

HINDS COUNTY, MISSISSIPPI

**Primary Government Financial Statements
and Special Reports**

SEPTEMBER 30, 2006

HINDS COUNTY
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HINDS COUNTY

FINANCIAL SECTION

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

August 8, 2008

Members of the Board of Supervisors
Hinds County, Mississippi

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hinds County, Mississippi, as of and for the year ended September 30, 2006, 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. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

The financial statements referred to above include only the primary government of Hinds 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 Hinds County, Mississippi, as of September 30, 2006, and the respective changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not disclosed the method and significant assumptions used to estimate the fair value of the 2006 Interest Rate Swap. Accounting principles generally accepted in the United States of America require that the government disclose the fair value of the derivative (Swap) by using market price if there is an active market for the investment. If a market price is not available, the method and significant assumptions used to estimate the fair value of the derivative must be disclosed and must be in accordance with methods prescribed by these accounting principles. The principles further provide that a forecast of expected cash flows may aid in estimating fair value, provided that the expected cash flows are discounted at a rate commensurate with the risk involved. A forecast should disclose the quoted market prices, or the method and significant assumptions used to estimate the fair value of the derivative.

In my opinion, except for the effects, if any, of not disclosing the method and significant assumptions used to estimate the fair value of the 2006 Interest Rate Swap as described in the preceding paragraph, 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 Hinds County, Mississippi, as of September 30, 2006, 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*, I have also issued my report dated August 8, 2008, on my consideration of Hinds County, Mississippi's internal control over financial reporting and my 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 read in conjunction with this report in considering the results of my audit.

Hinds County has not presented Management's Discussion and Analysis that is 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. I 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, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Hinds, 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 my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ruth N. Wylie, CPA
Madison, Mississippi

HINDS COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

HINDS COUNTY
Statement of Net Assets
September 30, 2006

Exhibit 1

	<u>Primary Government</u>
	Governmental
	<u>Activities</u>
ASSETS	
Cash	\$ 29,720,386
Property tax receivable	37,794,036
Fines receivable, net	544,106
Capital leases receivable	2,689,400
Intergovernmental receivables	2,806,070
Other receivables, net	39,109
Prepaid items	250,531
Capital assets, net	82,334,790
Total Assets	<u>156,178,428</u>
LIABILITIES	
Claims payable	2,561,825
Intergovernmental payables	2,632,194
Accrued interest payable	273,428
Deferred revenue	42,215,853
Other payables	1,440,041
Matured bonds and interest payable	18,459
Long-term liabilities	
Due within one year:	
Capital related debt	3,450,481
Non-capital debt	1,030,157
Due in more than one year:	
Capital related debt	22,207,804
Non-capital debt	5,989,622
Total Liabilities	<u>81,819,864</u>
NET ASSETS	
Invested in capital assets, net of related debt	56,676,505
Restricted net assets:	
Expendable:	
General government	100,575
Debt service	787,492
Capital projects	10,562,040
Public safety	5,833,432
Public works	1,158,292
Health and welfare	43,289
Economic development	51,528
Other purposes	702,864
Unrestricted	(1,557,452)
Total Net Assets	<u>\$ 74,358,565</u>

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

HINDS COUNTY
 Balance Sheet - Governmental Funds
 September 30, 2006

Exhibit 3

	<u>Major Funds</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash	\$ 7,851,958	21,868,428	29,720,386
Property tax receivable	27,948,296	9,845,740	37,794,036
Fines receivable	544,106		544,106
Capital lease receivable		2,689,400	2,689,400
Intergovernmental receivables	1,522,071	1,283,999	2,806,070
Other receivables	34,109	5,000	39,109
Due from other funds		389,566	389,566
Advances to other funds	750,000		750,000
Prepaid Items	250,531		250,531
Total Assets	<u>\$ 38,901,071</u>	<u>36,082,133</u>	<u>74,983,204</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Claims payable	\$ 1,637,959	923,866	2,561,825
Intergovernmental payables	2,632,194		2,632,194
Due to other funds	389,566		389,566
Advances from other funds		750,000	750,000
Deferred revenue	28,492,403	14,267,554	42,759,957
Other payables	1,440,042		1,440,042
Matured bonds and interest payable		18,459	18,459
Total Liabilities	<u>34,592,164</u>	<u>15,959,879</u>	<u>50,552,043</u>
Fund balances:			
Reserved for:			
Debt service		894,133	894,133
Advances	750,000		750,000
Unreserved, reported in:			
General fund	3,558,907		3,558,907
Special revenue funds		15,237,143	15,237,143
Capital project funds		3,990,978	3,990,978
Total Fund Balances	<u>4,308,907</u>	<u>20,122,254</u>	<u>24,431,161</u>
Total Liabilities and Fund Balances	<u>\$ 38,901,071</u>	<u>36,082,133</u>	<u>74,983,204</u>

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

HINDS COUNTY
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 September 30, 2006

Exhibit 3-1

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 24,431,161
Amounts reported for governmental services in the statement of net assets (Exhibit 1) are different because:	
Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds	
Capital assets net of depreciation as of 10-1-05	82,841,390
Plus capital outlay expenditures made during the year	3,858,124
Plus donation of capital asset	34,250
Less depreciation expense recorded during the year	(4,133,603)
Less net book value of capital assets sold or disposed of during the year	(265,371)
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.	
Fines receivable	544,106
Long-term liabilities are not due and payable in the current-period and therefore are not reported in the funds.	
Long-tem liabilities	(32,678,064)
Accrued interest on bonds	(273,428)
Total net assets - governmental activities (Exhibit 1)	\$ <u>74,358,565</u>

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

HINDS COUNTY

Exhibit 4

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

	<u>Major Funds</u>		Total Governmental Funds
	General Fund	Other Governmental Funds	
REVENUES			
Property taxes	\$ 36,739,505	12,234,343	48,973,848
Road and bridge privilege taxes		2,339,525	2,339,525
Licenses, commissions and other revenue	2,265,204	68,123	2,333,327
Fines and forfeitures	1,358,415	257,589	1,616,004
Intergovernmental revenues	5,072,960	5,723,673	10,796,633
Charges for services	3,385,409	3,077,852	6,463,261
Interest income	871,542	762,104	1,633,646
Miscellaneous revenues	812,787	377,109	1,189,896
Total Revenues	<u>50,505,822</u>	<u>24,840,318</u>	<u>75,346,140</u>
EXPENDITURES			
Current:			
General government	22,825,200	2,271,162	25,096,362
Public safety	23,473,509	4,716,437	28,189,946
Public works	416,919	11,064,482	11,481,401
Health and welfare	2,165,269	1,377,901	3,543,170
Culture and recreation	64,431	1,745,278	1,809,709
Conservation of natural resources	841,561		841,561
Economic development and assistance	548,493	242,749	791,242
Debt service:			
Principal	215,000	4,673,370	4,888,370
Interest	45,335	1,680,083	1,725,418
Total Expenditures	<u>50,595,717</u>	<u>27,771,462</u>	<u>78,367,179</u>
Excess of Revenues over (under) Expenditures	<u>(89,895)</u>	<u>(2,931,144)</u>	<u>(3,021,039)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from capital lease		48,985	48,985
Long-term capital debt issued		1,172,000	1,172,000
Proceeds from sale of capital assets		12,910	12,910
Transfers in	61,208	1,269,527	1,330,735
Transfers out	(1,036,866)	(293,869)	(1,330,735)
Total Other Financing Sources and Uses	<u>(975,658)</u>	<u>2,209,553</u>	<u>1,233,895</u>
SPECIAL ITEM - SWAP Payment			
Net Changes in Fund Balances	(1,065,553)	153,409	(912,144)
Fund Balance - Beginning	5,374,460	19,968,845	25,343,305
Fund Balances - Ending	<u>\$ 4,308,907</u>	<u>20,122,254</u>	<u>24,431,161</u>

