





**HARRISON COUNTY, MISSISSIPPI**  
**Audited Primary Government Financial Statements and Special Reports**  
**For the Year Ended September 30, 2005**

HARRISON COUNTY

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HARRISON COUNTY

FINANCIAL SECTION

HARRISON COUNTY

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# WRIGHT CPA GROUP, PLLC

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Mississippi Society of  
Certified Public

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

Members of the Board of Supervisors  
Harrison County, Mississippi

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of Harrison County, Mississippi, as of and for the year ended September 30, 2005, which collectively comprise the basic financial statements of the county's primary government as listed in the table of contents. These financial statements are the responsibility of the county's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

The financial statements referred to above include only the primary government of Harrison 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 Harrison County, Mississippi, as of September 30, 2005, and the respective changes in its financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the major fund and the aggregate remaining fund information for the primary government of Harrison County, Mississippi, as of September 30, 2005, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2006, on our consideration of Harrison County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 our audit.

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

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

Our audit was conducted for the purpose of forming opinions on the primary government financial statements that collectively comprise Harrison County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Wright CPA Group, PLLC*

WRIGHT CPA GROUP, PLLC.  
August 5, 2006

HARRISON COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

HARRISON COUNTY

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HARRISON COUNTY  
Statement of Net Assets  
September 30, 2005

Exhibit 1

	<u>Primary Government</u>
	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 53,776,117
Cash with fiscal agent	1,552,101
Investments (net of unrealized loss in market value of \$523,695)	62,610,545
Accrued interest receivable	16,685
Property tax receivable	46,547,347
Fines receivable (net of uncollectible allowance of \$14,178,634)	4,727,044
Loans receivable	858,661
Capital leases receivable	2,266,875
Intergovernmental receivables	830,128
Deferred charges	1,945,153
Non-depreciable capital assets	24,794,807
Capital assets, net	<u>103,829,146</u>
<b>Total Assets</b>	<u><u>303,754,609</u></u>
<b>Liabilities</b>	
Claims payable	1,749,589
Claims and judgments	162,125
Intergovernmental payables	1,726,277
Deferred revenue	57,501,105
Accrued interest expense	1,287,814
Assets held for others	65,744,248
Other liabilities	1,083,853
Unamortized gain on refunding of bonds	694,219
Long-term debt	
Due within one year:	
Capital debt	5,398,989
Non-capital debt	308,503
Due in more than one year	
Capital debt	85,628,115
Non-capital debt	8,725,477
<b>Total Liabilities</b>	<u><u>230,010,314</u></u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	35,646,849
Restricted:	
Expendable:	
General government	7,291,117
Debt service	13,988,288
Public safety	9,355,269
Public works	5,785,687
Health and welfare	83,504
Culture & recreation	195,086
Conservation of natural resources	200,889
Economic development	1,747,137
Unemployment compensation	178,445
Other	282,454
Unrestricted	(1,010,430)
<b>Total Net Assets</b>	<u><u>\$ 73,744,295</u></u>

\*The notes are an integral part of this statement.

HARRISON COUNTY  
Statement of Activities  
For the Year Ended September 30, 2005

Exhibit 2

Functions / Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 26,716,070	7,244,116			(19,471,954)
Public safety	26,988,103	6,688,761	1,084,600	4,180,710	(15,034,032)
Public works	22,959,644	75,025	3,117,367	879,181	(188,888,071)
Health and welfare	5,094,671		257,706	139,301	(4,697,664)
Culture and recreation	6,500,631		56,590		(6,444,041)
Conservation of natural resources	406,316				(406,316)
Economic development and assistance	1,477,376				(1,477,376)
Interest on long-term debt	3,787,866				(3,787,866)
<b>Total Governmental Activities</b>	<b>\$ 93,930,677</b>	<b>14,007,902</b>	<b>4,516,263</b>	<b>5,199,192</b>	<b>(70,207,320)</b>
General revenues:					
Property taxes					44,371,773
Road & bridge privilege taxes					2,123,349
Grants and contributions not restricted to specific programs					21,332,136
Unrestricted interest income					1,220,157
Miscellaneous					3,950,276
<b>Total General Revenues</b>					<b>72,997,691</b>
Changes in Net Assets					2,790,371
Net Assets - Beginning					74,324,171
Prior period adjustment					(3,370,247)
Net Assets - Beginning, as restated					70,953,294
Net Assets - Ending				\$	<b>73,744,295</b>

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

HARRISON COUNTY  
 Balance Sheet – Governmental Funds  
 September 30, 2005

Exhibit 3

	Major Fund		Total Governmental Funds
	General Fund	Other Governmental Funds	
<b>ASSETS</b>			
Cash	\$ 7,693,290	43,392,175	51,085,465
Cash with fiscal agents		1,552,101	1,552,101
Investments		61,910,545	61,910,545
Property taxes receivable	32,312,979	14,234,368	46,547,347
Fines receivable (net of allowance for uncollectibles of \$14,178,634)	4,727,044		4,727,044
Loans receivable	843,661	15,000	858,661
Capital lease receivables		2,266,875	2,266,875
Intergovernmental receivables	717,233	112,896	830,129
Due from other funds	5,501	5,172,867	5,178,368
Advances to other funds		255,021	255,021
Accrued interest receivable		15,547	15,547
	<u>\$ 46,299,708</u>	<u>128,927,395</u>	<u>175,227,103</u>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Claims payable	\$ 176,629	1,572,960	1,749,589
Intergovernmental payables	1,726,277		1,726,277
Due to other funds	335,446	4,906,348	5,241,794
Advances from other funds		255,021	255,021
Deferred revenues	37,040,023	27,138,126	64,178,149
Other payables	642,950		642,950
Assets held for others		62,699,888	62,699,888
	<u>39,921,325</u>	<u>96,572,343</u>	<u>136,493,668</u>
<b>Fund balances:</b>			
<b>Reserved for:</b>			
Public Works			
Debt Service		13,988,288	13,988,288
Loan receivable	843,661	15,000	858,661
Advances		255,021	255,021
Unemployment compensation		178,445	178,445
<b>Unreserved, reported in:</b>			
General Fund	5,534,722		5,534,722
Special Revenue Fund		17,918,298	17,918,298
Total Fund Balances	<u>6,378,383</u>	<u>32,355,052</u>	<u>38,733,435</u>
Total Liabilities and Fund Balances	<u>\$ 46,299,708</u>	<u>128,927,395</u>	<u>175,227,103</u>

\*The notes are an integral part of this statement.

**HARRISON COUNTY**

Reconciliation of Governmental Fund Balance Sheet to the Statement of Assets  
September 30, 2005

**Exhibit 3-1**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 38,733,435
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$98,819,272.	128,623,953
Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds.	4,442,211
Capital lease receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,950,000
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(100,061,084)
Bond issuance costs are deferred in the Statement of Net Assets and are amortized over the term of the bonds.	1,945,153
Gains on the refunding of bonds are deferred in the Statement of Net Assets and are amortized over the term of the bonds.	(694,219)
Internal Service Funds are used to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Revenue Service Funds are included in the governmental activities in the Statement of Net Assets.	92,700
Accrued interest expense is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(1,287,854)</u>
Total Net Assets - Governmental Activities	<u>\$ 73,744,295</u>

\*The notes are an integral part of this statement.

