HARRISON COUNTY, MISSISSIPPI

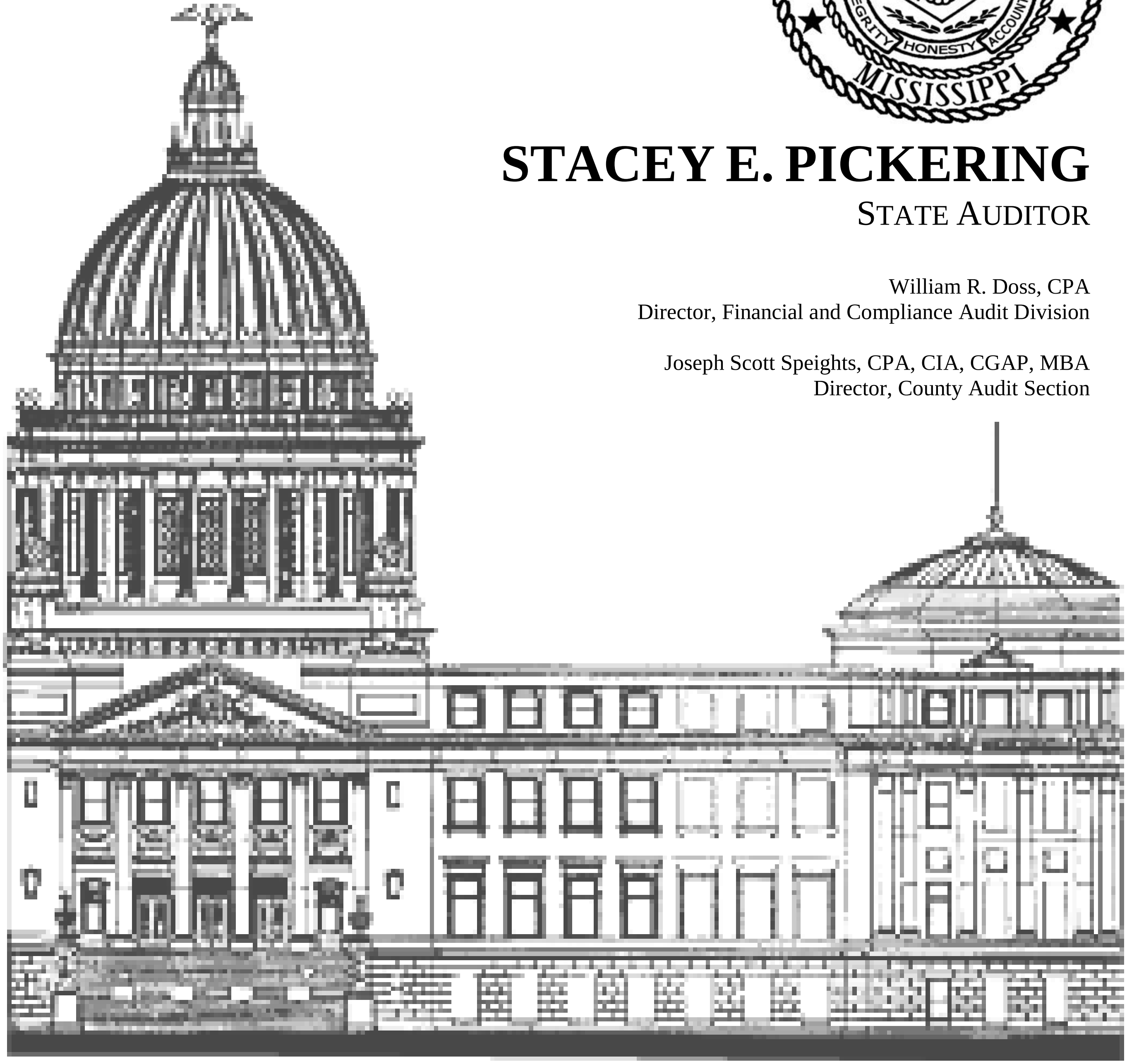
Audited Financial Statements and Special Reports
For the Year Ended September 30, 2009

STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

Joseph Scott Speights, CPA, CIA, CGAP, MBA
Director, County Audit Section



A Report from the County Audit Section

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

December 16, 2011

Members of the Board of Supervisors
Harrison County, Mississippi

Dear Board Members:

I am pleased to submit to you the 2009 financial and compliance audit report for Harrison County. This audit was performed pursuant to Section 7-7-211(e), Mississippi Code Ann. (1972). The audit was performed 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.

I appreciate the cooperation and courtesy extended by the officials and employees of Harrison County throughout the audit. Thank you for working to move Mississippi forward by serving as a supervisor for Harrison County. If I or this office can be of any further assistance, please contact me or J. Scott Speights of my staff at (601) 576-2674.

Respectfully submitted,

Stacey E. Pickering
State Auditor

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HARRISON COUNTY

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STATE OF MISSISSIPPI

OFFICE OF THE STATE AUDITOR

STACEY E. PICKERING

AUDITOR

INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Harrison County, Mississippi

We have audited the accompanying 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, 2009, 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.

Except as discussed in the fourth paragraph below, 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 do not include financial data for the county's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The county has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units is not reasonably determinable.

Management did not maintain an aging of fines receivable of the Justice and Circuit Courts. Due to the lack of an aging of accounts receivable, we were unable to satisfy ourselves as to the fair presentation of fines receivable, net, reported on the Statement of Net Assets and the General Fund at $1,291,681, as of September 30, 2009.

In our opinion, because of the omission of the discretely presented component units, as discussed in the third paragraph, the financial statements referred to previously do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Harrison County, Mississippi, as of September 30, 2009, or the changes in financial position thereof for the year then ended.

In our opinion, except for the effects of such adjustments if any, as might have been determined to be necessary had we been able to examine evidence to determine the net realizable value of the Justice and Circuit Court fines receivable for the governmental activities and the General Fund as described in the fourth paragraph, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Harrison County, Mississippi, as of September 30, 2009, and the respective changes in financial position, thereof for the year ended in conformity with accounting principles generally accepted in the United States of America .

In addition, in our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the Hurricane Fund, Katrina Supplemental CDBG Grant Fund, the Coast Coliseum Fund and the aggregate remaining fund information of Harrison County, Mississippi, as of September 30, 2009, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the county adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2011, on our consideration of Harrison County, Mississippi's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing 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 Schedules and corresponding notes, and the Schedule of Funding Progress – Other Postemployment Benefits 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 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.