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

HINDS COUNTY

Exhibit 4-1

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

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ (912,144)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that capital outlays and donations of \$3,892,374 exceeded depreciation \$4,133,603 in the current period.	(241,229)
In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of net loss of \$252,461 on disposal of other assets and the proceeds from the sale of \$12,910.	(265,371)
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.	72,003
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$4,888,371 exceeded debt proceeds of \$1,220,985.	3,667,386
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:	
Interest on long-term debt	(56,447)
Compensated absences	<u>80,406</u>
Change in net assets of governmental activities (Exhibit 2)	\$ <u><u>2,344,604</u></u>

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

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

Exhibit 5

	<u>Agency Funds</u>
ASSETS	
Cash	\$ 597,057
Other receivables	128,233
Total Assets	<u>\$ 725,290</u>
LIABILITIES	
Intergovernmental payables	\$ 122,555
Other accrued liabilities	602,735
Total Liabilities	<u>\$ 725,290</u>

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

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

(1) Significant Accounting Policies.

A. Financial Reporting Entity.

Hinds 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 Hinds 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.

- Hinds County Agriculture High School
- Hinds County Economic Development District
- Rankin/Hinds Pearl River Flood and Drainage Control District

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
- Tax Collector
- Sheriff

B. Basis of Presentation.

The county's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the primary government of 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 are reported separately from business-type activities.

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

The Statement of Net Assets presents the financial condition of the governmental activities of the primary government 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 for the primary government. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each 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 a separate accounting entity. 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 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.

C. Measurement Focus and Basis of Accounting.

The government-wide and fiduciary fund 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 sixty days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liability is 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.

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

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.

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.

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.

FIDUCIARY FUND TYPES

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

D. Account Classifications.

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

E. Deposits and Investments.

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

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

F. Receivables.

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

G. Interfund Receivables/Payables.

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.

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

H. Prepaid Items.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

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 applicable governmental column in the government-wide financial statement. 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 costs of capital assets, 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 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. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported 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.

	Capitalization Thresholds	Estimated Useful Life
Land	\$ 0	n/a
Infrastructure	0	20-50 years
Buildings	50,000	40 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

- Leased property capitalization policy will correspond with the amounts for the asset classification, as listed above.

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

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.

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, constructions or improvements of those assets.

Restricted net assets - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation 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.

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

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 when received. 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 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.

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.

Therefore, the county's full liability for accumulated unpaid personal leave up to a maximum of 30 days per employee is reported as a liability in the Statement of Net Assets.

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2006, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to report the effects of capital asset impairment in their financial statements when impairment occurs. The provisions of this new statement have been incorporated into the financial statements and accompanying notes.

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

(3) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2006, was \$30,293,238 (excluding imprest and petty cash of \$24,205), and the bank balance was \$32,754,093. The collateral for the county's deposits of \$23,095,497, with a bank balance of \$25,558,348, in approved financial institutions was held in the name of the State Treasurer under a program established by the Mississippi State Legislature and 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.

The deposits of \$7,197,741, with a bank balance of \$7,195,745, were held in a three-party guaranteed investment contract (GIC), rather than an approved depository, and were reported to be secured by pools of Government National Mortgage Association (GNMA) certificates.

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, except for those deposits held in the three-party guaranteed investment contract. Deposits to approved financial institutions 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. The Guaranteed Investment Contract was collateralized through a three-party agreement which provided collateral through GNMA certificate pools.

Investments:

The county had no investments at year end.

(4) Interfund Transactions and Balances.

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

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Major Funds:		
Nonmajor Governmental Funds	General Fund	\$ <u>389,566</u>
Total		\$ <u><u>389,566</u></u>

The amount payable to the Nonmajor Governmental Funds represents taxes and fees that have not been settled to the individual funds from the General Fund at year end. All interfund balances are expected to be repaid within one year from the date of the financial statements.

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

B. Advances To/From Other Funds:

Receivable Fund	Payable Fund	Amount
Major Funds:		
General Fund	Nonmajor Governmental Funds	\$ <u>750,000</u>
Total		\$ <u><u>750,000</u></u>

The principal purpose of advance to nonmajor governmental funds was to provide operating capital for Federal, state and local grants in order to pay for operations of the funds until reimbursed.

C. Transfers In/Out:

Transfer In	Transfer Out	Amount
Major Funds:		
General Fund	Nonmajor Governmental Funds	61,208
Nonmajor Governmental Funds	General Fund	1,036,866
	Nonmajor Governmental Funds	<u>232,661</u>
Total		\$ <u><u>1,330,735</u></u>

The principal purposes of interfund transfers were to provide funds for grant matches, to provide funds as budgeted for operations, to provide funds to pay for capital outlay, or to provide funds to pay for debt service.

(5) Intergovernmental Receivables.

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

Description	Amount
Legislative tag credit	\$ 1,013,279
Disaster grants	821,551
State prisoners	285,170
Public safety grants	291,805
Other	<u>394,265</u>
Total Governmental Activities	\$ <u><u>2,806,070</u></u>

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

(6) Capital Assets.