## HARRISON COUNTY

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2005

	<u>Major Fund</u>		
	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Property taxes	\$ 30,756,709	13,615,063	44,371,772
Road and bridge privilege taxes		2,123,349	2,123,349
Licenses, commissions and other revenue	2,351,872		2,351,872
Fines and forfeitures	852,380	207,576	1,059,956
Intergovernmental revenues	8,026,416	21,720,163	29,746,579
Charges for services	2,721,858	2,132,545	4,854,403
Interest income	657,904	562,254	1,220,158
Miscellaneous revenues	2,311,574	955,648	3,267,222
	<u>47,678,713</u>	<u>41,316,598</u>	<u>88,995,311</u>
<b>EXPENDITURES</b>			
Current:			
General government	20,100,972	1,097,038	21,198,010
Public safety	21,216,044	7,882,986	29,099,030
Public works	67,708	22,277,068	22,344,776
Health and welfare	4,517,128	397,743	4,914,871
Culture and recreations	2,670,774	3,793,512	6,464,286
Conservation of natural resources	118,664	286,608	405,272
Economic development	1,392,293	85,083	1,477,376
Debt service:			
Principal	786,282	9,656,543	10,442,825
Interest	323,384	3,283,207	3,606,591
Bond issue costs and fees	1,435	628,955	630,390
Total Expenditures	<u>51,194,684</u>	<u>49,388,743</u>	<u>100,583,427</u>
Excess <deficiency> of Revenues over Expenditures	(3,515,971)	(8,072,145)	(11,588,116)
<b>OTHER FINANCING SOURCES (USES)</b>			
Long-term capital debt issues		19,741,036	19,741,036
Proceeds from sale of capital assets	179,985	915,314	1,095,299
Payment to refunding agents		(13,174,109)	(13,174,109)
Transfers in	3,785,841	3,490,958	7,276,799
Transfers out	(1,282,210)	(5,994,589)	(7,276,799)
TIF Payments to Cities		(1,295,906)	(1,295,906)
	<u>2,683,616</u>	<u>3,682,704</u>	<u>6,366,320</u>
Net Changes in Fund Balances	(832,355)	(4,389,441)	(5,221,796)
Fund Balances - Beginning	<u>7,210,738</u>	<u>36,744,493</u>	<u>43,955,231</u>
Fund Balances - Ending	<u>\$ 6,378,383</u>	<u>32,355,052</u>	<u>38,733,435</u>

\*The notes are an integral part of this statement.

HARRISON COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and  
Fund Balances to the Statement of Activities  
For the Year Ended September 30, 2005

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ (5,221,796)
Amounts reported in 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 capital outlays of \$6,812,279 exceeded depreciation of \$4,730,671 in the current period.	2,081,608
In the Statement of Activities, only gains or losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the proceeds from the sale of assets of \$1,095,299 exceeds the gain on the sale of assets of \$867,185.	(228,114)
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 method of accounting.	666,548
In the Statement of Activities, only interest income from payments received on capital leases is reported, whereas in the governmental funds, both interest and principal payments increase financial resources. Thus, the change in net assets differs from the change in fund balances by the principal collections on the capital leases.	(150,000)
Debt proceeds provide current financial resources to Governmental funds, but increases long-term liabilities in the Statement of Net Assets. Re-payment of debt principal is an expenditure in the Government 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 payments of \$24,588,731 exceeds debt proceeds of \$19,741,036.	4,847,695
Bond Issuance costs are recognized in full in the Governmental funds, but deferred and amortized over the term of the debt in the Statement of Net Assets.	561,067
Gains recognized on the refunding of long-term debt recognized in full in the Governmental Funds but deferral and amortized over the life of the bonds in the Statement of Activities.	(773,775)
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 method 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:	
Decrease in compensated absences	41,869
Decrease in claims and judgments	682,815
An Internal Service Fund is used by management to charge the cost of issuance of individual funds. The net revenue (expense) is reported within governmental activities.	<u>282,454</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,790,371</u>

\*The notes are an integral part of this statement.

HARRISON COUNTY  
Statement of Net Assets - Proprietary Fund Type  
September 30, 2005

Exhibit 5

	<u>Governmental Activities</u>
	<u>Self-insurance Internal Service Fund</u>
<b>ASSETS</b>	
Current assets:	
Cash	\$ <u>254,825</u>
<b>LIABILITIES</b>	
Current liabilities:	
Claims and judgements	<u>162,125</u>
<b>NET ASSETS</b>	
Restricted for health insurance	\$ <u><u>92,700</u></u>

\*The notes are and integral part of this statement.

HARRISON COUNTY  
Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Fund Type  
For the Year Ended September 30, 2005

Exhibit 6

	Governmental Activities
	<u>Self-insurance Internal Service Fund</u>
Operating Revenues	
Premiums	\$ <u>5,018,099</u>
Operating Expenses	
Claims paid	3,842,341
Administration and re-insurance	<u>893,304</u>
Total Operating Expenses	<u>4,735,645</u>
Operating Income	282,454
Net Assets - Beginning	<u>(189,754)</u>
Net Assets - Ending	<u>\$ 92,700</u>

\*The notes are an integral part of this statement.

HARRISON COUNTY  
Statement of Cash Flows - Proprietary Fund Type  
For the Year Ended September 30, 2005

Exhibit 7

	Governmental Activities
	<u>Self-insurance Internal Service Fund</u>
Cash Flows From Operating Activities	
Receipts for premiums	\$ 5,018,099
Payments for claims	(4,547,487)
Payments for insurance and administration	(893,304)
Net Cash (used) by Operating Activities	<u>(422,692)</u>
Net Increase (Decrease) in Cash	(422,692)
Cash at Beginning of Year	<u>677,517</u>
Cash at End of Year	<u>\$ 254,825</u>
Reconciliation of Operating Income to Net Cash (Used by Operating Activities):	
Operating Income	\$ 282,454
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Increase (decrease) in claims and judgments	<u>(705,146)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (422,692)</u>

\*The notes are an integral part of this statement.

HARRISON COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2005

Exhibit 8

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 3,135,827
Total Assets	\$ <u>3,135,827</u>
<b>LIABILITIES</b>	
Other liabilities	\$ 2,897,864
Intergovernmental payables	<u>237,963</u>
Total Liabilities	\$ <u>3,135,827</u>

\*The notes are an integral part of this statement.

HARRISON COUNTY

NOTES TO FINANCIAL STATEMENTS

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

(1) Summary of Significant Accounting Policies.

A. Financial Reporting Entity.

Harrison 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 Harrison 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 these component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America.

- Harrison County Development Commission
- Harrison County Tourism Commission
- Henderson Point Pass Christian Isles Water and Sewer District
- D'Iberville Water and Sewer District
- Riverline Hills Water and Sewer 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
- Sheriff
- Tax Collector

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 county as a whole. The statements include all nonfiduciary activities of the primary

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the county, with certain limited exceptions. Internal service fund balances have been eliminated against the expenses and program revenue. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the county.

Fund Financial Statements:

Fund financial statements of the county are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental, proprietary and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

C. Measurement Focus and Basis of Accounting.

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

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

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

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 - Accounts for all activities of the general government for which a separate fund has not been established.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

PROPRIETARY FUND TYPE

Internal Service Funds - These funds are used to account for those operations that provide services to the other departments or agencies of the government on a cost reimbursement basis.

FIDUCIARY FUND TYPE

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

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 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

E. Deposits.

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

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

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

F. Receivables.

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

G. Interfund Transactions and Balances.

Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Advances between funds, as reported in the fund financial statements, are offset by a fund balance account in applicable Governmental Funds to indicate that they are not available for appropriation and are not expendable available financial resources. Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

H. Capital Assets.

Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial 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 capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements and business-type activities. 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.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

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

\* Leased property capitalization policy corresponds with the amounts for the asset classification, as listed above.

I. Long-term liabilities.

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

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount and premiums received on the debt are reported as other financing sources. Discounts and issuance costs are reported as other financing uses.

J. 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 and regulations of other

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

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.

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

K. Property Tax Revenues.

Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the county. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectibility criteria for property tax recognition because the lien and due date cannot be established until the date of original purchase occurs.

L. 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. Available is measured as 60 days from year-end.

M. Compensated Absences.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting

principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

(2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
To correct prior year investment in Fixed assets, net of related debt	\$ (1,950,000)
To correct prior year accruals	<u>(1,420,247)</u>
Total prior period adjustment	<u><u>\$ (3,370,274)</u></u>

Adjustment was required to record prior year accrual interest payable.

(3) Deposits and Investments.

