CANAL STREET
NEW ORLEANS, LOUISIANA 70119-5996
TELEPHONE (504) 486-7275 • FAX (504) 482-2516
WWW.ERICKSENKRENTEL.COM

JAMES E. LA PORTE*
RICHARD G. MUELLER
RONALD H. DAWSON, JR.*
KEVIN M. NEYREY
CLAUDE M. SILVERMAN*
KENNETH J. ABNEY*
W. ERIC POWERS
DENNIS J. TIZZARD†
JAMES E. TONGLET*

*PROFESSIONAL CORPORATION
†LIMITED LIABILITY COMPANY
BENJAMIN J. ERICKSEN - RETIRED
J.V. LECLERE KRENTEL - RETIRED

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

Members of the Board of Supervisors
Hancock County, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hancock County, Mississippi as of and for the year ended September 30, 2006, which collectively comprise the County's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of Hancock County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the County's legal entity. The financial statements do not include financial data for the County's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Hancock County, Mississippi, as of September 30, 2006, and the respective changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information for the primary government of Hancock County, Mississippi, as of September 30, 2006, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

ERICKSEN KRENTEL & LAPORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Members of the Board of Supervisors
Hancock County, Mississippi
August 15, 2007

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2007, on our consideration of Hancock County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provision 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 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 information contained in Schedule "1" and corresponding notes are not a required part of the basic financial statements but are supplementary information required by accounting principles general accepted in the United States of America. 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. The schedule of expenditures of federal awards 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.

August 15, 2007

Erickson, Krentel & LaPorte, L.L.P.

Certified Public Accountants

Financial Section

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	Primary Government <u>Governmental Activities</u>
<u>ASSETS:</u>	
Cash	\$ 24,882,282
Property tax receivable	11,313,136
Fines receivable, net	6,904
Loans receivable	74,000
Intergovernmental receivables	1,589,351
Capital assets, net	<u>16,584,712</u>
Total assets	<u>54,450,385</u>
<u>LIABILITIES:</u>	
Claims payable	2,934,022
Claims & judgements payable	194,835
Other payables	132,143
Deferred revenue	10,969,500
Intergovernmental payables	365,057
Other payables	46,288
Long-term liabilities	
Due within one year:	
Capital debt	1,312,363
Non-capital debt	280,000
Due in more than one year:	
Capital debt	10,643,599
Non-capital debt	<u>9,400,455</u>
Total liabilities	<u>36,278,262</u>
<u>NET ASSETS:</u>	
Invested in capital assets, net of related debt	4,628,750
Restricted:	
Expendable:	
General government	875,955
Debt service	441,187
Public safety	2,800,177
Public works	787,605
Culture and recreation	480,464
Economic development	960
Capital projects	4,264,719
Unrestricted	<u>3,892,306</u>
Total net assets	<u><u>\$ 18,172,123</u></u>

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

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

					Net (expense) Revenue and Changes in Net Assets
Functions / programs	Expenses	Program Revenues			Primary Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities					
General government	\$ 10,687,758	\$ 1,644,645	\$ 277,304	\$ 3,000,000	\$ (5,765,809)
Public safety	30,374,219	472,678	18,075,268	77,607	(11,748,666)
Public works	6,162,773	-	939,628	-	(5,223,145)
Health and welfare	924,304	471,461	101,481	(5,000)	(356,362)
Culture and recreation	1,689,187	421,079	10,276	100,000	(1,157,832)
Education	710,779	-	-	-	(710,779)
Conservation of natural resources	116,489	-	-	-	(116,489)
Economic development and assistance	147,288	-	48,123	-	(99,165)
Interest on long-term debt	<u>575,634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(575,634)</u>
Total governmental activities	<u>\$ 51,388,431</u>	<u>\$ 3,009,863</u>	<u>\$ 19,452,080</u>	<u>\$ 3,172,607</u>	<u>\$ (25,753,881)</u>
General revenues:					
Property taxes					15,146,432
Road & bridge privilege tax					510,279
Licenses, commissions and other					1,321,591
Fines and forfeitures					842,695
Grants and contributions not restricted to specific programs					12,498,341
Unrestricted interest income					994,259
Miscellaneous revenue					1,271,660
Compensation for loss on capital assets					<u>523,888</u>
Total general revenues					<u>33,109,145</u>
Changes in net assets					7,355,264
Net assets - beginning, as restated					<u>10,816,859</u>
Net assets - ending					<u>\$ 18,172,123</u>