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

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments	Balance Sept. 30, 2006
<u>Non-depreciable capital assets:</u>					
Land	\$ 994,082		(124,532)		869,550
Construction in progress	1,631,897	689,946			2,321,843
Total non-depreciable capital assets	<u>2,625,979</u>	<u>689,946</u>	<u>(124,532)</u>	-	<u>3,191,393</u>
<u>Depreciable capital assets:</u>					
Infrastructure	76,066,434	234,228			76,300,662
Buildings	41,827,300				41,827,300
Improvements other than buildings	8,495,743				8,495,743
Mobile equipment	12,273,634	1,394,386	(173,772)		13,494,248
Furniture and equipment	2,572,597	1,524,829	(285,683)		3,811,743
Leased property under capital leases	2,051,063	48,985			2,100,048
Total depreciable capital assets	<u>143,286,771</u>	<u>3,202,428</u>	<u>(459,455)</u>	-	<u>146,029,744</u>
<u>Less accumulated depreciation for:</u>					
Infrastructure	(38,081,299)	(1,809,597)			(39,890,896)
Buildings	(10,948,266)	(787,348)			(11,735,614)
Improvements other than buildings	(1,930,963)	(329,359)	164,170	77,410	(2,018,742)
Mobile equipment	(9,231,577)	(420,200)	154,446	(77,410)	(9,574,741)
Furniture and equipment	(2,017,891)	(514,894)			(2,532,785)
Leased property under capital leases	(861,364)	(272,205)			(1,133,569)
Total accumulated depreciation	<u>(63,071,360)</u>	<u>(4,133,603)</u>	<u>318,616</u>	-	<u>(66,886,347)</u>
Total depreciable capital assets, net	<u>80,215,411</u>	<u>(931,175)</u>	<u>(140,839)</u>	-	<u>79,143,397</u>
Governmental activities capital assets, net	<u>\$ 82,841,390</u>	<u>(241,229)</u>	<u>(265,371)</u>	-	<u>82,334,790</u>

	<u>Amount:</u>
Governmental Activities	
General government	\$ 360,050
Public safety	1,478,930
Public works	2,170,498
Health and welfare	119,970
Culture and recreation	4,155
Total governmental activities depreciation expense	<u>\$ 4,133,603</u>

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

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

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Belk Distribution Site	\$573,636	June 30, 2007

Included in construction in progress is an amount for the Byram-Clinton Corridor Project, a highway project designated by the U.S. Congress, and specified for this purpose. A contract for the remainder of this project has not been entered into at this time. The renovation of the Raymond Courthouse is also included in the construction in progress, and is being partially funded through a historical grant.

Depreciation expense was charged to the following functions:

	<u>Amount:</u>
Governmental Activities	
General government	\$ 360,050
Public safety	1,478,930
Public works	2,170,498
Health and welfare	119,970
Culture and recreation	<u>4,155</u>
 Total governmental activities depreciation expense	 \$ <u><u>4,133,603</u></u>

(7) 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 Municipal Workers' Compensation Group, a public entity risk pool. The county pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$500,000 for law enforcement personnel and \$500,000 for all other employees for each accident and completely covers all 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 finances its exposure to risk of loss relating to employee health and accident coverage for dental insurance through the Mississippi Public Entity Employee Benefit Trust, a public entity risk pool. The pool is a claims-servicing organization with the county retaining the risk of loss on all claims to which the county is exposed. Premium payments to the pool are determined on an actuarial basis, and are paid by county employees, with the county paying a small portion for administration. Claims expenses and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. The county had no year end liability because cash on deposit in the risk pool exceeded the pool's accrued unpaid claims, which is included in the cash in the expendable trust funds.

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

(8) Capital Leases.

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2006:

<u>Classes of Property</u>	<u>Amount</u>
Buildings	\$ <u>5,000,000</u>
Total	\$ <u><u>5,000,000</u></u>

The future minimum lease receivables together with the present value of the net minimum lease receivables as of September 30, 2006, are as follows:

<u>Year Ending September 30:</u>	<u>Amounts</u>
2006	\$ 335,800
2007	337,850
2008	334,600
2009	336,200
2010	337,500
2011-2015	<u>1,007,450</u>
Total Minimum Lease Receivables	2,689,400
Less: Amount representing interest	<u>(329,400)</u>
Present Value of Net Minimum Lease Receivables	\$ <u><u>2,360,000</u></u>

As Lessee:

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

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ <u>1,929,077</u>
Total	<u><u>1,929,077</u></u>

The amounts reported above do not include assets which were purchased through capital leases, but were less than the capitalization threshold, and thus reported as expenditures when purchased on the government wide financial statements, thereby reducing net assets. The future minimum lease payments together with the present value of the net minimum lease payables as of September 30, 2006, are as follows:

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>
2007	\$ 1,021,414
2008	16,800
2009	<u>7,000</u>
Total Minimum Payments Required	1,045,214
Less: Amount representing interest	<u>50,470</u>
Present Value of Net Minimum Lease Payables	\$ <u><u>994,744</u></u>

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

(9) Long-term Debt.

Debt outstanding as of September 30, 2006 consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>
A. General Obligation Bonds:			
1994 refundings	\$ 9,340,000	5.10 to 6.25	3/1/11
Double G Coating bonds	2,360,000	3.00	5/1/14
2005 Special obligation bonds	7,315,000	3.00 to 5.25	10/1/35
Youth detention center 1999A	3,295,000	6.00	10/1/19
Youth detention center 1999B	410,000	5.25 to 7.00	10/2/19
2001 refunding bonds	<u>4,065,000</u>	5.75 to 6.50	7/15/14
Total General Obligation Bonds	<u>\$ 26,785,000</u>		
B. Limited obligation bonds:			
Wal-Mart tax increment financing	\$ 375,000	5.68	9/1/17
Byram Parkway tax increment financing	<u>437,000</u>	5.339	10/1/18
Total Limited Obligation Bonds	<u>\$ 812,000</u>		
C. Grant Obligations:			
JRA - NCAA tower parking	\$ 265,000	7.70	8/1/09
JRA - Urban renewal	<u>405,000</u>	4.10 to 5.70	11/1/13
Total Grant Obligations	<u>\$ 670,000</u>		
D. Capital Leases:			
E-911 system	\$ 533,503	6.09	3/15/07
Two Nissan Pathfinders	37,821	5.75	2/24/09
Road equipment	<u>423,420</u>	4.00	8/5/07
Total Capital Leases	<u>\$ 994,744</u>		
E. Other Loans:			
Metro parkway project extension	\$ 356,665	0.00	11/1/10
Computer upgrade/refinancing note	<u>1,172,000</u>	3.00	1/1/16
Total Other Loans	<u>\$ 1,528,665</u>		

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

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

Governmental Activities:

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 2,860,000	1,367,449	47,000	43,561
2008	2,990,000	1,214,734	58,000	41,052
2009	2,790,000	1,057,125	60,000	37,914
2010	2,950,000	906,096	61,000	34,666
2011	3,080,000	735,142	63,000	31,307
2012-2016	4,950,000	2,468,136	385,000	98,782
2017-2021	2,455,000	1,535,053	138,000	7,632
2022-2026	1,310,000	1,105,912		
2027-2031	1,695,000	723,713		
2032-2036	1,705,000	229,425		
Total	\$ <u>26,785,000</u>	<u>11,342,785</u>	<u>812,000</u>	<u>294,914</u>

<u>Year Ending September 30</u>	<u>Grant Obligations</u>		<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 125,000	36,883	287,932	33,692
2008	135,000	28,637	296,488	37,738
2009	140,000	19,593	305,382	28,845
2010	50,000	10,045	314,626	19,600
2011	50,000	7,995	324,237	9,989
2012-2016	170,000	10,660	-	-
Total	\$ <u>670,000</u>	<u>113,813</u>	<u>1,528,665</u>	<u>129,864</u>

Legal Debt Margin - The amount of general obligation bonded debt that can be incurred by the county is limited by state statute. Total outstanding general obligation bonded 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 1.66% of the latest property assessments.