William R. Doss

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 16, 2011

HARRISON COUNTY

FINANCIAL STATEMENTS

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HARRISON COUNTY
Statement of Net Assets
September 30, 2009

	Primary Government Governmental Activities
ASSETS	
Cash	$ 80,646,038
Investments	3,789,819
Accrued interest receivable	14,367
Property tax receivable	48,003,107
Premium receivable	462,850
Fines receivable (net of allowance for uncollectibles of $4,076,968)	1,291,681
Loans receivable	772,215
Intergovernmental receivables	13,525,570
Deferred charges - issuance costs	5,518,492
Capital assets:	
Land and construction in progress	26,500,783
Other capital assets, net	120,093,253
Total Assets	300,618,175
LIABILITIES	
Claims payable	14,579,041
Intergovernmental payables	2,897,934
Accrued interest payable	877,057
Deferred revenue	48,003,107
Claims and judgments payable	787,613
Long-term liabilities	
Other postemployment benefits payable	102,093
Due within one year:	
Capital debt	6,210,860
Non-capital debt	408,286
Due in more than one year:	
Capital debt	112,306,006
Non-capital debt	86,752,721
Total Liabilities	272,924,718
NET ASSETS	
Invested in capital assets, net of related debt	28,077,170
Restricted:	
Expendable:	
General government	10,675,376
Debt service	24,994,801
Public safety	10,054,971
Public works	1,959,338
Health and welfare	78,736
Conservation of natural resources	61,088
Economic development	29,080
Unemployment compensation	151,170
Capital projects	11,017,784
Unrestricted	(59,406,057)
Total Net Assets	$ 27,693,457

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

HARRISON COUNTY
Statement of Activities
For the Year Ended September 30, 2009

Exhibit 2

Functions/Programs		Expenses	Program Revenues: Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		Net (Expense) Revenue and Changes in Net Assets: Primary Government: Governmental Activities
Primary government:							
Governmental activities:							
General government	$	28,161,121	3,165,823	165,266			(24,830,032)
Public safety		34,221,195	7,856,861	2,646,624	3,146,363		(20,571,347)
Public works		39,521,902	72,882	41,728,429	203,642		2,483,051
Health and welfare		4,624,242		365,435	110,196		(4,148,611)
Culture and recreation		39,078,678	19,097		235,515		(38,824,066)
Conservation of natural resources		210,514		251,650			41,136
Economic development and assistance		23,497,579			27,641,777		4,144,198
Interest on long-term debt		15,525,877					(15,525,877)
Total Governmental Activities		184,841,108	11,114,663	45,157,404	31,337,493		(97,231,548)
		General revenues:					
		Property taxes				$	54,126,785
		Road & bridge privilege taxes					2,214,750
		Grants and contributions not restricted to specific programs					12,582,818
		Unrestricted gifts and donations					36,377
		Unrestricted interest income					1,632,870
		Miscellaneous					5,235,218
		Total General Revenues					75,828,818
		Changes in Net Assets					(21,402,730)
		Net Assets - Beginning					47,534,772
		Prior period adjustment					1,561,415
		Net Assets - Beginning, as restated					49,096,187
		Net Assets - Ending				$	27,693,457

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

HARRISON COUNTY
Balance Sheet - Governmental Funds
September 30, 2009

Exhibit 3

		Major Funds					
		General Fund	Hurricane Fund	Katrina Supplemental CDBG Grant Fund	Coast Coliseum Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash	$	17,008,802	820,456	79,873	2,630,074	57,967,658	78,506,863
Investments					3,789,819		3,789,819
Accrued interest receivable		2,033			575	11,759	14,367
Property tax receivable		32,369,376				15,633,731	48,003,107
Fines receivable (net of allowance for uncollectibles of $4,076,968)		1,291,681					1,291,681
Loans receivable		757,215				15,000	772,215
Intergovernmental receivables		775,011	3,958,344	7,704,721	298,035	789,459	13,525,570
Due from other funds		3,800,000				6,180,792	9,980,792
Total Assets	$	56,004,118	4,778,800	7,784,594	6,718,503	80,598,399	155,884,414
LIABILITIES AND FUND BALANCES							
Liabilities:							
Claims payable	$	31,877	8,669,290	5,569,746		308,128	14,579,041
Intergovernmental payables		2,812,375					2,812,375
Due to other funds		266,351	7,000,000	620,000		2,180,000	10,066,351
Deferred revenue		33,661,057				15,633,731	49,294,788
Total Liabilities		36,771,660	15,669,290	6,189,746	0	18,121,859	76,752,555
Fund balances:							
Reserved for:							
Debt service					6,718,503	19,153,355	25,871,858
Loans receivable		757,215				15,000	772,215
Unemployment compensation						151,170	151,170
Unreserved - undesignated, reported in:							
General Fund		18,475,243					18,475,243
Special Revenue Funds			(10,890,490)			33,734,079	22,843,589
Capital Project Funds				1,594,848		9,422,936	11,017,784
Total Fund Balances		19,232,458	(10,890,490)	1,594,848	6,718,503	62,476,540	79,131,859
Total Liabilities and Fund Balances	$	56,004,118	4,778,800	7,784,594	6,718,503	80,598,399	155,884,414

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

HARRISON COUNTY

Exhibit 3-1

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
September 30, 2009

		Amount
Total Fund Balance - Governmental Funds	$	79,131,859
Amounts reported for governmental activities 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 $115,299,243.		146,594,036
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,291,681
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		(205,677,873)
Other postemployment benefits are not due and payable in the current period and, therefore, are not reported in the funds.		(102,093)
Accrued interest payable is not due and payable in the current period and, therefore, are not reported in the funds.		(877,057)
Bond Issue Costs are not available to pay for current period expenditures and, therefore, are deferred in the funds.		5,518,492
Internal Service Funds are used by management to charge the costs of insurance to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.		1,814,412
Total Net Assets - Governmental Activities	$	27,693,457

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

HARRISON COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended September 30, 2009