The carrying amount of the county's total deposits with financial institutions at September 30, 2005, was \$58,464,045, and the bank balance was \$60,237,934. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

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

Investments:

Investments balances at September 30, 2005, are as follows:

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

<u>Investment Type</u>	<u>Maturities</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon Treasury Money Market Trust	30 days	993,636	Aaa
FHLMC Note	30 days	305,082	Aaa
FWMA Note	90 days	404,246	AA-
FNMA Note	17 days	229,678	AA-
FNMA Note	61 days	4,777,645	AA-
FHLB Debenture	119 days	406,644	Aaa
FHLB Debenture	150 days	124,024	Aaa
FHLB Debenture	181 days	183,439	Aaa
FNMA Note	197 days	370,781	AA-
FNMA Note	214 days	524,584	AA-
FHLB Note	236 days	513,339	Aaa
FNMA Note	269 days	772,933	AA-
FNMA Note	284 days	495,470	AA-
FNMA Note	290 days	40,457	AA-
FNMA Note	297 days	984,060	AA-
Federal Farm Credit Bank	335 days	1,277,010	Aaa
Federal Farm Credit Bank	367 days	1,785,727	Aaa
FHLB	383 days	2,299,050	Aaa
Federal Farm Credit Bank	422 days	2,806,375	Aaa
FNMA Note	461 days	3,392,586	AA-
FNMA Note	474 days	1,432,665	AA-
FNMA Medium Term	489 days	1,448,550	AA-
FHLB Medium Term	489 days	979,700	Aaa
FHLB Note	512 days	4,360,595	Aaa
FHLMC Note	534 days	4,975,579	Aaa
FHLB Cons Bo	567 days	3,335,196	Aaa
FHLMC Medium Term	584 days	1,457,928	Aaa
FHLMC	592 days	4,992,464	Aaa
FNMA Medium Term	602 days	145,266	AA-
FHLB	627 days	2,649,375	Aaa
FNMA Medium Term	629 days	1,678,084	AA-
FNMA	652 days	3,630,900	AA-
FNMA	653 days	1,815,052	AA-
FHLMC Medium Term	694 days	214,689	Aaa
FHLMC Debenture	713 days	1,537,101	A-/+
FNMA	776 days	634,972	AA-
FHLB Cons Bo	776 days	1,020,822	Aaa
FNMA	807 days	506,028	AA-
Federal Farm Credit Bank	851 days	127,563	Aaa
FHLB	931 days	2,981,250	Aaa
		<u>\$ 62,610,545</u>	

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

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

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

Custodial Credit Risk – Investments. Custodial credit risk is the risk that in the event of the failure of the counterparty, the county will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The county does not have a formal policy for custodial credit risk. Of the county's \$62,610,545 investment in 2005, \$0 of underlying securities were held by the investment's counterparty, not the name of the county.

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2005:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	General	\$ 335,446
Other Governmental Funds	General	4,843,102
		<hr/>
Total		\$ <u>5,178,548</u>

The amount payable from Other Governmental Funds represents loans to alleviate temporary cash flow problems. All other amounts listed are the tax revenue collected but not settled until October, 2004. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Advances from / to Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Other Governmental Funds	Other Governmental Funds	\$ <u>255,021</u>

The advances were to resolve cash flow problems in several funds in prior years and have not been repaid.

C. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 3,785,841

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Transfer In	Transfer Out	Amount
Other Governmental Funds	General Fund	1,282,210
Other Governmental Funds	Other Governmental Funds	2,208,748
Total		\$ 7,276,799

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

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2005, consisted of the following:

Description	Amount
Legislative tag credit	\$ 717,1213
Drug Court	8,954
Motor Carrier Safety Grant	103,962
Total Governmental Activities	\$ 830,129

(6) Loans Receivable.

Loans receivable balances at September 30, 2005, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date	Balance Payable
D'Iberville Water and Sewer	07-85	N/A	N/A	\$ 27,809
West Harrison Water and Sewer	02-98	N/A	N/A	15,000
Harrison County Development Commission	12-00	3.00	11-20	407,926
Harrison County Development Commission	12-00	3.00	11-20	407,926
Total				\$ 858,661

(7) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2005:

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Governmental activities:

	Balance Oct. 1, 2004	Additions	Deletions	Adjustments	Balance Sept. 30, 2005
<b>Non-depreciable capital assets:</b>					
Land	\$ 6,494,200		72,122		6,422,078
Construction in progress	22,173,729	3,050,834		(6,851,834)	18,372,729
Total non-depreciable capital assets	<u>28,667,929</u>	<u>3,050,834</u>	<u>72,122</u>	<u>(6,851,834)</u>	<u>24,794,807</u>
<b>Depreciable capital assets:</b>					
Infrastructure	104,767,696				104,767,696
Buildings	47,017,661				47,017,661
Improvements other than buildings	18,460,765			6,851,834	25,312,599
Mobile equipment	17,750,982	1,759,975	1,166,662		18,344,295
Furniture and equipment	2,357,312	107,562	6,031	(51,633)	2,407,210
Leased property under capital leases	2,905,049	1,893,908			4,798,957
Total depreciable capital assets	<u>193,259,465</u>	<u>3,761,445</u>	<u>1,172,693</u>	<u>6,800,201</u>	<u>202,648,418</u>
Infrastructure	58,382,420	1,134,811			59,517,231
Buildings	11,750,028	938,894	1,791		12,687,131
Improvements other than buildings	9,481,881	658,535			10,140,416
Mobile equipment	12,638,992	1,325,455	1,008,879		12,955,568
Furniture and equipment	2,045,385	89,644			2,135,029
Leased property under capital leases	800,565	583,332			1,383,897
Total accumulated depreciation	<u>95,099,271</u>	<u>4,730,671</u>	<u>1,010,670</u>		<u>98,819,272</u>
Total depreciable capital assets, net	<u>98,160,194</u>	<u>(969,226)</u>	<u>162,023</u>	<u>6,800,201</u>	<u>103,829,146</u>
Governmental activities capital assets, net	<u>\$ 126,828,123</u>	<u>2,081,608</u>	<u>234,145</u>	<u>(51,633)</u>	<u>128,623,953</u>

Adjustments:

Adjustments were made to move certain projects from construction in progress to improvements other than buildings.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 584,010
Public safety	1,340,688
Public works	2,534,928
Health and welfare	67,567
Conservation of natural resources	197,360
Culture and recreation	6,118
Total governmental activities depreciation expense	\$ 4,730,671

Commitments with respect to unfinished capital projects at September 30, 2005, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Saucier Fire Station	\$ 142,270	January 2006
Lyman Work Center	102,855	December, 2005
D'Iberville Senior Center	1,194,225	June, 2006

As of September 30, 2005, the county had the following commitments:

On October 1, 1999, the Harrison County Board of Supervisors entered into a tax pledge agreement with the City of Biloxi to finance the City's Tax Increment Limited Obligation Bonds. The bonds were issued for a traffic flow and thoroughfare improvement plan project. The county pledged to provide annual payments equal to the lesser of (a) \$1,200,000 per year or (b) one-half the debt service on the City's Tax Increment Limited Obligation Bonds. The county's payments are paid annually from the revenues generated by tax increment financing.

On September 8, 1998, the Harrison County Board of Supervisors entered into a tax pledge agreement with the City of D'Iberville to finance the City's Tax Increment Limited Obligation Bonds for the purpose of financing the City's Interstate 110/Interstate 10- capital improvement project. The county pledged an amount sufficient to pay the principal and interest on the \$1,135,000 bond issue. The agreement was amended on July 7, 2003, to include the addition of \$3,200,000 in bonds. The county pledged an amount sufficient to pay the principal and interest on \$1,000,000 of the additional bonds. The county's payments are paid annually from the revenues generated by tax increment financing.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

(8) Claims and Judgments.

Risk Financing

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

Until August 1, 2004, the county financed its exposure to risk of loss relating to employee health and accident coverage 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 was exposed. Premium payments to the pool were determined on an actuarial basis. The county purchased commercial insurance to cover all claims in excess of premium contributions. Claims expenses and liabilities were reported when it was probably that a loss had occurred and the amount of that loss could be reasonably estimated. The county had no year end liability because the county terminated their participation in the risk pool on August 1, 2004.