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

HANCOCK COUNTY, MISSISSIPPI
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Major Funds				
	MDA FEMA		U.S. Bond		Total
	General	Temporary	Issue Roof	Other	Total
	Fund	Cash Flow	Issue Roof	Governmental	Governmental
	Fund	Fund	Road Fund	Funds	Funds
<u>ASSETS:</u>					
Cash	\$ 931,285	\$ 4,425,583	\$ 4,338,079	\$ 13,687,764	\$ 23,382,711
Property tax receivable	6,323,636	-	-	4,509,500	10,833,136
Fines receivable (net of allowance for uncollectibles of \$529,380)	6,904	-	-	-	6,904
Loans receivable	74,000	-	-	-	74,000
Intergovernmental receivables	1,589,351	-	-	-	1,589,351
Due from other funds	496,302	-	-	-	496,302
 Total assets	<u>\$ 9,421,478</u>	<u>\$ 4,425,583</u>	<u>\$ 4,338,079</u>	<u>\$ 18,197,264</u>	<u>\$ 36,382,404</u>
 <u>LIABILITIES AND FUND BALANCE:</u>					
Liabilities:					
Claims payable	\$ 1,562,839	\$ -	\$ 14,808	\$ 687,048	\$ 2,264,695
Intergovernmental payables	344,494	-	-	-	344,494
Due to other funds	-	-	-	496,302	496,302
Deferred revenue	5,980,000	-	-	4,509,500	10,489,500
Other payables	155,259	-	-	-	155,259
 Total liabilities	<u>8,042,592</u>	<u>-</u>	<u>14,808</u>	<u>5,692,850</u>	<u>13,750,250</u>
 <u>FUND BALANCES:</u>					
Reserved for :					
Debt service	-	-	-	1,013,807	1,013,807
Loans receivable	74,000	-	-	-	74,000
Unreserved, reported in:					
General fund	1,304,886	-	-	-	1,304,886
Special revenue funds	-	4,425,583	-	11,584,063	16,009,646
Capital projects funds	-	-	4,323,271	(93,456)	4,229,815
 Total fund balances	<u>1,378,886</u>	<u>4,425,583</u>	<u>4,323,271</u>	<u>12,504,414</u>	<u>22,632,154</u>
 Total liabilities and fund balances	<u>\$ 9,421,478</u>	<u>\$ 4,425,583</u>	<u>\$ 4,338,079</u>	<u>\$ 18,197,264</u>	<u>\$ 36,382,404</u>

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

HANCOCK COUNTY, MISSISSIPPI
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

Total fund balance	\$ 22,632,154
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds.	16,584,712
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(21,636,417)
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>591,674</u>
Total Net Assets - Governmental Activities	<u>\$ 18,172,123</u>

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

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Major Funds				
	General	MDA FEMA Temporary Cash Flow	4.5 Bond Issue Roof/ Road Fund	Other Governmental Funds	Total Governmental Funds
	Fund	Fund	Road Fund	Funds	Funds
<u>REVENUES:</u>					
Property taxes	\$ 7,776,475	\$ -	\$ -	\$ 6,738,172	\$ 14,514,647
Road and bridge privilege taxes	-	-	-	510,279	510,279
Licenses, commissions and other revenue	1,290,978	-	-	30,613	1,321,591
Fines & forfeitures	825,459	-	-	17,236	842,695
Intergovernmental revenues	16,721,842	4,376,082	-	8,464,429	29,562,353
Charges for services	467,758	-	-	425,999	893,757
Interest income	631,680	49,501	95,361	184,413	960,955
Miscellaneous revenues	247,323	-	-	650,736	898,059
Total revenues	<u>27,961,515</u>	<u>4,425,583</u>	<u>95,361</u>	<u>17,021,877</u>	<u>49,504,336</u>
<u>EXPENDITURES:</u>					
Current:					
General government	5,221,102	-	-	2,429,057	7,650,159
Public safety	34,480,732	-	-	736,279	35,217,011
Public works	938,780	-	25,477	4,115,889	5,080,146
Health and welfare	924,304	-	-	-	924,304
Culture and recreation	577,253	-	-	1,111,934	1,689,187
Education	637,937	-	-	2,500	640,437
Conservation of natural resources	37,213	-	-	-	37,213
Economic development and assistance	131,288	-	-	-	131,288
Debt service:					
Principal	185,827	-	14,808	1,192,613	1,393,248
Interest	16,238	-	-	603,353	619,591
Contractual services	-	-	8,380	4,329	12,709
Capital outlays	-	-	81,600	-	81,600
Total expenditures	<u>43,150,674</u>	<u>-</u>	<u>130,265</u>	<u>10,195,954</u>	<u>53,476,893</u>
Excess of revenues over (under) expenditures	<u>(15,189,159)</u>	<u>4,425,583</u>	<u>(34,904)</u>	<u>6,825,923</u>	<u>(3,972,557)</u>
<u>OTHER FINANCING SOURCES (USES):</u>					
Long-term capital debt issued	5,480,455	-	-	-	5,480,455
Compensation for loss of capital assets	4,989,741	-	-	598,679	5,588,420
Transfers in	679,759	-	-	547,944	1,227,703
Transfers out	(343,665)	-	-	(1,070,629)	(1,414,294)
Total other financing sources and uses	<u>10,806,290</u>	<u>-</u>	<u>-</u>	<u>75,994</u>	<u>10,882,284</u>
Net changes in fund balances	<u>(4,382,869)</u>	<u>4,425,583</u>	<u>(34,904)</u>	<u>6,901,917</u>	<u>6,909,727</u>
Fund balances - beginning	<u>5,761,755</u>	<u>-</u>	<u>4,358,175</u>	<u>5,602,497</u>	<u>15,722,427</u>
Fund balances - ending	<u>\$ 1,378,886</u>	<u>\$ 4,425,583</u>	<u>\$ 4,323,271</u>	<u>\$ 12,504,414</u>	<u>\$ 22,632,154</u>