	Major Funds					
	General Fund	Hurricane Fund	Katrina Supplemental CDBG Grant Fund	Coast Coliseum Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	$ 37,669,704				16,457,081	54,126,785
Road and bridge privilege taxes	9,023				2,205,727	2,214,750
Licenses, commissions and other revenue	2,667,666				2,744	2,670,410
Fines and forfeitures	1,723,814				651,948	2,375,762
Intergovernmental revenues	7,695,446	35,902,809	27,639,667	3,157,275	15,438,231	89,833,428
Charges for services	2,898,681				2,677,689	5,576,370
Interest income	939,381			457,672	295,353	1,692,406
Miscellaneous revenues	1,901,960	2,045	200,000	131,156	1,981,247	4,216,408
Total Revenues	55,505,675	35,904,854	27,839,667	3,746,103	39,710,020	162,706,319
EXPENDITURES						
Current:						
General government	26,594,583				594,644	27,189,227
Public safety	25,959,462				14,093,814	40,053,276
Public works	49,775	28,534,390			18,629,981	47,214,146
Health and welfare	4,515,954				81,660	4,597,614
Culture and recreation	2,554,835			36,028,995	1,072,645	39,656,475
Conservation of natural resources	132,423				75,751	208,174
Economic development and assistance	877,635		26,244,819			27,122,454
Debt service:						
Principal	452,948				6,229,246	6,682,194
Interest	305,000			3,359,307	5,373,100	9,037,407
Bond issue costs					2,487,914	2,487,914
Total Expenditures	61,442,615	28,534,390	26,244,819	39,388,302	48,638,755	204,248,881
Excess of Revenues over (under) Expenditures	(5,936,940)	7,370,464	1,594,848	(35,642,199)	(8,928,735)	(41,542,562)
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued					6,583,221	6,583,221
Refunding bonds issued					90,000,000	90,000,000
Proceeds from sale of capital assets	57,277				140,494	197,771
Premiums on bonds issued					22,645	22,645
Transfers in	3,781,603				2,518,608	6,300,211
Transfers out	(407,595)				(5,892,616)	(6,300,211)
Payment to bond refunding escrow agent					(79,975,000)	(79,975,000)
Payment to counterparties - termination costs					(7,366,000)	(7,366,000)
Discount on bonds issued					(193,731)	(193,731)
Total Other Financing Sources and Uses	3,431,285	0	0	0	5,837,621	9,268,906
Net Changes in Fund Balances	(2,505,655)	7,370,464	1,594,848	(35,642,199)	(3,091,114)	(32,273,656)
Fund Balances - Beginning	21,738,113	(18,260,954)		42,360,702	65,567,654	111,405,515
Fund Balances - Ending	$ 19,232,458	(10,890,490)	1,594,848	6,718,503	62,476,540	79,131,859

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

HARRISON COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Year Ended September 30, 2009

		Amount
Net Changes in Fund Balances - Governmental Funds	$	(32,273,656)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation of $5,799,989 was exceeded by capital outlays of $22,794,612 in the current period.		16,994,623
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss of $107,522 and the proceeds from the sale of $ 197,771 in the current period.		(305,293)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.		492,121
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt proceeds of $96,583,221 exceeded debt repayments of $6,682,194 and by the amount of the $79,975,000 bond issues refunded.		(9,926,027)
Under the modified accrual basis of accounting used in the Governmental Funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by a combination of the following items:		
Increase in deferred charges - issuance costs		2,226,925
Increase in discount on refunding bond		169,515
Increase in compensated absences		(133,939)
Increase in premium on refunding bond		(21,453)
Increase in other post employment benefits payable		(102,093)
Decrease in accrued interest payable		1,161,543
An Internal Service Fund is used by management to charge the cost of issuance of individual funds. The net revenue (expense) is reported within the governmental activities.		315,004
Change in Net Assets of Governmental Activities	$	(21,402,730)

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

HARRISON COUNTY

Statement of Net Assets - Proprietary Fund

September 30, 2009

Exhibit 5

		Governmental Activities
		Self-Insurance Internal Service Fund
ASSETS		
Current assets:		
Cash	$	2,139,175
Premiums receivable		462,850
Total Assets		2,602,025
LIABILITIES		
Current liabilities:		
Claims and judgments payable		787,613
Total Liabilities		787,613
NET ASSETS		
Restricted for health insurance		1,814,412
Total Net Assets	$	1,814,412

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

HARRISON COUNTY

Exhibit 6

Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund
For the Year Ended September 30, 2009

		Governmental Activities Self-Insurance Internal Service Fund
Operating Revenues		
Premiums	$	7,437,654
Total Operating Revenues		7,437,654
Operating Expenses		
Claims payments		6,539,193
Administrative		583,457
Total Operating Expenses		7,122,650
Changes in Net Assets		315,004
Net Assets - Beginning		1,499,408
Net Assets - Ending	$	1,814,412

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

HARRISON COUNTY

Statement of Cash Flows - Proprietary Fund

For the Year Ended September 30, 2009

Exhibit 7

	Governmental Activities Self-Insurance Internal Service Fund
Cash Flows From Operating Activities	
Receipts for premiums	$ 6,974,804
Payments for claims	(6,649,795)
Payments to administrator for services	(583,457)
Net Cash Provided (Used) by Operating Activities	(258,448)
Net Increase (Decrease) in Cash and Cash Equivalents	(258,448)
Cash and Cash Equivalents at Beginning of Year	2,397,623
Cash and Cash Equivalents at End of Year	$ 2,139,175
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	$ 315,004
(Increase) decrease in premium receivable	(462,850)
Increase (decrease) in claims and judgments liability	(110,602)
Total Adjustments	(573,452)
Net Cash Provided (Used) by Operating Activities	$ (258,448)

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

HARRISON COUNTY
Statement of Fiduciary Assets and Liabilities
September 30, 2009

Exhibit 8

		Agency Funds
ASSETS		
Cash	$	3,308,495
Accrued interest receivable		326
Intergovernmental receivables		67,183
Due from other funds		85,559
Total Assets	$	3,461,563
LIABILITIES		
Intergovernmental payables	$	3,461,563
Total Liabilities	$	3,461,563

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

(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 all of the county's 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
- D’Iberville 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
- Tax Collector
- Sheriff

B. Basis of Presentation.

The county’s basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements and accompanying note disclosures, which provide a detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information concerning the county as a whole. The statements include all nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are generally financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the county at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the county’s governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Taxes and other revenues not classified as program revenues, are presented as general revenues of the county, with certain limited exceptions. Internal service fund balances have been eliminated against the expenses and program revenue. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the county.