Beginning in August 2004 and pursuant to Section 25-15-101, Miss. Code Ann. (1972), the county established a risk management fund (included as an Internal Service Fund) to account for and finance its uninsured risk of loss. Under the plan, amounts payable to the risk management fund are based on actuarial estimates. Harrison County pays the premium on a single coverage policy for its respective employees. Employees desiring additional and/or dependent coverage pay the additional premium through a payroll deduction. Premium payments to the risk management fund are determined on an actuarial basis. The county has minimum uninsured risk retention, to the extent that actual claims submitted exceed the predetermined premium. The county has implemented the following plans to minimize this potential loss:

The county has purchased coinsurance which functions on a specific stop loss coverage. This coverage is purchased from an outside commercial carrier. For the current fiscal year, the specific coverage begins when an individual participant's claim exceeds \$75,000.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). At September 30, 2005, the amount of these liabilities was \$162,125. An analysis of claims activities is presented below:

	Beginning of Fiscal Year Liability	Current Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2004-2005	\$ 867,271	3,137,195	3,842,341	162,125

(9) Capital Leases.

As Lessor:

The county leases the following property with varying terms and options as of September 30, 2005:

Classes of Property	Amount
Vacuum cleaner factory	\$ <u>3,000,000</u>

The future minimum lease receivables and the present value of the net minimum lease receivables as of September 30, 2005, are as follows:

Year Ended September 30	Principal	Interest
2006	\$ 150,000	46,875
2007	150,000	43,125
2008	150,000	39,375
2009	150,000	35,625
2010	150,000	31,875
2011-2015	750,000	103,125
2016-2019	450,000	17,235
Total	\$ <u>1,950,000</u>	<u>317,235</u>

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2005:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	\$ 3,428,962
Other furniture and equipment	<u>1,369,995</u>
Total	4,798,957
Less: Accumulated depreciation	<u>1,383,897</u>
Leased Property Under Capital Leases	<u><u>\$ 3,415,060</u></u>

The following is a schedule by years of the total payments due as of September 30, 2005:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 940,218	86,990
2007	732,898	70,729
2008	658,537	47,092
2009	466,106	26,572
2010	<u>289,031</u>	<u>10,723</u>
Total	<u><u>\$ 3,086,790</u></u>	<u><u>242,106</u></u>

(10) Long-term Debt.

Debt outstanding as of September 30, 2005, consisted of the following:

**HARRISON COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended September 30, 2005**

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
<b>A. General Obligation Bonds:</b>			
Road and bridge bond - Series 1991	\$ 100,000	5.88	04/06
General obligation bonds - Series 1996	285,000	5.25 / 6.60	08/06
General obligation bonds - Series 1998	805,000	4.40 / 5.80	05/07
General obligation public improvement bonds	3,180,000	6.25 / 8.90	11/09
General obligation bonds - Series 1994 A	410,000	8.90	11/09
General obligation public improvement bonds - Series 1996 A	300,000	7.75 / 8.00	04/06
General obligation public improvement bonds - Series 1996 B	50,000	5.00 / 5.60	04/06
General obligation refunding bonds - 1997 B	11,165,000	4.25 / 5.80	07/14
Special Obligation, Series 2000	8,700,000	Variable	05/20
Public improvement project	7,170,000	Variable	01/25
Jail bond project, Series 2000	3,040,000	4.95	01/16
General obligation U.S.M. project bonds - Series 2003	12,525,000	Variable	03/25
General obligation refunding bonds - Series 2003	15,000,000	5.56	12/23
Special obligation refunding / coliseum	1,931,000	4.50	12/39
General obligation refunding - Series 2005 A	8,830,000	3.00 / 4.00	04/18
General obligation refunding - Series 2005 B	4,960,000	3.00 / 4.01	04/16
U.S.M. Project	1,610,000	4.95	01/16
Total General Obligation Bonds	<u>\$ 80,081,000</u>		
<b>B. General Obligation Enterprise Bonds:</b>			
General obligation MBIA bonds	<u>\$ 1,950,000</u>	2.50	11/17
<b>C. Capital Leases:</b>			
Imaging system	\$ 463,403	3.04	12/07
Copiers and fax	224,754	3.42	01/08
Road equipment	718,150	2.94	06/09
(6) Fire trucks	216,666	2.82	10/06
Copy machine	780	7.00	05/06
Copier - 2004	103,924	3.85	01/08
Fire trucks	1,359,112	3.71	05/10
	<u>\$ 3,086,789</u>		
<b>D. Other Loans:</b>			
MS Development Bank - \$5,000,000			
First Drawdown	\$ 189,406	5.00	03/24
Second Drawdown	110,938	5.00	07/24
Third Drawdown	510,942	5.00	04/24
Forth Drawdown	309,555	5.00	09/24
Fifth Drawdown	1,071,016	5.00	01/25
Sixth Drawdown	448,946	5.00	01/25
Seventh Drawdown	285,367	5.00	08/25
MS Development Authority - Cap Loan 0303	403,811	3.00	11/20
MS Development Authority - Cap Loan 0304	403,811	3.00	11/20
MS Development Bank - \$15,000,000			
First Drawdown	327,755	5.00	02/24
Second Drawdown	655,882	5.00	04/24
Third Drawdown	283,764	5.00	05/24
Forth Drawdown	223,000	5.00	05/24
Fifth Drawdown	206,711	5.00	01/24
Sixth Drawdown	144,077	5.00	06/24
Seventh Drawdown	214,924	5.00	8/24
	<u>\$ 5,789,905</u>		
<b>E. Limited Obligation Note:</b>			
MS Development Bond - Correctional Facility	<u>\$ 7,435,000</u>	Variable	03/22

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

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

<u>Year Ending September 30</u>	<u>General Obligation Bonds</u>		<u>General Obligation Enterprise Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	4,035,000	3,562,532	150,000	46,875
2007	4,445,000	3,073,421	150,000	43,125
2008	4,670,000	2,880,254	150,000	39,375
2009	4,915,000	2,410,784	150,000	35,625
2010	5,155,000	2,200,661	150,000	31,875
2011-2015	25,549,200	7,623,858	750,000	103,125
2016-2020	17,713,264	3,478,076	450,000	16,875
2021-2025	11,724,136	1,366,627		
2026-2030	914,264	273,190		
2031-2035	427,824	166,998		
2036-2040	512,312	60,886		
<b>Total</b>	<b>\$ 80,061,000</b>	<b>27,097,287</b>	<b>1,950,000</b>	<b>316,875</b>

<u>Year Ending September 30</u>	<u>Other Loans</u>		<u>Limited Obligation Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006\$	301,439	201,622	285,000	125,639
2007	303,221	191,109	300,000	119,154
2008	305,003	180,531	315,000	112,566
2009	306,785	166,787	330,000	105,871
2010	308,567	159,174	350,000	99,069
2011-2015	1,569,561	632,560	2,025,000	389,712
2016-2020	1,557,812	354,559	2,600,000	202,154
2021-2025	1,137,517	102,406	1,230,000	24,984
	<b>\$ 5,789,905</b>	<b>1,988,748</b>	<b>7,435,000</b>	<b>1,179,149</b>

Legal Debt Margin - The amount of debt, excluding specific exempted debt can be incurred by the county is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the county, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2005, the amount of outstanding debt was equal to 5.76% of the latest property assessments.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Prior Year Defeasance of Debt - In prior years, the county defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the county's financial statements. On September 30, 2005, \$25,375,000 of bonds outstanding was considered defeased.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2005:

Advance Refunding

On August 17, 2005, the County issued \$8,830,000 of General Obligation Refunding Bonds, Series 2005 with an average interest rate of 3.745%. The bonds consist of serial bonds bearing various rates ranging from 3.00% to 4.00% with annual maturities from April 2006 through April 2018.