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

HANCOCK COUNTY, MISSISSIPPI
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net changes in fund balances - governmental funds	\$ 6,909,727
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital asset additions of \$8,267,214 was exceeded by depreciation expense of \$882,754 in the current period.	7,384,460
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of \$7,179,757 exceeded debt repayments of \$1,462,562	(5,717,195)
Loss on disposal of assets in the Statement of Activities reflects the total sale proceeds received less the net book value of the capital assets. Governmental funds report capital outlays as expenditures when purchased and only the gross proceeds received when the assets are disposed of.	(1,183,810)
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>(37,918)</u>
Change in net assets of governmental activities	<u>\$ 7,355,264</u>

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

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF NET ASSETS - PROPRIETARY FUND
SEPTEMBER 30, 2006

	Governmental Activities
	<u>Self-Insurance</u>
	<u>Internal Service</u>
	<u>Fund</u>
<u>LIABILITIES:</u>	
Current liabilities:	
Claims and judgements payable	\$ 194,835
Other payables	<u>132,143</u>
Total current liabilities	<u>326,978</u>
<u>NET ASSETS:</u>	
Restricted for health insurance	<u>(326,978)</u>
Total net assets	<u><u>\$ (326,978)</u></u>

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

Exhibit "H"

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET ASSETS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Governmental Activities Self-Insurance Internal Service Fund</u>
<u>Operating revenues:</u>	
Premiums	\$ 1,644,645
Refunds	<u>559,808</u>
Total operating revenues	<u>2,204,453</u>
<u>Operating expenses:</u>	
Claims payments	1,845,703
Insurance premiums	360,812
Administrative fees	<u>35,856</u>
Total operating expenses	<u>2,242,371</u>
Operating income (loss)	(37,918)
Changes in net assets	(37,918)
Net assets - beginning	<u>(289,060)</u>
Net assets - ending	<u><u>\$ (326,978)</u></u>

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

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Governmental Activities Self-Insurance Internal Service Fund
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts for premiums	\$ 1,644,645
Receipts for refunds	559,808
Payments for group insurance	(360,812)
Payments for claims	<u>(1,843,641)</u>
Net cash provided (used) by operating activities	<u>-</u>
Net increase (decrease) in cash and cash equivalents	-
Cash and cash equivalents at beginning of year	<u>-</u>
Cash and cash equivalents at end of year	<u><u>\$ -</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ (37,918)
Adjustments to reconcile operating income (loss) to net cash provided by (used by) operating activities:	
Increase (decrease) in claims, judgements, and other payables	<u>37,918</u>
Total adjustments	<u>37,918</u>
Net cash provided by (used in) operating activities	<u><u>\$ -</u></u>

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

HANCOCK COUNTY, MISSISSIPPI
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Agency Funds
<u>ASSETS:</u>	
Cash	\$ 1,202,232
Total assets	<u>\$ 1,202,232</u>
<u>LIABILITIES:</u>	
Amounts held in custody for others	\$ 513,340
Intergovernmental payables	<u>688,892</u>
Total liabilities	<u>\$ 1,202,232</u>

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

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

(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
- East Hancock Fire Protection District
- Fenton Fire Protection District
- Kiln Fire Protection District
- Leetown Fire Protection District
- West Hancock Fire Protection District
- Post 58 Fire Protection District
- Hancock County Human Resource Agency
- Hancock County Medical Center
- Hancock County Port and Harbor Commission

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

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

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Individual Component Unit Disclosure

Blended Component Unit

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

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation (continued)

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.

D. Measurement Focus and Basis of Accounting

The Government-wide, Proprietary Funds and Fiduciary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied.

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

MDA FEMA – This fund is used to account for monies from FEMA for hurricane recovery expenditures.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (continued)

4.5 Million Bond Issue Roof/Road 2005 Fund – This fund is used to account for the proceeds from a general obligation bond issue that are restricted for the acquisition, construction and repair of major capital facilities and infrastructure.

The County reports the following major Proprietary Fund:

Self-insurance Internal Service Fund – This fund is used to account for the health insurance activities provide to governmental departments on a cost-reimbursement basis.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

PROPRIETARY FUND TYPE

Internal Service 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.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

G. Receivables

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

H. Interfund Transactions and Balances

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

I. 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.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets (continued)

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

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

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

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ -	N/A
Infrastructure	-	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 asset classification, as listed above.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 improvements of those assets.

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

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

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Equity Classifications (continued)

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.

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.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 fun financial statements, Government Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) FUND RECLASSIFICATION

Management chooses to reclassify funds to reflect the proper objectives of the funds when necessary. There were no fund reclassifications for the year ended September 30, 2006.