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 and major individual Internal Service 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 Fund and Fiduciary Funds (excluding agency 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. Agency funds have no measurement focus, but use the accrual basis of accounting.

The county's Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and only the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The revenues and expenses of Proprietary Funds are classified as operating or nonoperating. Operating revenues and expenses generally result from providing services in connection with a Proprietary Fund's primary operations. All other revenues and expenses are reported as nonoperating.

Governmental financial statements are presented using a current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized in the accounting period when they are both measurable and available to finance operations during the year or to liquidate liabilities existing at the end of the year. Available means collected in the current period or within 60 days after year end to liquidate liabilities existing at the end of the year. Measurable means knowing or being able to reasonably estimate the amount. Expenditures are recognized in the accounting period when the related fund liabilities are incurred. Debt service expenditures and expenditures related to compensated absences and claims and judgments, are recognized only when payment is due. Property taxes, state appropriations and federal awards are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period.

The county reports the following major Governmental Funds:

General Fund - This fund is used to account for all activities of the general government for which a separate fund has not been established.

Hurricane Fund – Accounts for all federal assistance dealing with Hurricane Katrina.

Katrina Supplemental CDBG Grant Fund – Accounts for grant proceeds from the CDBG Program.

Coast Coliseum Fund – Accounts for debt proceeds used for renovation of coliseum.

Additionally, the county reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

PROPRIETARY FUND TYPE

Internal Service Fund - These funds are used to account for those operations that provide services to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The county's internal service fund reports on self-insurance programs for employee medical benefits.

FIDUCIARY FUND TYPE

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

D. Account Classifications.

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

E. Deposits and Investments.

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

Cash includes cash on hand, demand deposits, 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." 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 statements. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. 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. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	Capitalization Thresholds	Estimated Useful Life
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 and estimated useful life will correspond 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 noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

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

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

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, construction or improvement of those assets.

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved with unreserved classified as designated and undesignated.

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

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.

M. Compensated Absences.

The county has adopted a policy of compensation for accumulated unpaid employee personal leave. No payment is authorized for accrued major medical leave. Accounting principles generally accepted in the United States of America require accrual of accumulated unpaid employee benefits as long-term liabilities in the government-wide financial statements. In fund financial statements, Governmental Funds report the compensated absence liability payable only if the payable has matured, for example an employee resigns or retires.

N. Future Effective Accounting Pronouncements.

The following are future effective accounting pronouncements which management believes will have some impact on future financial reporting of the County.

GASB Statement No 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement is effective for the fiscal year ending September 30, 2010. Earlier application is encouraged. The guidance in this statement will require governments to measure derivative instruments at fair value in their economic resources measurement focus financial statements. The changes in fair value of hedging derivative instruments do not affect investment revenue, but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. Although management has not evaluated the impact of this statement on the County's financial statements, given the nature of the County's involvement in interest rate swaps, the potential impact could be substantial.

GASB Statement No 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement is effective for the fiscal year ending September 30, 2011. Early implementation is encouraged. The requirements in this statement will change financial reporting by providing fund balance categories and classifications that are expected to be more easily understood. The fund balance disclosures will give users information necessary to understand the processes under which constraints are imposed upon the use of resources and how those constraints may be modified or eliminated. This statement is expected to have a significant effect on how the County reports its fund balances.

(2) Changes in Accounting Standards.

For the fiscal year ended September 30, 2009, the county implemented Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other than Pensions.* The provisions of these standards have been incorporated in Note 11.

(3) Prior Period Adjustments.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

Explanation		Amount
To correct prior year errors in the recording of capital assets.	$	(1,184,886)
To correct prior year errors in the recording of unamortized bond discount.		(632,001)
To correct prior year errors in the recording of deferred charges.		(2,049,381)
To correct prior year errors in the recording of insurance proceeds liability.		4,949,408
To correct prior year errors in the recording of unamortized gain on refunding bonds.		478,275
Total prior period adjustments	$	1,561,415

(4) Deposits and Investments.

Deposits:

The carrying amount of the county's total deposits with financial institutions at September 30, 2009, was $83,954,533, and the bank balance was $ $85,270,684. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC).

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, 2009, are as follows:

Investment Type	Maturities		Fair Value	Rating
Hancock Horizon Government Money Market Mutual Fund	30 days	$	2,089,919	AAAm
Federal Home Loan Discount Note	19 days		700,000	AA-
Federal Home Loan Bank Bond	41 days		999,900	Aaa
Total		$	3,789,819	

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 Sections 19-9-29 and 91-13-8, Miss. Code Ann. (1972). The county does not have a formal investment policy that would further limit its investments choices or one that address 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 investments, $1,699,900 of underlying securities were uninsured, unregistered, and held in trust accounts by the investment's counterparty on behalf of the county, not in the name of the county.

Concentration of Credit Risk. The county places no limit on the amount the county may invest in any one issuer. More than 5 percent of the county's investments are in Federal Home Loan Discount Note and Federal Home Loan Bank Bond. These investments are 18% and 26% respectively, of the county's total investments and are reported in the Coast Coliseum Fund.

(5) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2009:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund		Amount
General	Other Governmental Funds	$	2,180,000
General	Hurricane Fund		1,000,000
General	Katrina Supplemental CDBG Grant Fund		620,000
Other Governmental Funds	General		180,792
Other Governmental Funds	Hurricane Fund		6,000,000
Agency Funds	General		85,559
Total		$	10,066,351

The receivables represent un-reimbursed grant funds and the tax revenue collected but not settled until October, 2009. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

Transfer In	Transfer Out		Amount
General Fund	Other Governmental Funds	$	3,781,603
Other Governmental Funds	General Fund		407,595
Other Governmental Funds	Other Governmental Funds		2,111,013
Total		$	6,300,211

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.

(6) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2009, consisted of the following:

Description		Amount
Governmental Activities:		
Legislative tax credit	$	747,400
Emergency management performance grants		27,611
Disaster grant		4,158,884
Safe Communities Grant		17,413
Gaming		135,686
Additional privilege tax		287,380
Road protection		148,440
Community Development Block Grant		7,704,721
Occupancy tax		298,035
Total Governmental Activities	$	13,525,570

(7) Loans Receivable.