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

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

	Balance Oct. 1, 2005	Additions	Reductions	Balance Sept. 30, 2006	Amount due within one year
Governmental Activities:					
Compensated absences	\$ 1,968,061		80,406	1,887,655	188,766
General obligation bonds	29,530,000		2,745,000	26,785,000	2,860,000
Limited obligation bonds	860,000		48,000	812,000	47,000
Grant obligations	785,000		115,000	670,000	125,000
Capital leases	1,880,093	48,985	934,334	994,744	971,940
Other loans	1,402,702	1,172,000	1,046,037	1,528,665	287,932
Total	<u>\$ 36,425,856</u>	<u>1,220,985</u>	<u>4,968,777</u>	<u>32,678,064</u>	<u>4,480,638</u>

(10) 2006 Interest Rate Swap

On May 1, 2006, the County and the Mississippi Development Bank (collectively "the County") executed a confirmation with RFPC Capital Services, LLC (a subsidiary of Rice Financial Products Company) (the "2006 Swap Counterparty"), in connection with the execution of an Interest Rate Swap Agreement (the "2006 Swap Agreement") in order to reduce the debt service costs associated with certain outstanding obligations of the County. The swap was done in conjunction with the Mississippi Development Bank Special Obligation Bonds Series 2005 (Hinds County, Mississippi General Obligation Public Improvement Bond Project) issued to fund certain public improvements for the County. The notional amount of the swap is \$7,445,000. The County received a payment of \$875,000 from the 2006 Swap Counterparty when the swap was initiated for the purpose of paying certain costs associated with the swap including legal and financial advisory fees.

Under the 2006 Swap Agreement the County receives a fixed rate from the 2006 Swap Counterparty, and in return pays a fixed rate less an Adjustment Factor. The Adjustment Factor exposes the County to changes in the ratio between the tax-exempt BMA Index and LIBOR. Payments on the swap are exchanged semi-annually. On September 19, 2007, the 2006 Swap Agreement was amended to allow the County to take advantage of the prevailing interest rate environment. Under the amendment, the basis of the LIBOR portion of the swap was changed from a short-term maturity (6 month LIBOR) to a longer term maturity (a percentage of 10-year LIBOR). The swap was effective as of April 1, 2005 and will terminate on October 1, 2035. An early termination of the swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2006, the fair market value of the transaction was a liability of \$2,625,791 for the County, which is not recorded in the financial statements.

Risks Associated with the amended 2006 Swap Agreement

Credit Risk – The County's swap relies on the performance of the 2006 Swap Counterparty. The County is exposed to the risk that the 2006 Swap Counterparty is unable to fulfill its obligations to the County. The obligations of the 2006 Swap Counterparty to the County are guaranteed by a third party guarantor that maintains credit ratings of "AA" or better by Moody's Investors Service, Standard & Poor's and Fitch, respectively.

Basis Risk – The County pays fixed rates on the Mississippi Development Bank Special Obligation Bonds Series 2005 (Hinds County, Mississippi General Obligation Public Improvement Bond Project).

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

Tax Risk – The County is exposed to changes in relationships between tax-exempt and taxable interest rates that may be affected by changes in the marginal tax rate, the elimination of tax preferences or other major changes to current tax law including, but not limited to, implementation of a flat tax or value-added tax.

Termination Risk – The amended 2006 Swap Agreement does not contain any extraordinary termination events or triggers that would expose the County to significant termination risk. If the 2006 Swap Counterparty fails to meet its obligations to the County, these obligations will be met by a third party guarantor that maintains credit ratings of “AA” or better by Moody’s Investors Service, Standard & Poor’s and Fitch, respectively. If the third party guarantor suffers a loss of creditworthiness, the 2006 Swap Counterparty shall find an acceptable replacement guarantor. If such replacement guarantor is not available or if the County fails to meet its obligations to the 2006 Swap Counterparty, the termination provisions in the 2006 Swap Agreement will apply. The County may be liable for a payment equal to the fair market value of the swap if a termination occurs prior to October 1, 2035 and that fair market value is negative.

Yield Curve Risk – The 2006 Swap Agreement was amended on September 19, 2007. Under the amendment, the maturity of the LIBOR was changed from a short –term maturity (6 month LIBOR) to a longer term maturity (a percentage of 10-year LIBOR). Under the amendment, the County expects that the payments from the 2006 Swap Counterparty will increase as a result of certain changes in the general interest rate environment. The County’s payments under the amended 2006 Swap Agreement are not expected to change from the original 2006 Swap Agreement.

(11) 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 the audit of a federal granting agency may become a liability of the county. No provision for any liability that may result has been recognized in the county’s financial statements.

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

Contingent Liability - The county is contingently liable for certain obligations which are repaid by the Jackson Redevelopment Authority (JRA). The principal amount of such debt outstanding at year end consists of the following:

Description	Balance at Sept. 30, 2006
JRA - Urban Renewal - Jackson State	\$ <u>3,175,000.00</u>

The amount shown above is the amount reported as payable at September 30, 2006 by the Jackson Redevelopment Authority for this liability. The county is not involved in making the payments for this debt. The debt has been refunded in February, 2008.

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

(12) No-Commitment Debt (Not Included in Financial Statements).

No commitment debt is repaid only by the entities for which 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:

Classes of Property	Balance at Sept. 30, 2006
Industrial revenue bonds	\$ <u>12,405,000</u>

(13) Related Organizations.

The Hinds County Board of Supervisors is responsible for appointing a voting majority of the members of the boards of the Hinds County Livestock Commission, but the county's accountability for this organizations does not extend beyond making the appointments. During the year, the county appropriated \$18,000 to this organization.

(14) Joint Ventures.

The county participates in the following joint venture:

Hinds County is a participant with the City of Jackson in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972) to operate the Jackson-Hinds Library System. The joint venture was created to provide a library system for city and county residents and is governed by 14 members with each entity appointing seven members. By contractual agreement, the county's appropriation to the joint venture was \$1,549,797 in fiscal year 2006. Complete financial statements for the Jackson-Hinds Public Library can be obtained from the following address: 400 North State Street, Jackson, MS 39201.