The net proceeds of \$8,755,646 (after issuance costs of \$88,300, plus premium of \$13,946) were used to advance refund various series of bonds with a total principal outstanding of 8,365,000 with an average interest rate 5.03%.

The net proceeds were used to purchase SLG certificates and notes and deposited into an irrevocable trust with an escrow agent to provide for future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the related liability for the bonds was removed from the County's liabilities.

The advance refunding was done in order to reduce debt payments. The refunding decreased total debt payments by approximately \$464,426. The transaction resulted in an economic gain of approximately \$311,354.

On August 17, 2005, the County issued \$4,960,000 of taxable General Obligation Refunding Bonds, Series 2005B with an average interest rate of 4.658%. The bonds consist of serial bonds bearing various rates ranging from 4.00% to 4.875%, with annual maturities from April, 2006 through April, 2016.

The net proceeds of \$4,725,770 (after issuance costs of \$217,564 and discount of \$16,666) were used to advance refund various series of bonds with the total outstanding principal of \$4,485,000 with an average interest rate of 6.715%.

The net proceeds were used to purchase SLG certificates and notes and deposited into an irrevocable trust with an escrow agent, to provide for future debt service payments on the refunded bonds. As a result the refunded bonds are considered defeased, and the related liability for the bonds was removed from the County's liabilities.

The advance refunding was done in order to reduce debt payments. The refunding decreased total debt payments by approximately \$481,221 and resulted in an economic gain of approximately \$382,044.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

	Balance Oct. 1, 2004	Additions	Reductions	Defeased	Balance Sept. 30, 2005	Amount within one year
Governmental Activities:						
Compensated absences	\$ 1,773,909		41,869		1,732,040	
General obligation bonds	86,270,000	15,721,000	9,080,000	(12,850,000)	80,061,000	4,035,000
General obligation enterprise Bonds	2,100,000		150,000		1,950,000	150,000
Capital leases	2,390,533	1,359,112	662,856		3,086,789	940,217
Other loans	3,368,431	2,660,924	233,100		5,796,255	297,275
Limited obligation note	7,710,000		275,000		7,435,000	285,000
<b>Total</b>	<b>\$ 103,612,873</b>	<b>19,741,036</b>	<b>10,442,825</b>	<b>(12,850,000)</b>	<b>100,061,084</b>	<b>5,707,492</b>

(11) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2005:

Fund	Deficit Amount
Federal Grant	\$ 395,329
Home Program	270,699
CIAP Federal Grant	77,114
Law Enforcement	100,217
Harrison County Wastewater	113,753
Hurricane Fund	1,408,604
Mississippi Development Bank \$5 Million	43,470

(12) Contingencies.

Federal Grants - The county has received federal grants for specific purposes that are subject to

audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the county. 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

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

adverse effect on the financial condition of the county.

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

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

<u>Description</u>	<u>Balance at September 30, 2005</u>
Industrial revenue bonds and notes	<u>\$25,500,000</u>

(14) Joint Ventures.

The county participates in the following joint ventures:

Harrison County is a participant with the cities of Gulfport, Biloxi, Pass Christian, D'Iberville and Bay St. Louis in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate Harrison County Library System. The joint venture was created to furnish Harrison county and the cities within Harrison County with library service and is governed by a board consisting of five members, with each entity appointing one member. By contractual agreement, the county's appropriation to the joint venture was \$995,941 in fiscal year 2005. Complete financial statements for the Harrison County Library can be obtained from the Gulfport branch located at 1300 21<sup>st</sup> Avenue, Gulfport, Mississippi.

Harrison County is a participant with the Cities of Gulfport, Biloxi, Pass Christian, D'Iberville and Bay St. Louis in a joint venture, authorized by Section 17-17-307, Miss. Code Ann. (1972), to operate the Harrison County Wastewater and Solid Waste Management Authority. The joint venture was created to handle and dispose of solid waste within the county and the aforementioned cities and is governed by a board consisting of six member, with each entity appointing one member. The county's appropriation to the joint venture was \$2,237,559 in fiscal year 2005. Complete financial statements for Harrison County Wastewater and Solid Waste Management Authority can be obtained from P.O. Box 2409, Gulfport, MS 39501.

Harrison County is a participant with the City of Gulfport in a joint venture, authorized by Section 41-13-15, Miss. Code Ann. (1972), to operate the Memorial Hospital at Gulfport. The joint venture was created to provide medical services for the residents of the metropolitan area and is governed by a board consisting of five members, with each entity appointing two members and the fifth member appointed alternately by the city and county. While the hospital is basically self-supporting, the city and county both approve the budget and both may issue debt for the hospital. Complete financial statements for the Memorial Hospital at Gulfport can be obtained from P.O. Box 1810, Gulfport, MS 39501.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Harrison County is a participant with the Cities of Gulfport and Biloxi in a joint venture, authorized by Section 61-3-7, Miss. Code Ann. (1972), to operate the Gulfport-Biloxi Regional Airport Authority. The joint venture was created to provide the Gulfport-Biloxi metropolitan area with air passenger and air freight facilities and is governed by a board consisting of three members, with each entity appointing one member. The county's appropriation to the joint venture was \$115,000 in fiscal year 2005. Complete financial statements for the Gulfport-Biloxi Regional Airport Authority can be obtained from P.O. Box 2127, Gulfport, MS 39501.

(16) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Region XIII Commission for Mental Health and Mental Retardation operates in a district of the counties of Hancock, Harrison, Pearl River, and Stone. The governing body is a four-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties. The county appropriated \$707,500 for support of the agency in fiscal year ending September 30, 2005.

Southern Mississippi Planning and Development District operates in a district composed of the counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Stone and Wayne. The Harrison County Board of Supervisors appoints one of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue.

Gulf Regional Planning Commission operates in a district composed of the counties of Hancock, Harrison and Jackson. The governing body is a nine-member board of directors, three appointed by the Board of Supervisors of each member county. The county contributes a small percentage of the commission's total revenue.

Mississippi Gulf Coast Community College operates in a district composed of the Counties of George, Harrison, Jackson and Stone. The college's board of trustees is composed of 23 members, three each appointed by George and Stone Counties, eight each appointed by Harrison and Jackson Countries, and one appointed at large. The county appropriated \$5,955,991 for maintenance and support of the college in fiscal year 2005.

Gulf Coast Community Action Agency operates in the counties of George, Greene, Hancock and Harrison. The agency's board is composed of 24 members, one each appointed by the counties of George, Greene, Hancock and Harrison and the cities of Bay Saint Louis, Gulfport and Pass

Christian, with the remaining 16 appointed by the private sector. Most of the entity's funding comes through federal grants and the member governments provide only a modest amount of financial support when the grants require matching funds.

Mississippi Coast Transportation Authority operates along the Mississippi Gulf Coast. The authority is composed of the following six members: Harrison county and the cities of Bay St. Louis, Biloxi, Gulfport, Ocean Springs and Pass Christian. The authority's board is composed of nine members, two each appointed by Harrison County and the Cities of Biloxi and Gulfport and one each appointed by the Cities of Bay St. Louis, Ocean Springs and Pass Christian. Very little financial support comes from the six member governments.

HARRISON COUNTY  
Notes to Financial Statements  
For the Year Ended September 30, 2005

Harrison-Jackson County Emergency Medical Service District operates in a district composed of Counties of Harrison and Jackson and the Cities of Biloxi, Gulfport and Ocean Springs. The district's board is composed of five members, one each appointed by each government. Each member government appropriates a modest amount of financial support to the district.

Harrison County Gulf Coast Business Corporation operates in Harrison County. The corporation's board is composed of 36 members, one appointed by the Board of Supervisors and 35 appointed by the chambers of commerce in the county. The county provides no financial support.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The counties generally provide no financial support to the organization.

(17) Defined Benefit Pension Plan.

Plan Description. Harrison 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 current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2005, 2004 and 2003 were \$2,692,722, \$2,348,821 and \$2,323,141, respectively, equal to the required contributions for each year.

(18) Subsequent Events.