Loans receivable balances at September 30, 2009, are as follows:

Description	Date of Loan	Interest Rate	Maturity Date		Receivable Balance
D'Iberville Water and Sewer	07/85	N/A	N/A	$	27,805
West Harrison Water and Sewer	02/98	N/A	N/A		15,000
Harrison County Development Commission	12/00	3.00%	11/20		314,705
Harrison County Development Commission	12/00	3.00%	11/20		314,705
West Harrison Water and Sewer	04/08	N/A	N/A		100,000
Total				$	772,215

(8) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2009:

Governmental activities:

		Balance Oct. 1, 2008	Additions	Deletions	Adjustments *	Balance Sept. 30, 2009
Non-depreciable capital assets:						
Land	$	6,865,978	120,826		(500)	6,986,304
Construction in progress		5,489,668	19,457,545		(5,432,734)	19,514,479
Total non-depreciable capital assets		12,355,646	19,578,371	0	(5,433,234)	26,500,783
Depreciable capital assets:						
Infrastructure		109,852,468			3,179,218	113,031,686
Buildings		52,119,053			2,253,546	54,372,599
Improvements other than buildings		38,039,315	1,101,401			39,140,716
Mobile equipment		21,427,961	2,077,386	1,873,932	(700,472)	20,930,943
Furniture and equipment		2,587,527	37,454	277,963	(19,065)	2,327,953

	Balance Oct. 1, 2008	Additions	Deletions	Adjustments *	Balance Sept. 30, 2009
Leased property under capital leases	4,685,634		101,545	1,004,510	5,588,599
Total depreciable capital assets	228,711,958	3,216,241	2,253,440	5,717,737	235,392,496
Less accumulated depreciation for:					
Infrastructure	63,180,435	1,293,540		(236)	64,473,739
Buildings	13,824,620	1,067,837		474,608	15,367,065
Improvements other than buildings	13,386,553	1,211,668		1,002,634	15,600,855
Mobile equipment	14,907,914	1,596,976	1,604,103	(339,075)	14,561,712
Furniture and equipment	1,974,599	128,271	250,794	12,759	1,864,835
Leased property under capital leases	2,703,891	501,697	93,250	318,699	3,431,037
Total accumulated depreciation	109,978,012	5,799,989	1,948,147	1,469,389	115,299,243
Total depreciable capital assets, net	118,733,946	(2,583,748)	305,293	4,248,348	120,093,253
Governmental activities capital assets, net	$ 131,089,592	16,994,623	305,293	(1,184,886)	146,594,036

*Adjustments:

To correct prior year errors in recording capital assets of $1,184,886, and to re-classify completed construction in progress to infrastructure and buildings.

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	$ 926,409
Public safety	1,680,975
Public works	2,980,769
Health and welfare	44,653
Culture and recreation	164,843
Conservation of natural resources	2,340
Total governmental activities depreciation expense	$ 5,799,989

Commitments with respect to unfinished capital projects at September 30, 2009, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Biloxi Courthouse Annex	$ 1,193,896	April 2011
Parking structure – Coliseum	5,048,710	September 2010
Ballroom ceilings - Coliseum	711,484	September 2010
Gulf Ship	5,962,841	July 2010
Jail remodel	1,055,644	January 2011

As of September 30, 2009, the county had the following commitments:

On October 1, 1999, the Harrison County Board of Supervisors entered into a 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.

(9) 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 $1,000,000 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, 2009, to January 1, 2010. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

The county is exposed to risk of loss relating to employee health and accident coverage. Beginning in 2005 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 a 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 $200,000.

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, 2009, the amount of these liabilities was $787,613. An analysis of claims activities is presented below:

		Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2007 – 2008	$	770,143	7,263,737	7,135,666	898,214
2008 – 2009	$	898,214	6,539,194	6,649,795	787,613

(10) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2009:

Classes of Property		Governmental Activities
Mobile equipment	$	5,588,599
Less: Accumulated depreciation		(3,431,037)
Leased Property Under Capital Leases	$	2,157,562

The following is a schedule by years of the total payments due as of September 30, 2009:

		Governmental Activities	
Year Ending September 30		Principal	Interest
2010	$	488,027	20,612
2011		188,324	5,009
Total	$	676,351	25,621

(11) Other Postemployment Benefits.

Plan Description

The Harrison County Board of Supervisors administers the county's health insurance plan which is authorized by Sections 25-15-101 et seq., Mississippi Code Ann. (1972). The county's health insurance plan may be amended by the Harrison County Board of Supervisors. The county purchases health insurance coverage from a commercial insurance company and offers health insurance benefit coverage through the County's health insurance plan (the Plan). Since retirees may obtain health insurance by participating in a group with active employees and consequently receive a health insurance premium rate differential, the county has a postemployment healthcare benefit reportable under GASB Statement 45 as a single employer defined benefit health care plan. Effective October 1, 2008, the county implemented GASB Statement 45 prospectively, which requires reporting on an accrual basis the liability associated with other postemployment benefits. The county does not issue a publicly available financial report for the Plan.

Funding Policy

Employees' premiums are funded by the county with additional funding provided by retired employees and by active employees for spouse and dependent medical coverage. The Plan is financed on a pay-as-you-go basis. The Board of Supervisors, acting in conjunction with the commercial insurance company, has the sole authority for setting health insurance premiums for the county's health insurance plan.

Per Section 25-15-103, Mississippi Code Ann. (1972), any retired employee electing to purchase retiree health insurance must pay the full cost of the insurance premium monthly to the county. For the year ended September 30, 2009, retiree premiums range from $486 to $837 depending on dependent coverage and Medicare eligibility.

Actuarial Valuation

The County's Health Insurance Plan's Report of the Actuary on the Other Postemployment Benefits Valuation was prepared as of October 1, 2009. The plan presently has an actuarial valuation performed annually in order to be in compliance with GASB Statement 45.

Annual OPEB Cost and Net OPEB Obligation

The county's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC was determined assuming the plan would fund the OPEB liability on a pay-as-you-go basis. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current ARC of $303,073 is 0.97 percent of annual covered payroll.

