

## HARRISON COUNTY

### MANAGEMENT'S DISCUSSION AND ANALYSIS For the Year Ended September 30, 2003

#### ***INTRODUCTION***

The discussion and analysis of Harrison County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2003. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is a new element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The County has elected not to present comparative data.

#### ***FINANCIAL HIGHLIGHTS***

Harrison County is financially stable. The County has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Harrison County continues to grow both economically and in population. This has allowed the County to maintain a steady growth in tax revenues without a significant tax increase.

Total net assets increased \$1,343,894, which represents a 1.97% increase from the prior fiscal year. The County's ending cash balance decreased by \$2,205,127, which represents a 4.5% decrease from the prior fiscal year.

The County had \$91,163,384 in total revenues. Tax revenues account for \$44,248,166 or 48.5% of total revenues. State and Federal revenues in the form of reimbursements, shared revenue or grants, account for \$29,920,201 or 32.8% of total revenues.

The County had \$89,819,490 in total expenses. Expenses in the amount of \$30,856,967 were offset by grants, outside contributions or debt being issued. General revenues of \$60,306,417 were adequate to provide for the remainder of the expenses.

Among major funds, the General Fund had \$48,436,882 in revenues and \$62,926,697 in expenditures. The General Fund's fund balance decreased \$854,093 from the prior year.

Harrison County's other major fund, the Road Fund, had \$8,667,305 in revenues and \$11,011,407 in expenditures. The Road Fund's fund balance decreased \$1,321,906 due to the use of beginning of the year cash for operating expenditures.

Capital assets, net of accumulated depreciation, increased by \$44,162,320 largely due to the addition of infrastructure to capital assets during the year.

Long-term debt increased by \$3,851,657.

### ***OVERVIEW OF THE FINANCIAL STATEMENTS***

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

**Figure 1 – Required Components of the County's Annual Report**

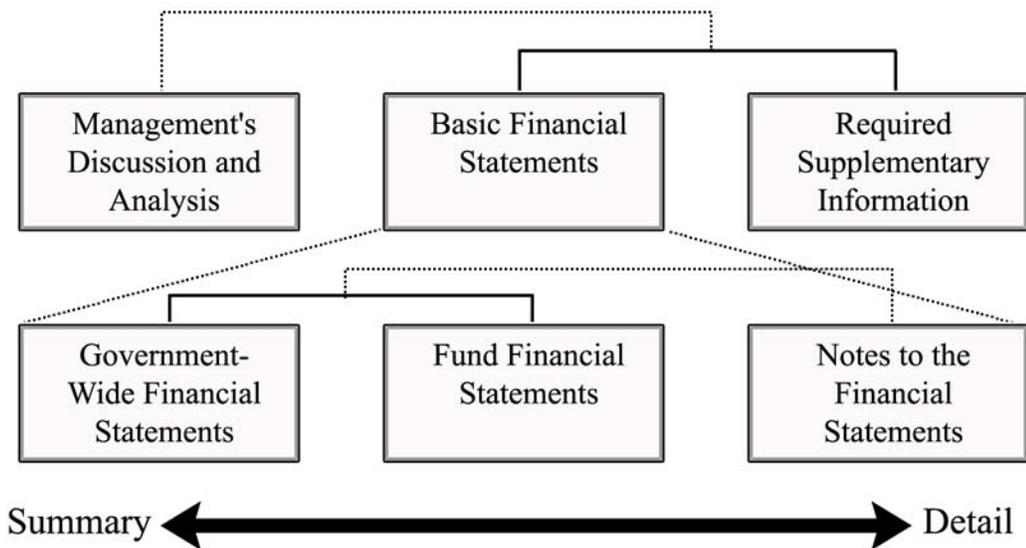


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the County’s financial statements, including the portion of the County’s government they cover and the types of information they contain. The remainder of this section of Management’s Discussion and Analysis explains the structure and content of each of the statements.