(15) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Central Mississippi Planning and Development District operates in a district composed of the counties of Copiah, Hinds, Madison, Rankin, Simpson, Warren, and Yazoo. The Hinds County Board of Supervisors appoints three of the 33 members of the board of directors. The county contributes a small percentage of the district's total revenue. The county appropriated \$52,352 for support of the district in fiscal year 2006.

Hinds Community College operates in a district composed of the counties of Claiborne, Copiah, Hinds, Rankin, and Warren. The Hinds County Board of Supervisors appoints five of the 15 members of the college board of trustees. The county appropriated \$9,398,439 for maintenance and support of the college in the fiscal year 2006.

Hinds County Human Resource Agency, Inc. operates in a district composed of Hinds County, private citizens, and local civic organizations. The Hinds County Board of Supervisors appoints five of the 15 members of the agency. The county appropriated \$122,400 for support of the agency in fiscal year 2006.

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

(16) Defined Benefit Pension Plan.

Plan Description. Hinds 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 was 10.75% of annual covered payroll through June 30, 2006, and increased to 11.30% effective July 1, 2006.. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions to PERS for the years ending September 30, 2006, 2005 and 2004 were \$2,638,724, \$2,450,316, and \$2,422,035, respectively, equal to the required contributions for each year.

(17) Special Items.

On May 1, 2006, the County and the Mississippi Development Bank (collectively "the County") executed a confirmation with RFPC Capital Services, LLC (a subsidiary of Rice Financial Products Company) (the "2006 Swap Counterparty"), in connection with the execution of an Interest Rate Swap Agreement (the "2006 Swap Agreement") in order to reduce the debt service costs associated with certain outstanding obligations of the County. The swap was done in conjunction with the Mississippi Development Bank Special Obligation Bonds Series 2005 (Hinds County, Mississippi General Obligation Public Improvement Bond Project) issued to fund certain public improvements for the County. The notional amount of the swap is \$7,445,000. The County received a savings pre-payment of \$875,000 from the 2006 Swap Counterparty when the swap was initiated for the purpose of paying certain costs associated with the swap including legal and financial advisory fees. The pre-payment of \$875,000 is reported as a Special Item on the financial statements of the county for the fiscal year ended September 30, 2006.

(18) Subsequent Events.

Injury settlement. Hinds County settled an inmate injury litigation in the fiscal year ended September 30, 2008. The amount of \$1,000,000 was paid by the insurance carrier, and the county paid \$300,000 during the 2008 fiscal year. The present agreement provides for equal installments of the remaining settlement of \$1,700,000 to be paid in equal installments ending May, 2011.

Disallowed costs. The Mississippi Department of Education (MDE) made an allocation to Hinds County of Title I program for neglected and delinquent children (CFDA #84.013) and reviewed and disallowed costs of that program in the amount of \$215,865.01. The county was offered the opportunity to provide additional documentation on \$76,945.73 of the above amount that could prove that share of the disallowed costs allowable. Hinds County has asked MDE for additional time to repay the \$138,919.28, and to provide such documentation as may be available and acceptable for the \$76,945.73.

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

2006 Interest Rate Swap. On May 1, 2006, the County and the Mississippi Development Bank (collectively “the County”) executed a confirmation with RFPC Capital Services, LLC (a subsidiary of Rice Financial Products Company) (the “2006 Swap Counterparty”), in connection with the execution of an Interest Rate Swap Agreement (the “2006 Swap Agreement”) in order to reduce the debt service costs associated with certain outstanding obligations of the County. The swap was done in conjunction with the Mississippi Development Bank Special Obligation Bonds Series 2005 (Hinds County, Mississippi General Obligation Public Improvement Bond Project) issued to fund certain public improvements for the County. The notional amount of the swap is \$7,445,000. The County received a payment of \$875,000 from the 2006 Swap Counterparty when the swap was initiated for the purpose of paying certain costs associated with the swap including legal and financial advisory fees.

Under the 2006 Swap Agreement the County receives a fixed rate from the 2006 Swap Counterparty, and in return pays a fixed rate less an Adjustment Factor. The Adjustment Factor exposes the County to changes in the ratio between the tax-exempt BMA Index and LIBOR. Payments on the swap are exchanged semi-annually. On September 19, 2007, the 2006 Swap Agreement was amended to allow the County to take advantage of the prevailing interest rate environment. Under the amendment, the basis of the LIBOR portion of the swap was changed from a short-term maturity (6 month LIBOR) to a longer term maturity (a percentage of 10-year LIBOR). The swap was effective as of April 1, 2005 and will terminate on October 1, 2035. An early termination of the swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2007, the fair market value of the transaction was a liability of \$3,428,859 for the County which is not recorded on its financial statements.

Series 2007 A Tax-Exempt and 2007 B Taxable Bonds. On March 1, 2007, the county issued \$39,500,000 of bonds, which refunded \$3,065,734 of the Series 1999A and 1999B and \$6,226,803 of the Series 2005 Bonds. Additionally, \$6,963 original issue discount, \$274,680 underwriter’s fee and \$221,978 for Financial Security Assurance, a New York stock insurance company, were withheld from amounts remitted to the county and escrow agents for the refunded bonds, resulting in \$29,703,842 net payment to the county. The amount of \$29,249,092 was set aside for future construction, and \$454,750 was set aside for bond issuance expenses.

2007 Interest Rate Swap. On July 23, 2007, the County and the Mississippi Development Bank (collectively “the County”) executed a confirmation with RFPC Capital Services, LLC (a subsidiary of Rice Financial Products Company) (the “2007 Swap Counterparty”), in connection with the execution of an Interest Rate Swap Agreement (the “2007 Swap Agreement”) in order to reduce the debt service costs associated with certain outstanding obligations of the County. The swap was done in conjunction with the Mississippi Development Bank Special Obligation Bonds, Series 2007A (Hinds County, Mississippi General Obligation Public Improvement and Refunding Bond Project) and Mississippi Development Bank Taxable Special Obligation Bonds, Series 2007B (Hinds County, Mississippi General Obligation Public Parking Bond Project) issued to fund certain public improvements for the County. The notional amount of the swap is \$39,500,000. The County received a payment of \$500,000 from the 2007 Swap Counterparty when the swap was initiated for the purpose of paying certain costs associated with the swap including legal and financial advisory fees.

Under the 2007 Swap Agreement the County receives a fixed rate from the 2007 Swap Counterparty, and in return pays a fixed rate less an Adjustment Factor. The Adjustment Factor exposes the County to changes in the ratio between the tax-exempt BMA Index and LIBOR. Payments on the swap are exchanged semi-annually. The swap was effective as of July 24, 2007 and will terminate on October 1, 2036. An early termination of the swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2007, the fair market value of the transaction was a liability of \$3,119,417 for the County which is not recorded on its financial statements.