The following table presents the OPEB cost for the year, the amount contributed and changes in the OPEB plan for fiscal year 2009:

Annual required contribution	$	303,073
Interest on prior year net OPEB obligation		0
Adjustment to annual required contribution		0
Annual OPEB cost		303,073
Contributions made		200,980
Increase in net OPEB obligation		102,093
Net OPEB obligation – Beginning of year		0
Net OPEB obligation – End of year	$	102,093

The following table provides the county's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2009:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2009	$303,073	66.31%	$102,093

Funding Status and Funding Progress

The following table provides funding information for the most recent actuarial valuation date:

Actuarial Valuation Date		October 1, 2009
Actuarial Value of Plan Assets	$	0
Actuarial Accrued Liability (AAL) Entry Age Normal	$	2,353,878
Unfunded AAL (UAAL)	$	2,353,878
Funded Ratio		0.0%
Annual Covered Payroll	$	31,405,825
UAAL as a Percentage of Annual Covered Payroll		7.50%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, is designed to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. Additional information as of the latest actuarial valuation follows:

Actuarial valuation date	October 1, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percentage, closed basis
Remaining amortization period	30 years
Asset valuation method	N/A
Actuarial assumptions:	
Investment rate of return*	4.50%
Projected salary increases**	2.00%
Healthcare cost trend rate*	10.00%
Ultimate trend rate	5.00%
Year of ultimate trend rate	2020
*Includes inflation at	0.00%
**Includes wage inflation at	2.00%

(12) Long-term Debt.

Debt outstanding as of September 30, 2009, consisted of the following:

Description		Amount Outstanding	Interest Rate	Maturity Date
Governmental Activities:				
A. General Obligation Bonds:				
General Obligation Public Improvement Bonds	$	1,545,000	6.25-8.90%	11/2009
General Obligation Bond - Series 1994 A		95,000	8.90%	11/2009
General Obligation Refunding - Series 1997 B		6,505,000	4.00-5.00%	07/2014
Public Improvement Bond		2,540,000	Variable	01/2025
General Obligation - USM Project		1,130,000	4.15-7.50%	01/2016
Special Obligation - Coliseum Bond		68,000,000	4.50%	12/2029
General Obligation - Refunding Series 2005A		7,025,000	3.00-4.00%	04/2018
General Obligation - Refunding Series 2005B		3,575,000	4.00-4.88%	04/2016
Jail Renovations Series 2007		2,295,000	5.90%	06/2016
$2.11 Million Special Obligation Refunding Series 2008A-1		2,110,000	Variable	12/2018
Special Obligation Refunding Series 2008B		16,365,000	5.00-5.50%	10/2031
Special Obligation Refunding Series 2008A-2		27,525,000	Variable	10/2031
Special Obligation Refunding Series 2008C		14,480,000	4.00-4.75%	10/2017
Special Obligation Refunding Series 2008D		28,000,000	3.50-5.00%	03/2029
Total General Obligation Bonds	$	181,190,000		
B. Other Loans:				
MDB Cap Loan 0303	$	315,416	3.00%	11/2020
MDB Cap Loan 0304		315,416	3.00%	11/2020
MDB -2 Million Loan - Draw 1		1,144,564	3.00%	08/2018
MDB -2 Million Loan - Draw 2		632,889	3.00%	08/2018
MDB -8 Million Loan - Draw 1		36,946	3.00%	08/2018
MDB -8 Million Loan - Draw 2		1,522,806	3.01%	06/2031
MDB -8 Million Loan - Draw 3		609,984	3.02%	01/2025
MDB -8 Million Loan - Draw 4		1,326,353	3.03%	01/2025
MDB -8 Million Loan - Draw 5		1,987,542	3.04%	01/2025
MDB -8 Million Loan - Draw 6		962,493	3.05%	01/2025
FEMA Disaster Relief Loan		8,000,000	2.96%	08/2012
FEMA Disaster Relief Loan		5,049,154	2.96%	08/2013
Total Other Loans	$	21,903,563		
C. Capital Leases				
Hancock Leasing – Fire Trucks	$	289,030	3.71%	06/2010
Hancock Leasing - Mowers		387,321	2.66%	06/2011
Total Capital Leases	$	676,351		

Governmental Activities:

Year Ending September 30	General Obligation Bonds Principal	Interest
2010	$ 5,600,000	3,957,635
2011	6,885,000	6,693,261
2012	7,220,000	6,370,840
2013	8,180,000	6,023,385
2014	7,825,000	5,655,129
2015 – 2019	35,750,000	23,440,796
2020 – 2024	32,575,000	17,956,387
2025 – 2029	34,555,000	12,206,128
2030 – 2034	20,605,000	6,774,016
2035 – 2039	17,890,000	2,809,239
2040-2044	4,105,000	184,725
Total	$ 181,190,000	92,071,541

Year Ending September 30	Other Loans Principal	Interest
2010	$ 531,119	279,340
2011	548,089	262,374
2012	8,565,605	1,708,856
2013	5,632,841	1,150,769
2014	602,358	208,101
2015 – 2019	3,013,439	744,029
2020 – 2024	2,242,847	326,770
2025 – 2029	592,942	83,212
2030 – 2034	174,323	6,360
Total	$ 21,903,563	4,769,811

Legal Debt Margin - The amount of debt, excluding specific exempted debt, that 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, 2009, the amount of outstanding debt was equal to 9.31% of the latest property assessments.

Current Refunding - On October 8, 2008, the county issued $16,365,000 of general obligation refunding bonds with an average interest rate of 5.25% to refund $14,315,000 of the following outstanding bond issues:

Issue	Average Interest Rate	Outstanding Amount Refunded
MDB Taxable Special Obligation 2005B	Variable	$ 14,315,000

The County refunded the above bonds to restructure its debt after the credit rating agencies downgraded the credit support facility on the refunded bonds which resulted in increased interest costs and an acceleration of the principal amortization. The difference between the present values of the debt service payments on the old and new debt resulted in an economic loss of $1,378,320.

Current Refunding - On October 9, 2008, the county issued $2,110,000 of general obligation refunding bonds with a variable interest rate to refund $2,045,000 of the following outstanding bond issue:

Issue	Average Interest Rate		Outstanding Amount Refunded
MDB Special Obligation 2005A	Variable	$	2,045,000

The County refunded the above bonds to restructure its debt after the credit rating agencies downgraded the credit support facility on the refunded bonds which resulted in increased interest costs and an acceleration of the principal amortization. The difference between the present values of the debt service payments on the old and new debt resulted in an economic loss of $36,456.

