

**HARRISON COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

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, 2004. 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. Generally Accepted Accounting Principles do not require comparative data in the basic financial statements but certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis and is provided herein.

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 \$4,974,545, which represents a 7.15% increase from the prior fiscal year. The County's ending cash balance decreased by \$651,304, which represents a 1.40% decrease from the prior fiscal year.

The County had \$92,286,449 in total revenues. Tax revenues account for \$44,615,067 or 48.3% of total revenues. State and Federal revenues in the form of reimbursements, shared revenue or grants, account for \$33,181,990 or 35.9% of total revenues.

The County had \$87,311,904 in total expenses. Expenses in the amount of \$32,404,733 were offset by grants, outside contributions or debt being issued. General revenues of \$59,881,716 were adequate to provide for the remainder of the expenses.

Harrison County's major fund, the General Fund, had \$49,964,348 in revenues and \$51,002,544 in expenditures. The General Fund's fund balance decreased \$1,101,973 from the prior year.

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

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

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 19 and 20 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 three categories: governmental funds, proprietary 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 and debt service.

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 22 and 24, 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 21-24 of this report.

Proprietary funds are maintained two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. Internal service funds are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its self-insured health insurance program. Because these services predominantly benefit governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The County's internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. The proprietary funds financial statements can be found on pages 25-27 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 Net Assets, which can be found on page 28 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 29-46 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. This required supplementary information can be found on pages 48-50 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Circular A-133 and can be found on pages 53-55 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 \$74,324,171 as of September 30, 2004.

By far, the largest portion of the County's net assets (50%) 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, 2004, as compared to fiscal year September 30, 2003.

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Current assets	\$ 93,091,501	\$ 91,001,481
Capital assets, net	<u>126,828,123</u>	<u>123,232,525</u>
Total assets	<u>219,919,624</u>	<u>214,234,006</u>
Current liabilities	41,982,580	42,875,490
Long-term debt outstanding	<u>103,612,873</u>	<u>101,792,145</u>
Total liabilities	<u>145,595,453</u>	<u>144,667,635</u>
Net assets:		
Invested in capital assets, net of related debt	36,801,873	38,088,851
Restricted	37,638,265	35,575,975
Unrestricted	<u>(115,967)</u>	<u>(4,098,455)</u>
Total net assets	<u>\$ 74,324,171</u>	<u>\$ 69,566,371</u>

Changes in Net Assets – Harrison County’s total revenues for the fiscal year ended September 30, 2004 was \$92,286,449. The total cost for all services provided was \$87,311,904. The increase in net assets was \$4,974,545. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2004, as compared to fiscal year ended September 30, 2003.

	<u>2004</u>	<u>2003</u>
Revenues:		
Program revenues		
Charges for services	\$9,537,326	\$10,614,924
Operating grants and contributions	18,739,812	12,183,921
Capital grants and contributions	4,127,595	8,058,122
General revenues		
Property taxes	44,615,067	44,248,166
Road & bridge privilege taxes	2,170,218	2,147,999
Grants and contributions not restricted to specific programs	10,314,583	9,678,158
Other	<u>2,781,848</u>	<u>4,232,093</u>
Total Revenues	<u>92,286,449</u>	<u>91,163,383</u>
Expenses:		
General government	21,557,049	22,075,326
Public safety	25,270,485	23,786,253
Public works	19,238,003	21,796,324
Health and welfare	5,022,035	5,197,493
Economic development	8,017,553	10,401,353
Interest on long term debt	4,068,192	4,080,828
Other expenses	<u>4,138,587</u>	<u>2,481,913</u>
Total Expenses	<u>87,311,904</u>	<u>89,819,490</u>
Increase in Net Assets	<u>\$4,974,545</u>	<u>\$1,343,893</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</u> <u>Costs</u>	<u>Net</u> <u>Costs</u>
General Government	\$21,557,049	\$16,585,787
Public Safety	25,270,485	15,203,899
Public Works	19,238,003	8,104,887
Health & Welfare	5,022,035	3,464,506
Economic Development	8,017,553	3,397,176

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 \$43,955,238, a decrease of \$497,085. The primary reasons for this decrease are highlighted in the analysis of governmental activities.

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 \$1,101,973. 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 Department.

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, 2004, Harrison County's total capital assets was \$126,828,123. 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 \$3,595,598. The majority of this increase is due to the addition in the construction in progress category of assets related to the Gulfport courthouse renovation, E-911 System addition and the pedestrian pathway.

Total accumulated depreciation as of September 30, 2004 was \$95,099,271, including \$4,381,125 of deprecation expense for the year. The balance in total net capital assets was \$126,828,123 at year-end.

Additional information on Harrison County's capital assets can be found in note 7 on pages 36-38 of this report.

Debt Administration – At September 30, 2004, Harrison County had \$103,612,873 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, \$5,255,423 is due within one year.

During the year, Harrison County issued \$15,000,000 Special Obligation Bonds dated December 30, 2003 to provide funds for the prepayment of the County's \$15,000,000 Promissory Note dated December 18, 2000. The obligations of the County are not general obligations and do not constitute a pledge of the full faith and credit of the County. Principal and interest payments will be made from the proceeds of a surcharge on the phone bills in the County.

During the year, Harrison County made three draws totaling \$1,354,500 on the \$15,000,000 Mississippi Development Bank Loan dated March 1, 2004 to pay the cost of issuance, purchase land for a community center and contribute to the construction of the Ohr-O'Keefe Museum. Harrison County made two draws totaling \$875,741 on the \$5,000,000 Mississippi Development Bank loan dated January 27, 2003 to pay for paving and construction of recreational facilities. Harrison County entered into capital leases totaling \$159,380 to purchase fax machines, scanners and equipment.

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 10 on page 40-43 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, construction of a girls' softball complex, football field, soccer field, pavilion and playground (property purchased by the City).

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 – sidewalks and drainage projects.

On August 29, 2005, Hurricane Katrina made landfall along the Mississippi Gulf Coast and significantly damaged infrastructure and buildings of the county, businesses and residences along the Harrison County coastline and further inland.

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 or Chancery Clerk’s office at P.O. Drawer CC, Gulfport, Mississippi 39502.