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HINDS COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

HINDS COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2006

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

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	\$ 35,410,115	35,410,115	36,802,455	1,392,340
Licenses, commissions and other revenue	2,301,875	2,347,132	2,405,328	58,196
Fines and forfeitures	1,302,010	1,307,010	1,376,528	69,518
Intergovernmental revenues	4,419,116	4,837,939	4,889,970	52,031
Charges for services	3,275,080	3,363,105	3,370,498	7,393
Interest income	602,500	819,599	875,970	56,371
Miscellaneous revenues	503,000	666,716	750,452	83,736
Total Revenues	<u>47,813,696</u>	<u>48,751,615</u>	<u>50,471,201</u>	<u>1,719,585</u>
EXPENDITURES				
Current:				
General government	21,715,295	23,687,747	22,843,242	844,505
Public safety	21,523,813	23,660,975	23,123,515	537,460
Public works	431,000	431,000	417,305	13,695
Health and welfare	1,894,200	2,184,992	2,071,688	113,304
Culture and recreation	59,860	64,462	64,431	31
Conservation of natural resources	773,899	841,297	828,529	12,768
Economic development and assistance	543,352	538,352	538,352	0
Debt service:				
Principal	215,000	215,000	215,000	0
Interest	44,885	44,885	44,885	0
Bond issue costs	2,750	2,750	450	4,742
Total Expenditures	<u>47,204,054</u>	<u>51,671,460</u>	<u>50,147,397</u>	<u>1,524,063</u>
Excess of Revenues over (under) Expenditures	<u>609,643</u>	<u>(2,919,845)</u>	<u>323,804</u>	<u>3,243,649</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	20,000	20,000		0
Compensation for loss of capital assets	35,000	130,948		(45,638)
Transfers in	1,975,547	2,190,462	609,350	(1,581,112)
Transfers out	(2,962,407)	(3,057,631)	(1,585,008)	1,472,623
Total Other Financing Sources and Uses	<u>(931,860)</u>	<u>(716,220)</u>	<u>(975,658)</u>	<u>(259,438)</u>
Net Change in Fund Balance	(322,217)	(3,636,065)	(651,854)	2,984,211
Fund Balances - Beginning	<u>4,901,300</u>	<u>4,635,561</u>	<u>5,343,261</u>	<u>707,700</u>
Fund Balances - Ending	<u>\$ 4,579,083</u>	<u>999,496</u>	<u>4,691,407</u>	<u>3,691,911</u>

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

HINDS COUNTY

Notes to the Required Supplementary Information
For the Year Ended September 30, 2006

A. Budgetary Information.

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

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

B. Basis of Presentation.

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

C. Budget/GAAP Reconciliation.

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

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

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund.

Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	
	Governmental Fund Types
	General Fund
Budget (Cash Basis)	\$ (606,519)
Increase (Decrease):	
Net adjustment for revenue accruals	34,621
Net adjustment for expenditure accruals	(493,655)
GAAP Basis	\$ (1,065,553)

HINDS COUNTY

SUPPLEMENTAL INFORMATION

HINDS COUNTY

SCHEDULE 1

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

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
U.S. Department of Housing and Urban Development Passed through the Mississippi Development Authority Community and development block grants	14.228	05-025-ED-01	490,423
U. S. Department of Education Passed through the Mississippi Department of Education Title I program for neglected and delinquent children	84.013	N/A	<u>482,954</u>
Total Major Federal Awards			<u>973,377</u>
OTHER FEDERAL AWARDS			
Office of National Drug Control Policy Passed through the Gulf Coast HIDTA High intensity drug trafficking area award	07.UN	I5PGCP353	20,567
High intensity drug trafficking area award	07.UN	I6PGCP532	<u>65,820</u>
Total Office of National Drug Control Policy			<u>86,387</u>
U.S. Department of Agriculture Passed through the Mississippi Department of Education National school lunch program	10.555	N/A	<u>50,181</u>
U.S. Department of Housing and Urban Development Direct: Shelter plus care	14.238	N/A	54,563
Passed through the Mississippi Development Authority Home investments partnership program	14.239	M03-SG-28-01-0951	<u>63,385</u>
Total U. S. Department of Housing and Urban Development			<u>117,948</u>
U.S. Department of Justice Direct: Gun vilence prosecution grant	16.609	N/A	31,040
Gang resistance education and training	16.737	N/A	19,205
Federal equitable sharing program	16.UN	N/A	6,776
Passed through the Mississippi Department of Public Safety Juvenile accountability incentive block grants	16.523	2JB1251/	22,845
Juvenile accountability incentive block grants	16.523	3JB1251	33,436
Title V_delinquency program	16.548	2J51251	68,482
Victim witness assistance grant	16.575	3VA1251/	36,782
Victim witness assistance grant	16.575	4VA1251	13,734
Stop violence against women formula grants	16.588	3SL1251/	20,433
Stop violence against women formula grants	16.588	4SL1251	6,797
Passed through the City of Jackson Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0981	<u>104,532</u>
Total U. S. Department of Justice			<u>364,062</u>

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

SCHEDULE 1
 (continued)

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation			
Passed through Mississippi Department of Transportation			
Highway planning and construction	20.205	BR NBIS/	47,250
Highway planning and construction	20.205	MS 024125	57,328
Highway planning and construction	20.205	STP-0256-00(009)	6,285
Passed through the Mississippi Department of Public Safety			
State and community highway safety	20.600	6TA1251	81,850
Total U. S. Department of Transportation			192,713
U. S. Department of Health and Human Services			
Passed through the Mississippi Department of Health and Human Services/ Central Mississippi Planning and Development District			
Special programs for the aging - Title III, Part B grants for supportive services and senior centers	93.044	377F21	26,782
U. S. Department of Homeland Security			
Passed through the Mississippi Department of Public Safety			
State domestic preparedness equipment support program	97.004	04HS025	\$ 11,527
State domestic preparedness equipment support program	97.004	04HS025R	249,875
State domestic preparedness equipment support program	97.004	04LE025	868
Passed through the Mississippi Emergency Management Agency			
Disaster grants - public assistance (Presidentially declared disasters)	97.036	FEMA-1604-DR-MS	692,810
Homeland security grant program	97.067	05LE025	49,027
Homeland security grant program	97.067	05HS025	113,388
Homeland security grant program	97.067	05HS025R	14,646
Total U. S. Department of Homeland Security			1,132,141
Total Other Federal Awards			1,970,214
Total for All Federal Awards			\$ 2,943,591

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.

HINDS COUNTY

SPECIAL REPORTS

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

August 8, 2008

Members of the Board of Supervisors
Hinds County, Mississippi

I have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Hinds County, Mississippi, as of and for the year ended September 30, 2006, and have issued my report thereon dated August 8, 2008. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the county's component units. I conducted my 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 my audit, I considered Hinds County, Mississippi's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the primary government financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting that we consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Hinds County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings as items 06-1, 06-2, 06-3, 06-05, 06-06, 06-08 and 06-09.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, of the reportable conditions described above, we consider item 06-02 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hinds County, Mississippi's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 as items 06-04, 06-05 and 06-07.