(3) DEPOSITS

The carrying amount of the County's total deposits with financial institutions at September 30, 2006, was \$24,882,282, and the bank balance was \$24,925,395. 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.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(4) INTERFUND TRANSACTIONS AND BALANCES

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

A. Due From/To Other Funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Other governmental funds	\$ 496,302
		<u>\$ 496,302</u>

The amount payable from the Other Governmental Funds represents loans in anticipation of grant revenue. All other amounts represent the tax revenue collected but not settled until October, 2006. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 678,390
Other Governmental Funds	General Fund	1,369
Other Governmental Funds	Other Governmental Funds	392,239
Agency Fund	General Fund	163,000
Other Governmental Funds	General Fund	<u>179,296</u>
		<u>\$ 1,414,294</u>

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

(5) INTERGOVERNMENTAL RECEIVABLES

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

<u>Description</u>	<u>Amount</u>
Legislative tag credit	\$ 298,197
Highway planning and construction grant	45,439
Cash held by component units	1,238,811
Fines receivable	<u>6,904</u>
Total	<u>\$ 1,589,351</u>

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(6) LOANS RECEIVABLE

Loans receivable balances at September 30, 2006, consisted of the following:

Description	Date of Loan	Interest Rate	Maturity Date	Balance Payable
Pearlington Water and Sewer District	3/2/1998	0%	N/A	\$ 40,000
Hancock County Wastewater District	11/1/1995	0%	N/A	19,000
Hancock County Wastewater District	5/25/1997	0%	N/A	15,000
Total				<u>\$ 74,000</u>

(7) CAPITAL ASSETS

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

	Balance Oct 1, 2005 (as restated)	Additions	Deletions	Adjustments	Balance Sept 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 611,072	\$ -	\$ -	\$ -	\$ 611,072
Construction in progress	2,640	2,126,780	1,238,249	-	891,171
Total non-depreciable capital assets	613,712	2,126,780	1,238,249	-	1,502,243
<u>Depreciable capital assets:</u>					
Infrastructure	9,926,135	1,388,938	-	-	11,315,073
Buildings	6,777,668	140,801	699,184	-	6,219,285
Improvements other than buildings	158,471	-	-	-	158,471
Mobile equipment	4,269,886	1,515,406	3,320,405	-	2,464,888
Furniture and equipment	1,101,947	711,444	394,649	-	1,418,742
Leased property under capital leases	758,732	2,383,845	143,952	-	2,998,625
Total depreciable capital assets	22,992,839	6,140,434	4,558,190	-	24,575,083
<u>Less accumulated depreciation for:</u>					
Infrastructure	6,554,029	42,599	-	-	6,596,628
Buildings	1,845,249	132,250	190,356	-	1,787,143
Improvements other than buildings	15,795	5,265	-	-	21,060
Mobile equipment	624,803	323,470	485,867	-	462,406
Furniture and equipment	15,301	48,889	5,480	-	58,710
Leased property under capital leases	291,738	330,280	55,351	-	566,667
Total depreciable capital assets, net	13,645,924	5,257,681	3,821,135	-	15,082,469
Governmental activities capital assets, net	<u>\$ 14,259,636</u>	<u>\$ 7,384,460</u>	<u>\$ 5,054,384</u>	<u>\$ -</u>	<u>\$ 16,584,712</u>

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(7) CAPITAL ASSETS (CONTINUED)

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

<u>Description of Commitment</u>	<u>Expected date of Completion</u>	<u>Remaining Financial Commitment</u>
County-wide paving project	Jan-08	2,000,000
Texas flat road	Jan-08	6,500,000
Lower bay road	-	10,500,000
Courthouse – roof, windows, dehumidification	Sep-07	123,544
Marine recreational facilities	Oct-07	43,977
Road repairs	Jul-09	4,000,000
Voting precincts	-	111,000

(8) CLAIMS AND JUDGMENTS

Risk Financing

The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2005, to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The County is exposed to risk of loss relating to employee health, accident and dental coverage. Beginning in 2002 and pursuant to Section 25-15-101, Miss. Code Ann. (1972), the County established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Hancock County pays the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The County has minimum uninsured risk retention to the extent that actual claims submitted exceed the predetermined premium.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(8) CLAIMS AND JUDGMENTS (CONTINUED)

Risk Financing (continued)

The County has implemented the following plans to minimize this potential loss:

The County has purchased coinsurance which functions on two separate stop loss coverages: specific and aggregate. These coverages are purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$50,000, and the aggregate policy covers all submitted claims in excess of \$1,507,757.