Current Refunding - On October 23, 2008, the county issued $27,525,000 of general obligation refunding bonds with a variable interest rate to refund $24,365,000 of the following outstanding bond issues:

Issue	Average Interest Rate		Outstanding Amount Refunded
Special Obligation Series 2000	Variable	$	2,660,000
Jail Bond Series 2000	4.95%		1,070,000
G. O. Refunding Series 2003	Variable		6,490,000
MDB Special Obligation 2005A	Variable		14,145,000
Total		$	24,365,000

The County refunded the above bonds to restructure its debt after the credit rating agencies downgraded the credit support facility on the refunded bonds which resulted in increased interest costs and an acceleration of the principal amortization. The difference between the present values of the debt service payments on the old and new debt resulted in an economic loss of $2,990,817.

Current Refunding - On March 18, 2009, the county issued $28,000,000 of general obligation refunding bonds with an average interest rate of 4% to refund $23,775,000 of the following outstanding bond issues:

Issue	Average Interest Rate		Outstanding Amount Refunded
Public Improvement Bonds	Variable	$	3,845,000
Special Obligation Refunding, Series 2003	5.56%		13,395,000
MDB – Correctional Facility	Variable		6,535,000
Total		$	23,775,000

The County refunded the above bonds to restructure its debt after the credit rating agencies downgraded the credit support facility on the refunded bonds which resulted in increased interest costs and an acceleration of the principal amortization. The difference between the present values of the debt service payments on the old and new debt resulted in an economic loss of $2,219,530.

The Public Improvement Bonds had an outstanding balance of $6,600,000 at the time of refunding, but only $3,845,000 of the bond was refunded, leaving a remaining principal balance of $2,755,000, of which $215,000 was redeemed during fiscal year 2009.

Current Refunding - On October 6, 2008, the county issued $16,000,000 of general obligation refunding bonds with an average interest rate of 4.33% to refund $15,475,000 of the following outstanding bond issues:

Issue	Average Interest Rate		Outstanding Amount Refunded
Special Obligation Series 2000	Variable	$	4,850,000
Jail Bond Series 2000	4.95%		1,545,000
G. O. Refunding Series 2003	Variable		4,840,000
MDB Special Obligation 2005A	Variable		4,240,000
Total		$	15,475,000

The County refunded the above bonds to restructure its debt after the credit rating agencies downgraded the credit support facility on the refunded bonds which resulted in increased interest costs and an acceleration of the principal amortization. The difference between the present values of the debt service payments on the old and new debt resulted in an economic gain of $974,354.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2009:

		Balance Oct. 1, 2008	Additions	Reductions	Adjustments*	Balance Sept. 30, 2009	Amount due within one year
Governmental Activities:							
Compensated absences	$	1,922,082	133,939			2,056,021	
General obligation bonds		170,230,000	90,000,000	5,600,000	(73,440,000)	181,190,000	5,600,000
Limited obligation bonds		6,535,000			(6,535,000)	0	
Capital leases		1,305,597		629,246		676,351	488,027
Other loans		15,773,290	6,583,221	452,948		21,903,563	531,119
Subtotal		195,765,969	96,717,160	6,682,194	(79,975,000)	205,825,935	6,619,146
Less:							
Discount			(193,731)	(24,216)		(169,515)	
Add:							
Premium			22,645	1,192		21,453	
Total	$	195,765,969	96,546,074	6,659,170	(79,975,000)	205,677,873	6,619,146

*Adjustments reflect bond refundings.

Compensated absences will be paid from the fund from which the employees' salaries were paid which are generally the General Fund, Road Fund, Road Protection Fund, and the Bridge and Culvert Fund.

(13) Deficit Fund Balances of Individual Funds.

The following funds reported deficits in fund balances at September 30, 2009:

Fund		Deficit Amount
Hurricane Fund	$	10,890,490
Sheriff's Canteen		7,112
HOME Program		23,581
Jail Repairs		895,216
Garbage and Solid Waste		52,898
Hurricane Gustav		331,727

(14) 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 adverse effect on the financial condition of the county.

(15) 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:

Description		Balance at Sept. 30, 2009
Industrial revenue bonds and notes	$	25,500,000

Harrison County and the Mississippi Transportation Commission (Mississippi Department of Transportation) entered into an Interlocal Cooperative Agreement, dated January 24, 2005 and amended October 15, 2005 which among other things allowed the County to provide funds necessary to the Commission (MDOT) for the construction of a Highway Project. The funds came from the $9,490,000 Mississippi Development Bank Special Obligation Bonds, Series 2009A (Harrison County, Mississippi Highway Construction Project), and the $63,295,000 Mississippi Development Bank Special Obligation Build America Bonds, Series 2009B (Harrison County, Mississippi Highway Construction Project – Direct Payment – Federally Taxable) dated August 26, 2009. Under the Cooperative Agreement, the Commission (MDOT) agrees to pay to the Trustee amounts sufficient to pay the principal and interest on the Series 2009 Bonds. Nothing in the bonds or any other document executed by the County will obligate the County financially in any way or be a charge against its general credit or taxing powers.

(16) 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 $908,250 in fiscal year 2009. Complete financial statements for the Harrison County Library can be obtained from the Gulfport branch located at 1300 21st 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 members, with each entity appointing one member. The county's appropriation to the joint venture was $350,000 in fiscal year 2009. 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 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 2009. Complete financial statements for the Gulfport-Biloxi Regional Airport Authority can be obtained from P.O. Box 2127, Gulfport, MS 39501.

(17) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

Gulf Coast 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 $695,000 for the support of the agency in fiscal year ending September 30, 2009.

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 on of the 27 members of the board of directors. The county appropriated $22,477 for the support of the agency in fiscal year ending September 30, 2009.

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 Counties, and one appointed at large. The county appropriated $6,465,000 for maintenance and support of the college in fiscal year 2009.

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 revenues.

Gulf Coast Community Action Agency operates in the counties of George, Greene, Hancock, and Harrison. The agency's board is composed of 24 members, one each appointed by the counties of George, Greene, Hancock, and Harrison and the cities of Bay St. Louis, 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. The county provided no financial support in fiscal year 2009.