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

Ruth N. Wylie, CPA

Madison, Mississippi

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

August 8, 2008

Members of the Board of Supervisors
Hinds County, Mississippi

Compliance

I have audited the compliance of Hinds 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 its major federal programs for the year ended September 30, 2006. Hinds 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 its major federal programs is the responsibility of Hinds County, Mississippi's management. My responsibility is to express an opinion on Hinds County, Mississippi's compliance based on my audit.

Except as discussed in the following paragraph, I conducted my 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 I 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 Hinds County, Mississippi's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Hinds County, Mississippi's compliance with those requirements.

I did not audit the allowable cost/cost principles of the Title I Program for Neglected and Delinquent Children. Auditors from the Mississippi State Department of Education Office of Internal Accountability conducted the audit of these compliance requirements for the program and have issued a separate report.

In my opinion, except for the scope limitation related to the Title I Program for Neglected and Delinquent Children described in the preceding paragraph, Hinds County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

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

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulation, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

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

Ruth N. Wylie, CPA

Madison, Mississippi

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))

August 8, 2008

Members of the Board of Supervisors
Hinds County, Mississippi

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

The Board of Supervisors of Hinds County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Section 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 Hinds 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 applicable 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 may deteriorate.

In my opinion, Hinds 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 my aforementioned study and evaluation of the purchasing system and, in my opinion, is fairly presented when considered in relation to that study and evaluation.

This report is intended for use in evaluating the central purchasing system and inventory control system of Hinds 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.

Ruth N. Wylie, CPA
Madison, Mississippi

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

Schedule 1

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

HINDS COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2006

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
3/6/2006	Repair Lift Station at Detention Center station rental	\$ 3,862	Cooper Electric Motor Service	Pump was not disseminating/flushing wastewater.
5/15/2006	60 lb Capacity Washer	7,500	Pellerin Laundry Machinery	Clothes washer at Penal Farm became inoperable.
9/5/2006	Water Damage Restoration	2,560	Servpro of N & SW Jackson	EOC Office flooded due to burst plumbing.

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

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
5/1/2006	National Night Out T-Shirts & Caps	\$ 8,736	National Association of Town Watch
8/28/2006	Data Migration Installation & Training	19,300	ETS Development Group Inc.

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Hinds County, Mississippi

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

In addition, for areas not considered material to Hinds 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 August 8, 2008, on the financial statements of Hinds County, Mississippi.

These review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, my consideration of internal control would not necessarily disclose matters with 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 my review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency. My findings and recommendations and your responses are disclosed below:

Board of Supervisors:

1. Finding

Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the local government applicable to the employee. Numerous required employee bonds were written as "indefinite" coverage for the entire period of employment rather than the term. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation

The Board of Supervisors should cancel the current indefinite bonds and secure new ones for the duration of the term.

Response

The Board of Supervisors will take the necessary steps to have all bonds set for a definite term.

2. Finding

On a weekend in September, 2007, there was a theft of \$61,727.53 from the Tax Collector's Office in Raymond, which should not have been in the office over the week-end according to prudent business practices.

The county filed for reimbursement on a commercial crime policy, and recovered \$59,227.53, recovering all except \$2500, which was the deductible of the crime policy.

Recommendation

The Board of Supervisors should file on the Tax Collector's Bond for 2007 for the \$2,500 deductible amount.

Response

The Board will take corrective action, as considered necessary, after further investigation.

Circuit Clerk

3. Finding

The Office of the State Auditor's "Clarification of Schedule C Expenses for Chancery and Circuit Clerk Fee Accounts" lists allowable and non-allowable expenses, and states that any expenses that are not supported by adequate documentation are not allowable. The Circuit Clerk did not have receipts for all expenses paid from her fee account. The invoices that were not available for examination were primarily for purchases from Sam's of what the Circuit Clerk explained were office and janitorial supplies.

Recommendation

The Circuit Clerk should keep documentation on file for every expense paid from the fee account.

Response

The Circuit Clerk will maintain documentation on file for every expense paid from fee account.

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

Ruth N. Wylie, CPA
Madison, Mississippi

HINDS COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

Section 1: Summary of Auditor's Results

Financial Statements:

- | | | |
|----|----------------------------------------------------------------------------------------|-----------|
| 1. | Type of auditor's report issued on the primary government financial statements: | Qualified |
| 2. | Material noncompliance relating to the primary government financial statements? | Yes |
| 3. | Internal control over financial reporting: | |
| | a. Material weaknesses identified? | Yes |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | | |
|----|----------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4. | Type of auditor's report issued on compliance for major federal programs: | Unqualified for all major programs except for the allowable costs/cost principles of the Title I program for neglected and delinquent children, which was audited by the State Department of Education, for which a separate report will be issued. |
| 5. | Internal control over major programs: | |
| | a. Material weaknesses identified? | No |
| | b. Reportable conditions identified that are not considered to be material weaknesses? | No |
| 6. | Any audit findings reported as required by Section ____510(a) of Circular A_133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Community and development block grants | 14.228 |

b. Title I program for neglected and delinquent children	84.013
8. The dollar threshold used to distinguish between type A and type B programs:	\$300,000
9. Auditee qualified as a low-risk auditee?	Yes
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.

Reportable Condition

06-01. Finding

Section 27-1-13, Miss. Code Ann. (1972), requires that the Tax Collector be covered by a surety bond in an amount not to exceed \$100,000. Section 25-1-19 established the Board of Supervisors with the power and duty to approve the bonds of all county officers other than the Board itself and giving the Chancery Clerk the power and duty to record and file these bonds.

Eddie Fair, Tax Collector, was not covered by a surety bond from January, 2008 through April 28, 2008. The Tax Collector cannot legally serve to the office until a surety bond is provided. He received pay for the three months of January, February, and March, but the county was able to hold the April paycheck.

Recommendation

The Board should approve the bonds of all county officers each year, and set up an internal control system whereby they will be alerted if bonds are not obtained for county officers, in order that they may meet their responsibility for insuring the county officials have the proper surety bonds. The Chancery Clerk should record and file these bonds.

The Tax Collector of Hinds County, Eddie Fair, has obtained surety bond coverage for April 29, 2008 through January 7, 2012. We recommend that the Board of Supervisors obtain refunds for the months of February, March, and portion of January, 2008, when the Tax Collector was not holding office in accordance with state law.

Response

The Board of Supervisors will approve bonds for all county officers on an annual basis and establish an internal control system to assure all bonds has been properly received. This process will include the following action by the Chancery Clerk.

The Chancery Clerk will develop a list of all Public Officials requiring a Bond pursuant to Mississippi Code Ann. (1972) Section 25-1-19, and mail notification of such requirement via United States mail, certified returned receipt, to said official prior to him/her taking the Oath of Office.