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, 2006, there was \$194,835 of these liabilities. An analysis of claims activities is presented below:

<u>Period</u>	<u>Beginning of Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
2004-2005	\$ 34,413	\$ 1,415,922	\$ 1,307,420	\$ 142,915
2005-2006	\$ 142,915	\$ 1,881,559	\$ 1,829,639	\$ 194,835

(9) CAPITAL LEASES

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 2,188,250
Furniture and equipment	34,970
 Total	 <u>\$ 2,223,220</u>

Following is a summary of future principal and interest requirements:

<u>Year Ending September 30, 2006</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 549,819	\$ 70,162	\$ 619,981
2008	636,133	54,519	690,652
2009	698,955	28,408	727,364
2010	192,325	10,133	202,459
2011	145,988	2,422	148,411
2012-2013	-	-	-
	<u>\$2,223,220</u>	<u>\$ 165,644</u>	<u>\$2,388,867</u>

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(10) LONG-TERM DEBT

Debt outstanding as of September 31, 2006, consisted of the following:

	<u>Balance at</u> <u>10/1/05</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at</u> <u>9/30/06</u>	<u>Due</u> <u>Within</u> <u>One Year</u>
<u>General Obligation Bonds:</u>					
Public Improvement bonds, Series 1997, interest rate ranging from 4.5% to 4.875%, maturing in December 2017.	\$ 4,685,000	\$ -	\$ 260,000	\$ 4,425,000	\$ 275,000
Roof & Road Bond, interest rate ranging from 3.0% to 3.5%, maturing in September 2015.	4,500,000	-	375,000	4,125,000	390,000
<u>Limited Obligation Bonds:</u>					
MBIA Bonds, Series 2001, interest rate at 1.0%, maturing in December 2016.	2,700,000	-	150,000	2,550,000	150,000
Sand Beach Project, Series 2001, interest rate ranging from 3.8% to 4.95%, maturing in July 2016.	1,700,000	-	120,000	1,650,000	130,000
Hancock County Library Project, Series 1998, interest rate ranging from 4.88% to 5.9%, maturing July 2018.	980,000	-	55,000	925,000	60,000
<u>Other Loans:</u>					
Hancock County Public Building Project, interest rate of 5.38%, maturing in March 2012.	293,361	-	35,620	257,741	37,544
Community Disaster Loan with FEMA, interest rate at 2.69%, maturing on December 19, 2010.	-	5,480,455	-	5,480,455	-
Capital leases (Note 9)	992,588	1,617,618	388,359	2,223,220	549,819
Compensated Absences	<u>83,509</u>	<u>81,684</u>	<u>78,583</u>	<u>86,610</u>	<u>-</u>
	<u>\$ 16,004,458</u>	<u>\$ 7,179,757</u>	<u>\$ 1,462,562</u>	<u>\$ 21,723,027</u>	<u>\$ 1,592,363</u>

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(10) LONG-TERM DEBT (CONTINUED)

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

General Obligation Bonds:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 665,000	\$ 335,258	\$ 1,000,258
2008	695,000	308,283	1,003,283
2009	725,000	270,945	995,945
2010	760,000	247,350	1,007,350
2011	790,000	224,058	1,014,058
2012-2016	4,435,000	699,514	5,134,514
Thereafter	<u>480,000</u>	<u>23,400</u>	<u>503,400</u>
	<u>\$ 8,550,000</u>	<u>\$ 2,108,808</u>	<u>\$ 10,658,808</u>

Limited Obligation Bonds:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 340,000	\$ 141,160	\$ 481,160
2008	345,000	132,620	477,620
2009	360,000	122,818	482,818
2010	365,000	113,155	478,155
2011	380,000	102,968	482,968
2012-2016	3,140,000	332,403	3,472,403
Thereafter	<u>195,000</u>	<u>14,381</u>	<u>209,381</u>
	<u>\$ 5,125,000</u>	<u>\$ 959,505</u>	<u>\$ 6,084,505</u>

Other Loans:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 37,544	\$ 161,838	\$ 199,382
2008	39,563	159,819	199,382
2009	41,692	157,718	199,410
2010	5,524,390	150,996	5,675,386
2011	46,299	5,104	51,403
2012-2016	48,708	2,613	51,321
Thereafter	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 5,738,196</u>	<u>\$ 638,088</u>	<u>\$ 6,376,284</u>

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(10) LONG-TERM DEBT (CONTINUED)

Legal Debt Margin - The amount of debt, excluding specific exempted debt, which can be incurred by the County, is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a County issues bonds to repair or replace washed out or collapsed bridges on the public roads of the County. As of September 30, 2006, the amount of outstanding debt was equal to 5.87% of the latest property assessments.

(11) DEFICIT FUND BALANCES OF INDIVIDUAL FUNDS

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

<u>Fund</u>	<u>Deficit Amount</u>
Coastal Impact Assistance Program	\$ 77,415
Library Bond & Interest Fund	3,293
Sand Beach Construction Fund	305,061
Insurance Clearing	146,145
Payroll Clearing	96,126
Payroll Clearing Circuit Clerk	<u>15,019</u>
	<u>\$ 643,059</u>

(12) 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.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(12) CONTINGENCIES

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 these entities 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:

<u>Description</u>	<u>Balance at September 30, 2006</u>
General Obligation Port and Harbor Bonds	<u>\$ 8,233,272</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, 2006 is \$5,060,000.