**Figure 2 – Major Features of the County’s Government-Wide and Fund Financial Statements**

	<b>Government -Wide Financial Statements</b>	<b>Fund Financial Statements</b>	
		<b>Governmental Funds</b>	<b>Fiduciary Funds</b>
<b>Scope</b>	<b>Entire County government (except fiduciary funds) and component units</b>	<b>All activities of the County that are not business-type or fiduciary in nature</b>	<b>The County is the trustee or agent for someone else’s resources</b>
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>● <b>Statement of net assets</b></li> <li>● <b>Statement of activities</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Balance sheet</b></li> <li>● <b>Statement of revenues, expenditures and changes in fund balances</b></li> </ul>	<ul style="list-style-type: none"> <li>● <b>Statement of fiduciary net assets</b></li> <li>● <b>Statement of changes in net assets</b></li> </ul>
<b>Accounting basis and measurement focus</b>	<b>Accrual accounting and economic resources focus</b>	<b>Modified accrual accounting and current financial resources focus</b>	<b>Accrual accounting and economic resources focus</b>
<b>Type of asset/liability information</b>	<b>All assets and liabilities, both financial and capital and short and long term</b>	<b>Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included</b>	<b>All assets and liabilities, both short and long term</b>
<b>Type of inflow/outflow information</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>	<b>Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter</b>	<b>All revenues and expenses during year, regardless of when cash is received or paid</b>

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of the County finances, in a manner similar to private-sector businesses.

The **statement of net assets** presents information on all County assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government; public safety; public works (roads and bridges); health and welfare; culture and recreation; conservation of natural resources; economic development; and interest on long-term debt.

The Government-wide Financial Statements can be found on pages 18 and 19 of this report.

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds, and fiduciary funds.

**Governmental funds** are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a county's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 21 and 23, respectively.

The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 20-23 of this report.

**Fiduciary funds** are used to account for resources held for the benefit of parties outside the County government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the County's own programs. The accrual basis of accounting is used for fiduciary funds. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The County's fiduciary activities are presented in a separate Statement of Fiduciary Assets and Liabilities, which can be found on page 24 of this report.

**Notes to the financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 25-43 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the County's budget process.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 46-49 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on pages 52 and 53 of this report.

## ***GOVERNMENT-WIDE FINANCIAL ANALYSIS***

**Net Assets** – Net assets may serve over time as a useful indicator of government's financial position. In the case of Harrison County, assets exceeded liabilities by \$69,566,371 as of September 30, 2003.

By far, the largest portion of the County's net assets (54.8%) reflects its investment in capital assets (e.g. roads, bridges, land, buildings, mobile equipment, furniture & equipment, leased property under capital lease and construction in progress) less related outstanding debt used to acquire such assets. The county uses these capital assets to provide services to its citizens.

The County's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the County's net assets for the fiscal year ended September 30, 2003.

	<u>Governmental Activities</u>
Current assets	\$91,001,481
Capital assets, net	<u>123,232,525</u>
Total assets	<u>214,234,006</u>
Current liabilities	42,875,490
Long-term debt outstanding	<u>101,792,145</u>
Total liabilities	<u>144,667,635</u>
Net assets:	
Invested in capital assets, net of related debt	38,088,851
Restricted	35,575,975
Unrestricted	<u>(4,098,455)</u>
Total net assets	<u>\$69,566,371</u>

The following are significant current year transactions that have had an impact on the Statement of Net Assets.

- Roads and Bridges were added to the County's inventory, due to accounting changes implemented by the "Governmental Accounting Standards Board". This resulted in an additional \$47,704,684 of net capital assets being booked for the first time in the 2003 fiscal year.
- The Board of Supervisors used accumulated cash balances of some funds for operating expenditures.

**Changes in Net Assets** – Harrison County's total revenues for the fiscal year ended September 30, 2003 was \$91,163,384. The total cost for all services provided was \$89,819,490. The increase in net assets was \$1,343,894. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2003.

Revenues:	<u>Amount</u>
Program revenues	
Charges for services	\$10,614,924
Operating grants and contributions	12,183,921
Capital grants and contributions	8,058,122

	<u>Amount</u>
General revenues	
Property taxes	44,248,166
Road & bridge privilege taxes	2,147,999
Grants and contributions not restricted to specific programs	9,678,158
Other	<u>4,232,094</u>
 Total Revenues	 <u>91,163,384</u>
 Expenses:	
General government	22,075,326
Public safety	23,786,253
Public works	21,796,324
Health and welfare	5,197,493
Economic development	10,401,353
Other expenses	<u>6,562,741</u>
Total Expenses	<u>89,819,490</u>
 Increase in Net Assets	 <u>\$ 1,343,894</u>

**Governmental Activities** – The following table presents the cost of five major functional activities of the County: General Government, Public Safety, Public Works, Health & Welfare and Economic Development.

The table also shows each function’s net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on Harrison County’s taxpayers by each of these functions.