In June 2003, the Federal Emergency Management Agency disallowed \$1,723,666 of federal funds received by Harrison County related to FEMA Disaster No. 1251-DR-MS. The county has appealed this decision and the county's liability related to the disallowance cannot be determined at the date of the audit.

On August 29, 2005, Hurricane Katrina hit the Mississippi Gulf Coast. Harrison County received significant damage to buildings, infrastructure and personal property throughout the county. An estimate of the amount of loss to the county is not determinable at this time. Building damage is still being assessed by insurance companies and FEMA.

HARRISON COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

**HARRISON COUNTY**  
**Budgetary Comparison Schedule -**  
**Budget and Actual (Non-GAAP Basis)**  
**General Fund**  
**For the Year Ended September 30, 2005**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Property taxes	\$ 31,400,868	30,886,183	30,778,221	(107,962)
Road and bridge privilege taxes	32,000	0	0	0
Licenses, commissions and other revenue	2,642,200	2,459,748	2,459,748	0
Fines and forfeitures	1,415,500	1,552,178	1,552,178	0
Intergovernmental revenues	8,915,373	8,852,878	8,852,878	0
Charges for services	2,300,000	2,721,858	2,721,858	0
Interest income	1,325,000	655,292	655,963	671
Miscellaneous revenues	623,000	1,714,813	1,711,413	(3,400)
<b>Total Revenues</b>	<u>48,653,941</u>	<u>48,842,950</u>	<u>48,732,259</u>	<u>(110,691)</u>
<b>EXPENDITURES</b>				
Current:				
General government	21,436,744	19,845,056	19,896,099	(51,043)
Public safety	18,828,471	21,321,567	21,321,567	0
Public works	50,268	68,114	67,708	406
Health and welfare	4,608,578	4,766,340	4,766,340	0
Culture and recreation	2,724,824	2,824,738	2,824,738	0
Conservation of natural resources	129,044	130,845	130,845	0
Economic development and assistance	1,437,233	1,469,431	1,469,431	0
Debt service:				
Principal	1,379,619	1,093,936	754,760	339,176
Interest			328,346	(328,346)
Bond issue costs			96,600	(96,600)
<b>Total Expenditures</b>	<u>50,594,781</u>	<u>51,520,027</u>	<u>51,656,434</u>	<u>(136,407)</u>
Excess of Revenues over (under) Expenditures	<u>(1,940,840)</u>	<u>(2,677,077)</u>	<u>(2,924,175)</u>	<u>(247,098)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	3,500,000	3,965,645	3,785,841	(179,804)
Transfers out	(510,756)	(1,283,033)	(1,219,864)	63,169
Sale of capital assets			179,885	179,885
<b>Total Other Financing Sources and Uses</b>	<u>2,989,244</u>	<u>2,682,612</u>	<u>2,745,862</u>	<u>63,250</u>
Net Change in Fund Balances	1,048,404	5,535	(178,313)	(183,848)
Fund Balances - Beginning	<u>4,076,977</u>	<u>3,159,131</u>	<u>3,375,660</u>	<u>216,529</u>
Fund Balances - Ending	<u>\$ 5,125,381</u>	<u>3,164,666</u>	<u>3,197,347</u>	<u>32,681</u>

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

## Notes to the Required Supplementary Information

### 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:

		<u>General Fund</u>
Budget (Cash Basis)	\$	(178,313)
Increase (Decrease)		
Net adjustments for revenue accruals		(1,053,546)
Net adjustments for expenditure		<u>399,504</u>
GAAP Basis	\$	<u><u>(832,355)</u></u>

10. Excess of Actual Expenditures Over Budget in Individual Funds.

There were no individual funds with actual expenditures over budget.  
The excess of Actual Expenditures Over Budget of \$183,848 was the result of audit adjustments.

SUPPLEMENTAL INFORMATION

HARRISON COUNTY

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HARRISON COUNTY  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended September 30, 2005

Federal Grantor / Pass-through Grantor / Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<u>MAJOR FEDERAL AWARDS</u>			
Department of Homeland Security / Passed through the Mississippi Emergency Management Agency Public Assistance Grants	97.036	FEMA-1604-DR-MS	\$ <u>3,117,367</u>
U. S. Department of Transportation - Federal Highway Administration / Passed through the Federal Motor Carrier Safety Administration	20.217	MH- 03-28-1	<u>531,571</u>
U.S. Department of Housing and Urban Development / Passed through the Mississippi Development Authority Public Facilities Grant	14.228	1120-03-024-PF-01	<u>435,800</u>
U. S. Department of Justice State and Local Equitable Sharing Program	16.000	N/A	<u>456,868</u>
Total Expenditures of Major Federal Awards			<u>4,541,606</u>
U.S. Department of Justice - Domestic cannabis eradication / suppression program	16.UN	N/A	12,500
Office of Violence Against Women / Passed - through the Mississippi Department of Public Safety Violence against women formula grants	16.588	2002-WF-BX-0047	26,852
Office of Justice Programs			
Community prosecution and project safe neighborhoods	16.009 16.009	N/A 2002-6P-CX-0109	45,239 109,686
Office of Community Oriented Policing Services / Passed - through the MS Department of Public Safety Enforcing underage drinking laws	16.727	02-AH-FX-0021	8,000
Office of Community Oriented Policing Methamphetamine	16.710	2004CKWX0388	55,310
COPS In Schools	16.710	2004SHWX0171	<u>83,202</u>
			<u>146,512</u>

Office of Justice Programs			
Gang resistance education and training	16737	ATC03000120	<u>51,485</u>
Total U.S. DEPARTMENT OF JUSTICE			<u>392,274</u>
U.S. Department of Homeland Security / passed - through the Mississippi Emergency Management Agency			
State domestic preparedness equipment			
Support program	97.004	N/A	280,985
Unmet Needs	97.UN	N/A	<u>71,919</u>
Total Department of Homeland Security			<u>352,904</u>
Office of National Drug Control Policy			
High Intensity Drug Trafficking Area	97.UN	N/A	<u>54,935</u>
Corporation for National and Community Services			
Retired and senior volunteer program	94.002	N/A	<u>31,951</u>
U.S. Department of Commerce - National Oceanic and Atmospheric Administration / Passed- through the Mississippi Department of Marine Resources			
Costal Zone Management Administration			
Awards	11.419	N/A	<u>233,807</u>
Total Expenditures of Other Federal Awards			<u>1,065,871</u>
Total Expenditures of Federal Awards			\$ <u><u>5,607,477</u></u>

Notes to Schedule 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.

HARRISON COUNTY

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HARRISON COUNTY

SPECIAL REPORTS

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## INDEPENDENT AUDITORS' 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*

Members of the Board of Supervisors  
Harrison County, Mississippi

We have audited the primary government financial statements of the governmental activities each major fund and the aggregate remaining fund information of Harrison County, Mississippi, as of and for the year ended September 30, 2005, and have issued our report thereon dated August 5, 2006. 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. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Harrison County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting 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 misstatements caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Harrison County, Mississippi's primary government financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management 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.

Wright CPA Group, PLLC

WRIGHT CPA GROUP, PLLC.

August 5, 2006

# WRIGHT CPA GROUP, PLLC



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

Members of the Board of Supervisors  
Harrison County, Mississippi

### Compliance

We have audited the compliance of Harrison County, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. Harrison County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Harrison County, Mississippi's management. Our responsibility is to express an opinion on Harrison County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Harrison County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Harrison County, Mississippi's compliance with those requirements.

In our opinion, Harrison 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, 2005.

### Internal Control Over Compliance

The management of Harrison 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 our audit, we considered Harrison 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 our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weakness. 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, regulations, 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. We noted no matters involving the internal control over compliance and its operation that we 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.

*Wright CPA Group, PLLC*

WRIGHT CPA GROUP, PLLC.