(13) 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:

<u>Description</u>	<u>Balance at September 30, 2006</u>
Industrial revenue bond - Wellman Redevelopment Project	<u>\$ 5,000,000</u>

(14) RELATED ORGANIZATIONS

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

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(14) RELATED ORGANIZATIONS (CONTINUED)

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 6.

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

(15) 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 \$248,655 in fiscal year 2006. 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 51. 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 \$849,691 in fiscal year 2006. Complete financial statements for the Hancock County Library System can be obtained from 312 Highway 90, Bay 51. 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 venture was \$893,734 in fiscal year 2006. Complete financial statements for the Hancock County Regional Solid Waste Management Authority can be obtained from 401 Gulfside Street, Waveland, Mississippi.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(16) 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 \$100,000 for support of the agency in fiscal year 2006.

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 \$70,342 for maintenance and support of the college in fiscal year 2005.

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 \$10,742 for support of the district in fiscal year 2006.

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 \$28,905 for support of the district in fiscal year 2006.

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 \$79,152 for support of the agency in fiscal year 2006.

HANCOCK COUNTY, MISSISSIPPI
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

(17) DEFINED BENEFIT PENSION PLAN

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.

PERS members are required to contribute 7.25% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2006 was 10.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ending September 30, 2006, 2005 and 2004 were \$1,119,489, \$681,699, and \$643,246 , respectively, equal to the required contributions for each year.

(18) SUBSEQUENT EVENTS

Subsequent to September 30, 2006, Hancock County issued the following debt obligations:

<u>Issue date</u>	<u>Interest rate</u>	<u>Issue amount</u>	<u>Type of financing</u>	<u>Source of financing</u>
10/18/06	4.04%	\$ 41,400	Lease purchase	Available revenue
1/17/07	3.91%	449,045	Lease purchase	Available revenue

(19) PRIOR PERIOD ADJUSTMENT

During 2006, the County made an assessment of the damage to its infrastructure caused by Hurricane Katrina on August 29, 2005. As a result, the County has restated beginning net assets in the accompanying government wide financial statements. The effect of this restatement was to reduce infrastructure by \$18,000,000, related accumulated depreciation by \$12,600,00, and beginning net assets by \$5,400,000.

REQUIRED SUPPLEMENTARY INFORMATION

HANCOCK COUNTY, MISSISSIPPI
BUDGETARY COMPARISON SCHEDULE -
BUDGET TO ACTUAL (GAAP BASIS) - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2006

	<u>Budget</u>	<u>Actual</u>	Variance with Final budget positive (negative)
<u>REVENUES:</u>			
Property taxes	\$ 14,620,052	\$ 14,514,647	\$ (105,405)
Road and bridge privilege taxes	591,000	510,279	(80,721)
Licenses, commissions and other revenue	826,200	1,321,591	495,391
Fines & forfeitures	637,000	842,695	205,695
Intergovernmental revenues	5,423,165	29,562,353	24,139,188
Charges for services	663,200	893,757	230,557
Interest income	298,500	960,955	662,455
Miscellaneous revenues	195,200	898,059	702,859
	<u>23,254,317</u>	<u>49,504,336</u>	<u>26,250,019</u>
<u>EXPENDITURES:</u>			
<u>Current:</u>			
General government	7,090,248	7,325,769	(235,521)
Public safety	37,058,213	35,217,011	1,841,202
Public works	8,657,709	5,080,146	3,577,563
Health and welfare	979,507	924,304	55,203
Culture and recreation	1,950,188	1,689,187	261,001
Education	20,000	640,437	(620,437)
Conservation of natural resources	193,593	37,213	156,380
Economic development and assistance	729,768	131,288	598,480
Debt service and capital outlays	2,981,654	2,107,148	874,506
	<u>59,660,880</u>	<u>53,152,503</u>	<u>6,508,377</u>
Excess of revenues over (under) expenditures	<u>(36,406,563)</u>	<u>(3,648,167)</u>	<u>19,741,642</u>
<u>OTHER FINANCING SOURCES (USES):</u>			
Long-term capital debt issued	-	5,480,455	5,480,455
Compensation for loss of capital assets	1,167,703	5,588,420	4,420,717
Transfers in	1,287,500	1,227,703	(59,797)
Transfers out	(1,287,500)	(1,414,294)	(126,794)
	<u>1,167,703</u>	<u>10,882,284</u>	<u>9,714,581</u>
Net change in fund balances	(35,238,860)	7,234,117	42,472,977
Fund balances - beginning	<u>15,722,427</u>	<u>15,722,427</u>	<u>-</u>
Fund balances ending	<u>\$ (19,516,433)</u>	<u>\$ 22,956,544</u>	<u>\$ 42,472,977</u>

The accompanying notes to the required supplementary information are an integral part of this statement

HANCOCK COUNTY, MISSISSIPPI
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED SEPTEMBER 30, 2006

(1) 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.

(2) BASIS OF PRESENTATION

The Budgetary Comparison Schedule – Budget and Actual presents the original legally adopted budget, actual amounts on a 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 (GAAP Basis) is part of required supplemental information.