The Board of Supervisors will review information provided by the Tax Collector and determine what actions are necessary, if any.

Reportable Condition – Material Weakness

06-02. Finding

Hinds County entered into an Interest Rate Swap agreement in the amount of \$7,445,000 on May 1, 2006. I know of no statutory authority for a county to enter into an Interest Rate Swap Agreement. This agreement was entered into without the advice of a swap advisor, and the county does not have a swap advisor or a swap policy as recommended by the legal counsel retained to prepare the swap documentation. County officials could not explain how the swap was supposed to benefit the county; nor did management demonstrate an understanding of the extent, multitude, and nature of the various risks inherent in a swap. Swap deals are private contracts not regulated by the federal Securities and Exchange Commission, which regulates the municipal and local government bond market.

Because management has not disclosed the method and significant assumptions used to estimate the fair value of the 2006 Interest Rate Swap, which are required to be disclosed by accounting principles generally accepted in the United States of America, the auditor's opinion on the 2006 financial statements is qualified. The method used to estimate the fair value must also be in accordance with one of the four methods prescribed by these accounting principles.

Recommendation

Hinds County should obtain an Attorney General's opinion regarding whether they have statutory authority to enter into Interest Rate Swap agreements. They should adhere to the swap attorney recommendations and hire an Independent Swap Advisor immediately, and adopt a swap policy in accordance with statutory authority and the legal firm's recommendations, if it exists. The Swap Advisor should insure that the amount furnished by the counterparty as the fair value of the derivative is correct. The county should have an optional early termination provision, which permits them to unilaterally terminate any derivative contract, and have the swap advisor review the agreements, and verify the payments and fair value of the swap as being correct or incorrect.

Response

The county's authority to enter into Interest Rate Swaps came under the Mississippi Development Bank. In the Master agreement for the 2005 Swap, the county does have an optional early fair market value termination provision. Other recommendations will be taken under advisement.

Reportable Condition

06-03. Finding

County officials could not explain how the semi-annual amounts paid by the counterparty of the swap agreement were determined. Accordingly, the county has not verified that the amounts were computed accurately, and in accordance with the agreement.

Recommendation

The county should hire a swap advisor and verify that the semi-annual payments by the counterparty are correct.

Response

purchases and capital leases to the county's general ledger and deputy chancery clerk, who maintains the general ledger. The reconciliation should assure that all additions have been expensed on the general ledger with check numbers available, and there should be a summary of all assets on the system developed by data processing similar to the Form F, and similar to the manner in which the assets are reported in the notes to the financial statements.

Similar to the above assets, the data processing department should develop a system for depreciating the assets on the computer, rather than having the Finance Director have to perform these on Excel worksheets.

Response

The Board of Supervisors will instruct the County Administrator to review the present Fixed Asset System and take the appropriate actions necessary to rectify the concerns.

Instance of Noncompliance

06-07. Finding

Section 25-15-103, Miss. Code Ann. (1972), provides that when any of the political subdivisions named in Sections 25-15-101 and 25-15-103 have adopted the group coverage plan authorized by said section, any of the employees participating in the plan who desire to secure additional benefits for their dependents with the companies providing such group coverage may do so by authorizing in writing the deduction from his salary or wages of the necessary amounts for the full payment of such additional coverage, and the same may be deducted and paid for such purposes. This statute states that the entire cost of such additional coverage for dependents shall be paid by the employee.

Hinds County paid 82% of the costs of health insurance policies that covered the employee and one or more dependents for the year ended September 30, 2006 and 91% of the employee-only coverage. Total health insurance expense paid by the county was \$5,422,307 for the fiscal year. If the county had paid 100%, rather than 91% of the employee only policies, the expense would have been \$4,158,633. Payments in excess of statutory authority for the year ended September 30, 2006, totaled \$1,263,633. The county is still paying for dependent coverage of employees.

Section 25-15-101, Miss. Code Ann. (1972), states that any governing board or head of any entity that provides group coverage under this section, and any person with whom such board or head of entity contracts in the performance of any duty or authority prescribed under this section, shall be liable civilly for the loss or misappropriation of any public funds resulting from their failure to comply with any provision of this section, such funds to be recovered in the manner provided under Section 7-7-211, Miss. Code Ann. (1972).

Recommendation

The Board of Supervisors should cease funding insurance that is not authorized by statute. If in the future, the County desires to pay for some portion or all of employees' spouse and dependent coverage, they should obtain authorization from the State Legislature prior to doing so.

Response

The Board of Supervisors will only fund insurance as authorized by statute.

Reportable Condition

Circuit Clerk.

06-08. Finding

The Circuit Clerk's operating accounts at State Bank and Trust cut off on the tenth of each month. This causes reconciliations to end of the month balances more difficult and time-consuming. Since the circuit clerk's books cut off at the end of the month and the clerk's bank cuts off her statements on the tenth of the month, the accountant who maintains the records and reconcile the accounts must go through various computations to determine the clerk's balance on the tenth or the bank's balance on the tenth. The accountant does not reconcile these in a manner that can be readily followed and easily auditable.

Sound business practices dictate that the bank and the books be reconciled as of a specific date. Auditing these reconciliations should be simple, and could be, if the two records cut off on the same day.

Recommendation

The Circuit Clerk should direct the bank to cut off her statements on the last day of each month, so the accounting firm can reconcile these statements properly. A responsible employee from the Circuit Clerk's Office should examine the reconciliations periodically.

Response

The Circuit Clerk has notified the Bank to cut-off bank statements on the last of each month. The Circuit Clerk will designate an employee to examine the reconciliations on regular basis.

Reportable Condition

Chancery Clerk

06-09. Finding

Section 9-1-45, Miss. Code Ann. (1972), requires that each chancery and circuit clerk file an annual report with the State Auditor by April 15 of each year. This report shall include revenues subject to the salary cap, revenues not subject to the salary caps, and expenses incurred in running the office.

The accounting records prepared by the Chancery Clerk's accountant as a basis for this annual report for calendar year 2006 do not agree with the annual report. There were math errors on the annual report as well as errors in entering totals. Items even copied from one part of the report to another did not agree. These are findings related to the Chancery Clerk's amended Financial Report signed April 29, 2008.

The Chancery Clerk's initial annual report, which was signed May 3, 2007, was amended and re-issued because expenditures were not totaled correctly and the accounting records supporting it were inconsistent and incomplete.

Recommendation

The Chancery Clerk should contract with an accountant who is capable of maintaining an accurate set of books, and can complete an annual report without any errors.

Response

The Chancery Clerk will contract with an outside CPA firm to review all monthly accounting activities to ensure that all financial statements and records are accurate.

Section 3: Findings and Questioned Costs for Federal Awards

The result of my tests did not disclose any findings or questioned costs related to the federal awards.