	<u>Total Costs</u>	<u>Net Costs</u>
General Government	\$ 22,075,326	\$ 16,863,760
Public Safety	23,786,253	13,667,038
Public Works	21,796,324	14,134,119
Health & Welfare	5,197,493	4,348,574
Economic Development	10,401,353	3,441,492

## ***FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS***

**Governmental funds** – At the close of the fiscal year, Harrison County's governmental funds reported a combined fund balance of \$44,452,323, a decrease of \$2,614,895. The primary reasons for this decrease are highlighted in the analysis of governmental activities. In addition, others factors that affected ending fund balance are as follows:

- The county expended \$4.3 million of bond issue process from bonds issued in prior years.
- The fund balance of the Coliseum Debt Fund increased by \$1.2 million due to excess of Tourism tax revenues over debt service on the Coliseum expansion project.

The General Fund is the principal operating fund of the County. The decrease in the fund balance of the General Fund for the fiscal year was \$854,093. This decrease was primarily due to the use of beginning cash balances for operating expenditures.

## ***BUDGETARY HIGHLIGHTS OF MAJOR FUNDS***

Over the course of the year, Harrison County revised its annual operating budget on several occasions. Significant budget amendments are explained as follows:

- Amendments were made in the General Fund for litigation settlements, health insurance increases, county portion of a parking garage for the Coast Transit Authority in downtown Gulfport, and for countywide communication radios for the Sheriff's Department.
- Amendments were made in the Road Fund and the Sand Beach Fund for health insurance increases after the budget was approved.

A schedule showing the original and final budget amounts compared to the County's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

## ***CAPITAL ASSETS AND DEBT ADMINISTRATION***

**Capital Assets** – As of September 30, 2003, Harrison County's total capital assets was \$123,232,525. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. This amount represents an increase from the previous year of \$44,162,320. The majority of this increase is due to the addition of infrastructure to the net capital assets during the year.

Total accumulated depreciation as of September 30, 2003 was \$91,859,489, including \$4,770,516 of depreciation expense for the year. The balance in total net capital assets was \$123,232,525 at year-end.

Additional information on Harrison County's capital assets can be found in Note 9 on pages 34 and 35 of this report.

**Debt Administration** – At September 30, 2003, Harrison County had \$101,792,145 in long-term debt outstanding. This includes general obligation bonds, Mississippi Development Bank Loans, Mississippi Business Investment Act notes and obligations under capital lease. Of this debt, \$7,064,170 is due within one year.

In the past year, Harrison County had draws totaling \$2,301,558 from a \$15 million Mississippi Development Bank loan for the purpose of constructing a countywide emergency communication system, entered into capital leases totaling \$1,860,615 to purchase fire trucks, copiers, and a record imaging system and had draws totaling \$342,500 from a \$5 million Mississippi Development Bank loan for various projects in the County.

During the year, Harrison County issued \$12,525,000 in Mississippi Development Bank Special Obligation Bonds to refund two Mississippi Development Bank loans and issued \$6,770,000 Mississippi Development Bank Special Obligation Bonds to refund the outstanding maturities of the \$10 million General Obligation Coliseum/Convention Center Bonds.

Harrison County maintains an “AAA/A-1+” bond rating from Standard and Poors. The State of Mississippi limits the amount of debt a county can issue to generally 15% of total assessed value. The County's outstanding debt is significantly below its current limit of 240 million dollars.

Additional information on Harrison County's long-term debt can be found in Note 12 on pages 37-40 of this report.

### ***CURRENT AND FUTURE ITEMS OF IMPACT***

The following projects/construction were completed or are ongoing from the 2003 \$5 million Mississippi Development Bank loan and the remainder of other bonds: County buildings renovations, E911 Countywide Communication System, paving projects, Sand Beach renourishment, community center construction, purchase of property in D'Iberville to construct a senior citizens building, and the purchase of property to construct a Head Start building in D'Iberville.

The \$15 million Mississippi Development Bank loan (2004) will not affect the tax levy. This will be used for county building renovations, new construction, D'Iberville Senior Citizens building, a new community center, boys' baseball complex, water and sewer projects, county share of the Biloxi parking garage, various storm water drainage projects, and the Maritime Seafood Museum Schooner Pier.

The following projects were contributed to by the County through interlocal agreements, but Harrison County will not have ownership:

- City of Biloxi – Ohr O’Keefe Museum, Crawford House renovations.
- City of Gulfport – Construction of a girls’ softball complex, football field, soccer field, pavilion and playground (property purchased by the City), and sidewalks and drainage projects.

### ***CONTACTING THE COUNTY’S FINANCIAL MANAGEMENT***

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County’s finances and to demonstrate the County’s accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Harrison County Administrator’s or Chancery Clerk’s office at P.O. Drawer CC, Gulfport, Mississippi 39502.