(3) EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS

No funds had an excess of actual expenditures over budget for the year ended September 30, 2006.

OTHER SUPPLEMENTARY INFORMATION

ERICKSEN KRENTEL & LAPORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

4227 CANAL STREET
NEW ORLEANS, LOUISIANA 70119-5996
TELEPHONE (504) 486-7275 • FAX (504) 482-2516
WWW.ERICKSENKRENTEL.COM

JAMES E. LAPORTE*
RICHARD G. MUELLER
RONALD H. DAWSON, JR.*
KEVIN M. NEYREY
CLAUDE M. SILVERMAN*
KENNETH J. ABNEY*
W. ERIC POWERS
DENNIS J. TIZZARD*
JAMES E. TONGLET*

*PROFESSIONAL CORPORATION
*LIMITED LIABILITY COMPANY
BENJAMIN J. ERICKSEN - RETIRED
J.V. LECLERE KRENTEL - RETIRED

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

Members of the Board of Supervisors
Hancock County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Hancock County, Mississippi, as of and for the year ended September 30, 2006. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

The accompanying schedules of (1) purchases not made from the lowest bidder, (2) emergency purchases and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

ERICKSEN KRENTEL & LAPORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Members of the Board of Supervisors
Hancock County, Mississippi
August 15, 2007

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.

August 15, 2007

Erickson, Krentel & Laporte, L.L.P.

Certified Public Accountants

HANCOCK COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
SEPTEMBER 30, 2006

Our test results did not identify any purchases other than from the lowest bidder for the fiscal year ended September 30, 2006.

HANCOCK COUNTY, MISSISSIPPI
SCHEDULE OF EMERGENCY PURCHASES
SEPTEMBER 30, 2006

Our test results did not identify any emergency purchases for the fiscal year ended September 30, 2006, other than the expenditures of federal awards funded by FEMA grants associated with the state of emergency declared following Hurricane Katrina and noted on Schedule 5.

HANCOCK COUNTY, MISSISSIPPI
SCHEDULE OF PURCHASES MADE
NONCOMPETITIVELY FROM A SOLE SOURCE
SEPTEMBER 30, 2006

Our test results did not identify any purchases other noncompetitively from a sole source, for the fiscal year ended September 30, 2006.

Single Audit Section

HANCOCK COUNTY, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Federal Grantor / Pass Through Grantor / Program Title	Federal CFDA Number	Agency or Pass - Through Number	Federal Expenditure
MAJOR FEDERAL AWARDS			
Department of Homeland Security (FEMA)			
Mississippi Emergency Management Agency (MEMA)			
Disaster Grants - Public Assistance (Pres. Declared Disasters)	97.036	FEMA1604-DR-MS	\$ 15,208,689 *
Special Community Disaster Loan	97.030	FEMA1604-MS-16	<u>5,480,455 *</u>
Total expenditures of major federal awards			<u>20,689,144</u>
OTHER FEDERAL AWARDS			
U.S. Department of Transportation - Federal Highway Administration			
Mississippi Department of Transportation			
Highway Planning and Construction	20.205	STP 1126 1 B	<u>48,762</u>
U.S. Department of Justice			
Mississippi Department of Public Safety			
Victims of Child Abuse	16.547	3NP1235	40,469
Grants to Reduce Violence Against Women on Campus	16.525	4NW1231	38,198
Violence Against Women Formula Grants	16.588	02SL1231	21,392
Local Law Enforcement Block Grant	16.592	04LB1231	45,112
Community Prosecution and Project Safe Neighborhoods	16.609	2NC1234	<u>25,988</u>
Total U.S. Department of Justice			<u>171,159</u>
U.S. Department of Homeland Security			
Mississippi Department of Public Safety			
State Preparedness Equipment Support Program	97.067	04LE023	<u>14,370</u>
Total expenditures of other federal awards			<u>234,291</u>
Total expenditures of federal awards			<u>\$ 20,923,435</u>

* Major program

Note: The schedule of expenditures of federal awards is a summary of activity of Hancock County's federal awards programs presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

ERICKSEN KRENTEL & LA PORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

4227 CANAL STREET
NEW ORLEANS, LOUISIANA 70119-5996
TELEPHONE (504) 486-7275 • FAX (504) 482-2516
WWW.ERICKSENKRENTEL.COM

JAMES E. LA PORTE*
RICHARD G. MUELLER
RONALD H. DAWSON, JR.*
KEVIN M. NEYREY
CLAUDE M. SILVERMAN*
KENNETH J. ABNEY*
W. ERIC POWERS
DENNIS J. TIZZARD*
JAMES E. TONGLET*

*PROFESSIONAL CORPORATION
*LIMITED LIABILITY COMPANY
BENJAMIN J. ERICKSEN - RETIRED
J.V. LECLERE KRENTEL - RETIRED

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Supervisors
Hancock County, Mississippi

We have audited the financial statements of Hancock County, Mississippi (the County) as of and for the year ended September 30, 2006, and have issued our report thereon dated August 15, 2007. 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 the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

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.