August 5, 2006

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

Members of the Board of Supervisors  
Harrison County, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Harrison County, Mississippi, as of and for the year ended September 30, 2005. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

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

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

*Wright CPA Group, PLLC*

WRIGHT CPA GROUP, PLLC.  
August 5, 2006

HARRISON COUNTY  
Schedule of Purchases Not Made From the Lowest Bidder  
For the Year Ended September 30, 2005.

Schedule 1

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

**HARRISON COUNTY**  
 Schedule of Emergency Purchases  
 For the Year Ended September 30, 2005

Schedule 2

Date	Item Purchased	Amount Paid	Vendor	Reason for Emergency Purchase
10/4/04	Services	\$ 971.00	Rhodes Carpet	New Contractor to Complete Job Safety Issue
10/8/04	Equipment	\$159.20	Patterson Communications	Dispatch Center / Audio Problems
10/13/04	Partition	\$225.00	Partitions of Gulfport	Incomplete Renovations / Safety Issue
10/14/04	Services	\$105.40	Action Door Closer	Automatic Door Stuck
10/27/04	Services	\$100.00	Three C's Towing	Emergency Towing Seized Vehicle
11/1/04	Services	\$105.00	Gulf Coast Towing	Emergency Towing Vehicle 54
11/10/04	Services	\$105.00	ABC Towing	Emergency Towing Vehicle 209
11/16/04	Services	\$105.00	All American Towing	Emergency Towing Vehicle 199
11/17/04	Services	\$100.00	Cotton's Four Wheel Drive	Emergency Towing Seized Vehicle
11/18/04	Services	\$65.00	Dean's Towing	Emergency Towing Vehicle 200
11/23/04	Services	\$95.00	Dauro's Auto Repair	Emergency Towing Seized Vehicle
11/24/04	Services	\$105.00	Chevron - Long Beach	Emergency Towing Vehicle 92
12/6/04	Services	\$105.00	Gulf Coast Towing	Emergency Towing Vehicle 118
12/9/04	Services	\$75.00	Mitch Williams	Emergency Towing Vehicle 133
12/20/04	Services	\$75.00	Mitch Williams	Emergency Towing Vehicle 233
12/23/04	Services	\$105.00	Gulf Coast Towing	Emergency Towing Seized Vehicle
3/9/05	Services	\$3,625.00	Commercial & Coin Laundry	Maytag Dryer Caught Fire / Not Repairable
12/3/05	Services	\$1,165.00	Branch Electric Company	Install 3/4 EMT Conduit For Water Heater / 30 Amp 2 Pole Breaker
1/5/05	Services	\$1,969.00	Coast Elevator Co.	Repairs to 2 Elevators / Rewire Hydraulic System
1/5/05	Services	\$258.50	Billy Harris Plumbing	Unstop Toilets
1/5/05	Services	\$100.00	Necaise Locksmith Service	Open and Repair Cell Door Lock
1/24/05	Services	\$45.00	Performance Tire & Wheel	Flat Repair to Trailer for Clean-up Work
1/24/05	Services	\$85.00	Jerry's Towing Service	Vehicle # 145
1/24/05	Services	\$95.00	Dauro's Auto Repair	Vehicle # 228
1/24/05	Services	\$105.00	All American Towing	Vehicle # 39
1/24/05	Services	\$100.00	Dean's Towing	Vehicle # 75
1/24/05	Services	\$75.00	Dean's Towing	Vehicle # 233
1/24/05	Services	\$45.00	Dean's Towing	Vehicle # 79
1/24/05	Services	\$120.00	Jerry's Towing Service	Vehicle # 186
1/24/05	Services	\$105.00	E&M Auto Parts	Vehicle # 24
1/24/05	Services	\$85.00	Mitch Williams	Vehicle # 241
1/24/05	Services	\$75.00	A.S.A.P. Towing	Vehicle #48
1/24/05	Services	\$95.00	Dauro's Auto Repair	Vehicle #15

1/24/05	Services	\$7,000.00	Lindsay Air Conditioning	Replace Air Compressor Assembly
7/17/04	Services	\$170.00	Billy Harris Plumbing	Emergency Toilet Repair
	Services		Shoemake Painting	Incomplete Renovations / Safety Issue
2/9/05		\$17,029.00	Service	
2/9/05	Services	\$1,476.00	Rhodes Carpet	Incomplete Renovations / Safety Issue
2/9/05	Services	\$7,463.00	Rhodes Carpet	Incomplete Renovations / Safety Issue
	Door		Larosa Glass	Replace Sliding Glass Door
2/22/05	Replacement	\$160.00		
2/22/05	Services	\$431.00	Beard Equipment	Emergency Repair John Deere Mower
	Services		Commercial & Coin	Maytag Dryer Caught Fire / Not Repairable
3/9/05		\$3,625.00	Laundry	
2/2/04	Services	\$230.00	Gulf Coast Towing	Towing Seized Vehicle
7/7/04	Services	\$85.00	North Bay Auto Salvage	Emergency Towing #192
11/17/04	Services	\$105.00	Cuevas Wrecker Service	Towing Seized Vehicle
1/1/05	Services	\$85.00	North Bay Auto Salvage	Emergency Towing #34
1/8/05	Services	\$65.00	Mitch Williams	Emergency Towing # 228
1/28/05	Services	\$85.00	North Bay Auto Salvage	Emergency Towing #162
1/29/05	Services	\$150.00	Cotton's Four Wheel Drive	Emergency Towing # D-9
2/4/05	Services	\$65.00	Mitch Williams	Emergency Towing # 4
2/4/05	Services	\$105.00	Chevron - Long Beach	Emergency Towing #238
2/9/05	Services	\$105.00	DND Towing and Storage	Emergency Towing Seized Vehicle
3/4/05	Services	\$85.00	Jerry's Towing Service	Emergency Towing #140
3/5/05	Services	\$105.00	DND Towing and Storage	Emergency Towing #65
3/26/05	Services	\$225.00	Ronnie's Automotive	Emergency Towing #243 & 239
1/24/05	Services	\$75.00	A.S.A.P. Towing	Vehicle # 48
1/24/05	Services	\$95.00	Dauro's Auto Repair	Vehicle # 15
1/24/05	Services	\$7,000.00	Lindsay Air Conditioning	Replace Air Compressor Assembly
7/17/04	Services	\$170.00	Billy Harris Plumbing	Emergency Toilet Repair
	Services		Shoemake Painting	Incomplete Renovations / Safety Issue
	Service		Service	
2/9/05		\$17,029.00	Rhodes Carpet	Incomplete Renovations / Safety Issue
2/9/05	Services	\$1,476.00	Rhodes Carpet	Incomplete Renovations / Safety Issue
2/9/05	Services	\$7,463.00	Rhodes Carpet	Incomplete Renovations / Safety Issue
2/22/05	Services	\$160.00	Larosa Glass	sliding door glass replacement
2/22/05	Services	\$431.00	Park Commission	Emergency Repair John Deere Mower
	Services		Commercial & Coin	Maytag Dryer Caught Fire / Not Repairable
3/9/05		\$3,625.00	Laundry	
2/24/05	Services	\$230.00	Gulf Coast Towing	Towing Seized Vehicle
7/7/04	Services	\$85.00	North Bay Auto Salvage	Emergency Towing; Vehicle # 192
11/7/04	Services	\$105.00	Cuevas Wrecker Service	Towing Seized Vehicle
1/1/05	Services	\$85.00	North Bay Auto Salvage	Emergency Towing; Vehicle # 34
1/8/05	Services	\$65.00	Mitch Williams	Emergency Towing; Vehicle # 228
1/28/05	Services	\$85.00	North Bay Auto Salvage	Emergency Towing; Vehicle # 162
1/29/05	Services	\$150.00	Cotton's Four Wheel Drive	Emergency Towing; Vehicle D-9
2/4/05	Services	\$65.00	Mitch Williams	Emergency Towing; Vehicle # 4
2/4/05	Services	\$105.00	Chevron - Long Beach	Emergency Towing; Vehicle # 238
2/9/04	Services	\$105.00	DND Towing and Storage	Emergency Towing Seized Vehicle
3/4/05	Services	\$85.00	Jerry's Towing Service	Emergency Towing Vehicle # 140
3/5/05	Services	\$105.00	DND Towing and Storage	Emergency Towing Vehicle #65
3/26/05	Services	\$225.00	Ronnie's Automotive	Emergency Towing; Vehicle # 243 & 239
			Hanson Pipe and Pipe	Culverts for Robinson Road Washout
4/4/05	Culverts	\$11,000.00	Prod.	
4/1/05	Services	\$1,000.00	Louis Smith Welding	60 Ton Crane to Set Culverts