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 entity's internal control.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

ERICKSEN KRENTEL & LAPORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

To the Board of Supervisors
Hancock County, Mississippi
August 15, 2007

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the county and federal awarding agencies 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.

August 15, 2007

Ericksen, Krentel & LaPorte, L.L.P.

Certified Public Accountants

ERICKSEN KRENTEL & LA PORTE L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

4227 CANAL STREET
NEW ORLEANS, LOUISIANA 70119-5996
TELEPHONE (504) 486-7275 • FAX (504) 482-2516
WWW.ERICKSENKRENTEL.COM

JAMES E. LA PORTE*
RICHARD G. MUELLER
RONALD H. DAWSON, JR.*
KEVIN M. NEYREY
CLAUDE M. SILVERMAN*
KENNETH J. ABNEY*
W. ERIC POWERS
DENNIS J. TIZZARD†
JAMES E. TONGLET†

*PROFESSIONAL CORPORATION
†LIMITED LIABILITY COMPANY
BENJAMIN J. ERICKSEN - RETIRED
J.V. LECLERE KRENTEL - RETIRED

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

To the Board of Supervisors
Hancock County, Mississippi

Compliance

We have audited the compliance of Hancock County, Mississippi (the County) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended September 30, 2006. The County'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 its major federal programs are the responsibility of the County's management. Our responsibility is to express an opinion on the County'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 the County'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 of the County's compliance with those requirements.

In our opinion, Hancock County, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2006.1.

To the Board of Supervisors
Hancock County, Mississippi
August 15, 2007

Internal Control Over Compliance

The management of the County 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 the County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

A *control deficiency* in an entity'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 entity'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 entity's internal control.

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

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

This report is intended solely for the information and use of management, others within the county and federal awarding agencies 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.

August 15, 2007

Ericksen, Krentel & LaPorte, L.L.P.

Certified Public Accountants

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

SUMMARY OF AUDIT RESULTS

1. The independent auditors' report expresses an unqualified opinion on the financial statements of Hancock County.
2. No control deficiencies were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Hancock County were disclosed during the audit.
4. No control deficiencies were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for Hancock County expresses an unqualified opinion.
6. Audit findings that are required to be reported in accordance with OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

FEMA Disaster Grant	CFDA 97.036
FEMA Community Disaster Loan	CFDA 97.030

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Hancock County was not determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

None

FINDINGS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

DEPARTMENT OF HOMELAND SECURITY

Finding No. 2006.1: FEMA Disaster Grant, CFDA 97.036

Reportable Condition: Failure to file single audit financial reports prior to deadline.

Criteria: Single audits for federal grant recipients receiving in excess of \$300,000 have a filing deadline of nine months after year end.

Effect of Condition: The Project may be subject to sanctions from Department of Homeland Security.

HANCOCK COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Cause of Condition: On August 29, 2005, Hurricane Katrina devastated the Mississippi Gulf Coast. The resulting wind damage and flooding caused extensive damage to the area and shutdown the economy, which has been slow to return. An abundance of records and files were destroyed as a result of the flooding.

Recommendation: Management should have future single audit reports issued prior to deadline.

QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAMS AUDIT

None

SUMMARY OF PRIOR AUDIT FINDINGS

Finding 05-1: Programs:

Coastal Zone Management Administration Awards	CFDA 11.419
Highway Planning and Construction	CFDA 20.205
Disaster Grants – Public Assistance	CFDA 97.036

Since sufficient competent evidential matter was either lost or destroyed due to the effects of Hurricane Katrina and was not available to document and support activities allowed or unallowed, allowable costs/cost principles, eligibility, period of availability of funds, procurement, suspension and debarment and special tests and provisions, the prior auditors were unable to express and did not express an opinion on the county's compliance with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005. This matter has been resolved.

CORRECTIVE ACTION PLAN

DEPARTMENT OF HOMELAND SECURITY

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

Name and address of independent public accounting firm:

Ericksen Krentel & LaPorte, LLP
4227 Canal Street
New Orleans, Louisiana 70119

Audit period: For the year ended September 30, 2006

The finding from the September 30, 2006 schedule of findings and questioned costs is discussed below. The finding is numbered consistently with the numbers assigned in the schedule. The first section of the schedule, Summary of Audit Results, does not include findings and is not addressed.

FINDINGS—FINANCIAL STATEMENT AUDIT

None

FINDINGS—MAJOR FEDERAL AWARD PROGRAMS AUDIT

DEPARTMENT OF HOMELAND SECURITY

Finding No. 2006.1: FEMA Disaster Grant, CFDA 97.036

Recommendation: Management should have future single audit reports issued prior to the deadline.

Action Taken: Management has implemented procedures to ensure that deadlines are met in the future.

If the Department of Homeland Security has questions regarding this plan, please call Timothy A. Kellar, at 228-467-5404.

Sincerely yours,


Hancock County, Mississippi