4/6/05	Services	\$105.00	DND Towing and Storage	Emergency Towing; Vehicle # 21
4/14/05	Services	\$85.00	Billy Harris Plumbing	Unstop Drain @ Biloxi Courthouse
	Services		Commercial Building	New Contractor to Complete Renovations
4/19/05		\$3,810.38	Interiors	
4/21/05	Services	\$55.00	Mitch Williams	Emergency Towing; Asset # 8227
4/21/05	Services	\$55.00	Mitch Williams	Emergency Towing; Asset # 8003
11/23/03	Services	\$105.00	Chevron - Long Beach	Emergency Towing
9/16/04	Services	\$105.00	E&M Towing	Emergency Towing
2/2/05	Services	\$45.00	Dean's Towing	Emergency Towing
3/2/05	Services	\$105.00	All American Towing	Emergency Towing
3/15/05	Services	\$205.00	Gulf Coast Towing	Emergency Towing
3/28/05	Services	\$100.00	Cotton's Four Wheel Drive	Emergency Towing
3/28/05	Services	\$75.00	Mitch Williams	Emergency Towing
4/28/05	Services	\$115.00	Gulf Coast Towing	Emergency Towing
4/29/05	Services	\$100.00	A Classic Towing	Emergency Towing
5/29/05	Services	\$7,277.60	Patterson Communications	Radio Repair
	Security		Sam's	Security System for Success Comm. Center
6/16/05	System	\$829.50		
3/10/05	Services	\$105.00	ABC Towing	Emergency Towing
5/13/05	Services	\$100.00	A.S.A.P. Towing	Emergency Towing; Vehicle #146
5/23/05	Services	\$100.00	Ronnie's Automotive	Emergency Towing; Vehicle #238
5/27/05	Services	\$95.00	Dauro's Auto Repair	Emergency Towing; Vehicle #242
5/27/05	Services	\$105.00	E&M Towing	Emergency Towing
5/29/05	Services	\$100.00	Ronnie's Automotive	Emergency Towing; Vehicle #26
6/16/05	Services	\$125.00	Gulf Coast Towing	Emergency Towing; Vehicle #15
6/17/05	Services	\$294.00	Trane, Inc.	South Sump Pump for A/C
7/5/05	Services	\$100.00	A.S.A.P. Towing	Emergency Towing; Vehicle # 69
7/5/05	Tires	\$242.84	Goodyear	Replace Bad Tires
7/8/05	Services	\$1,239.85	Jerry's Lawnmower	Prep. for Hurricane Dennis
7/11/05	Services	\$744.00	Haynes Electric	Repair Busted Lights and Fixtures
7/12/05	Services	\$576.42	Roskopf Electric Supply	Repair Busted Lights and Fixtures
7/12/05	Services	\$206.85	Gulfport Industrial	Prep. for Hurricane Dennis
7/20/05	Services	\$1,423.50	Jerry's Lawnmower	Prep. for Hurricane Dennis
11/14/05	Services	\$105.00	ABC Towing	Emergency Towing
4/1/05	Services	\$85.00	North Bay Towing	Emergency Towing; Vehicle # 15
7/12/05	Services	\$105.00	ABC Towing	Emergency Towing
7/21/05	Services	\$1,421.00	Patterson Communications	Emergency Sheter
7/31/05	Services	\$420.00	E&M Towing	Emergency Towing
7/21/05	Services	\$66.00	Milner Rental	Floor Drain in Kitchen
7/3/05	Services	\$105.00	Jerry's Towing Service	Towing Vehicle #40
7/31/05	Services	\$105.00	Jerry's Towing Service	Towing Vehicle #40
8/17/05	Services	\$4,100.00	Mid South Machinery	Repair Control Valve on Boom Lift
9/29/05	Supplies	\$908.50	Sun Coast Business	Copy Paper
9/29/05	Equipment	\$175.00	K&R Services, Inc.	Emergency Generator
9/29/05	Services	\$4,125.00	Mid South Machinery	Repair Control Valve on Skidder Asset 13003

HARRISON COUNTY  
 Schedule of Purchases Made Noncompetitively From a Sole Source  
 For the Year Ended September 30, 2005

Schedule 3

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>
01/04/05	15 Taser Less-Lethal Weapons	\$11,999.25	Taser International
02/07/05	10 Taser X2GE model 26000	7,999.50	Taser International
03/07/05	200 Admin-Pak; 200 Maint Admin-	3,609.00	Winternals Software
04/26/05	270 gray property boxes	14,843.00	Norix
04/26/05	50 Stack A Bunks	10,220.00	Norix
05/05/05	Dual Cassette Recorder	4,209.99	Lanier Healthcare
05/09/05	1 Laser Speed Detector	8,697.90	Laser Technology
06/06/05	Trim PC, Non Competitive	79,744.93	M/A Com Critical Radio
07/05/05	1 Andros Hazardous Duty Robot	86,070.00	REMOTEC, Inc.

HARRISON COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section 1: Summary of Auditor's Results

***Financial Statements:***

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditor's report issued on the primary government financial statements:        | Unqualified   |
| 2. | Internal control over financial reporting:   |               |
|    | a. Material weakness identified?   | No            |
|    | b. Reportable conditions identified that are not considered to be material weaknesses? | None reported |
| 3. | Noncompliance material to the primary government financial statements?                 | No            |

***Federal Awards:***

- |     |  |               |
|-----|--|---------------|
| 4.  | Internal control over major programs:  |               |
|     | a. Material weakness identified?   | No            |
|     | b. Reportable conditions identified that are not considered to be material weaknesses?   | None reported |
| 5.  | Type of auditor's report issued on compliance for major federal programs:  | Unqualified   |
| 6.  | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?  | No            |
| 7.  | Federal programs identified as major programs:   |               |
|     | a. CDGB Public Facilities Grant CFDAH # 14.228   |               |
|     | b. Disaster Recovery Grant CFDA # 97.036   |               |
|     | c. Motor carrier safety, CFDA # 20.217   |               |
|     | d. State and Local Equitable Sharing Program CFDA # 16.000   |               |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000     |
| 9.  | Auditee qualified as a low-risk auditee?   | No            |
| 10. | Prior fiscal year audit finding(s) 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            |



# WRIGHT CPA GROUP, PLLC

❖ CERTIFIED PUBLIC ACCOUNTANTS ❖

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Board of Supervisors, Harrison County  
John McAdams; Chancery Clerk

In planning and performing our audit of the financial statements of Harrison County for the year ended September 30, 2005, we considered the County's system of internal control to plan our audit procedures and not to provide assurance on the internal control.

However, during our audit, we noted certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated August 5, 2006, on the financial statements of Harrison County. Our comments and recommendations, all of which have been discussed with management, are intended to improve internal control or result in operating efficiencies. Our comments are summarized as follows:

- Fixed Assets
  1. Additional efforts need to be placed on tracking construction costs to be capitalized during the year. We suggest that the County work with your software vendor to develop an interface to automatically date fixed asset additions.
  
- Federal Awards
  1. It is very difficult for the County to identify all of the federal awards due to a lack of centralization of the grant process. We suggest that the County consider centralizing the grant process by hiring a federal programs coordinator.

We believe that the implementation of these recommendations will provide Harrison County with a stronger system of internal control while also making its operations more efficient. This report is intended solely for the information and use of Harrison County and is not intended to be used by any other parties.

*Wright CPA Group*

Wright CPA Group, PLLC

August 5, 2006