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 Ocean Springs, Bay St. Louis and Pass Christian. The county appropriated $214,375 for the support of the agency in fiscal year ending September 30, 2009.

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. The county provided no financial support in fiscal year 2009.

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, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The counties generally provide no financial support to the organization.

(18) 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 rate at September 30, 2009 was 12% 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, 2009, 2008 and 2007 were $3,544,016, $3,564,894 and $2,824,396, respectively, equal to the required contributions for each year.

(19) Interest Rate Swaps.

The following table summarizes the key terms and general information of the interest rate swaps outstanding as of September 30, 2009:

Description	Swap Type	Associated Bonds	Paragraph	Trade Date	Termination Date	Terms
$68M 70% LIBOR SWAP	Pay Fixed	February 2005 Bonds	D.1.a	2/27/2008	1/1/2020	Pay 4.11% Rec 70% 1-Month LIBOR
$63.41M SIFMA CMS Basis Swap	Basis Swap	February 2005 Bonds	D.1.b	2/13/2008	1/1/2040	Pay - USD-SIFMA Municpal Swap Index Rec - 85.68% USSMQ10 Index
$17.705M SIFMA CMS Basis Swap	Basis Swap	2005A Bonds	D.2.	2/13/2008	3/1/2031	Pay - USD-SIFMA Municpal Swap Index Rec - 84.3% USSMQ10 Index
$12.595MSIFMA CMS Basis Swap	Basis Swap	2005B Bonds	D.3.	2/13/2008	3/1/2031	Pay - USD-SIFMA Municpal Swap Index Rec - 86.3% USSMQ10 Index
$27.525M 70% LIBOR Swap	Pay Fixed	2008A-2 Bonds	D.4.	11/25/2008	10/1/2031	Pay - 2.64% Rec - 70% 1-month LIBOR
$4.7M SIFMA CMS Basis Swap	Basis Swap	2002 Bonds	E1.	2/13/2008	4/1/2022	Pay - USD-SIFMA Municpal Swap Index Rec - 86% USSMQ10 Index
$10.065M SIFMA CMS Basis Swap	Basis Swap	2003 Rev Bonds	E.2	2/13/2008	12/1/2023	Pay - USD-SIFMA Municpal Swap Index Rec - 86.2% USSMQ10 Index
$16.365M LIBOR SWAP	Pay Fixed	2008B Bonds	F.	10/8/2008	10/1/2031	Pay 4.301% Rec - 100% 1-Month LIBOR

A. On May 30 2002, the County and the Mississippi Development Bank (collectively the “County”) executed several confirmations with Ambac Financial Services, L.P. (the "2002 Swap Counterparty"), in connection with the execution of an ISDA Master Agreement and documents executed in connection therewith (collectively, the "2002 Swap Agreement") in order to hedge the interest rate risk associated with certain outstanding obligations of the County. The 2002 Swap Agreement was delivered in conjunction with, and together with certain Confirmations thereto, as described below:

1. $10,000,000 Mississippi Development Bank Special Obligation Bonds, Series 2000 (Harrison County, Mississippi General Obligation Bond Project), dated June 22, 2000 (the “June 2000 Bonds”)

a) On March 4, 2009 the parties to the 2002 Swap Agreement executed a Termination Agreement (the “June 2000 Bonds Initial Termination Confirmation”) in connection with the June 2000 Bonds, which June 2000 Bonds Initial Termination Confirmation was executed at the option of the County to terminate a Confirmation dated May 30, 2002 between the parties under the 2002 Swap Agreement concerning the June 2000 Bonds. The June 2000 Bonds Initial Termination Confirmation reflected a negative fair value at the time of the termination, and on March 25, 2009 the County paid $74,000 to the 2002 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the $28,000,000 Mississippi Development Bank Special Obligation Fixed Rate Refunding Bonds, Series 2008D Bonds (Harrison County, Mississippi Variable Rate Revenue Bonds Refunding Project), dated March 18, 2009 (the "Series 2008D Bonds"), which Series 2008D Bonds carry coupon rates ranging from 4.50% to 4.75% to final maturity on October 1, 2028.

b) On October 22, 2008 the parties to the 2002 Swap Agreement executed a Termination Agreement (the "June 2000 Bonds Forward Termination Confirmation") in connection with the June 2000 Bonds, which June 2000 Bonds Forward Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2002 Swap Agreement concerning the June 2000 Bonds. The June 2000 Bonds Forward Termination Confirmation reflected a negative fair value at the time of the termination, and on October 24, 2008 the County paid $335,000 to the 2002 Swap Counterparty in consideration of such termination***;*** such termination payment was made from a portion of the proceeds of the $27,525,000 Mississippi Development Bank Variable Rate Demand Refunding Bonds, Series 2008A-2 (Harrison County, Mississippi Variable Rate General Obligation Bonds Refunding Project), dated October 23, 2008 (the "Series 2008A-2 Bonds"), which Series 2008A-2 Bonds carry coupon rates of approximately 4.00% to final maturity on October 1, 2031.

2. $3,500,000 Mississippi Development Bank Special Obligation Bonds, Series 2000 (Harrison County, Mississippi General Obligation Jail Bond Project), dated October 25, 2000 (the "October 2000 Bonds")

a) On March 4, 2009 the parties to the 2002 Swap Agreement executed a Termination Agreement (the "October 2000 Bonds Initial Termination Confirmation") in connection with the October 2000 Bonds, which October 2000 Bonds Initial Termination Confirmation was executed at the option of the County to terminate a Confirmation dated May 30, 2002 between the parties under the 2002 Swap Agreement concerning the October 2000 Bonds. The October 2000 Bonds Initial Termination Confirmation reflected a negative fair value at the time of the termination, and on March 25, 2009 the County paid $56,000 to the 2002 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008D Bonds, which Series 2008D Bonds carry coupon rates ranging from 4.50% to 4.75% to final maturity on October 1, 2028.

b) On October 22, 2008 the parties to the 2002 Swap Agreement executed a Termination Agreement (the "October 2000 Bonds Forward Termination Confirmation") in connection with the October 2000 Bonds, which October 2000 Bonds Forward Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2002 Swap Agreement concerning the October 2000 Bonds. The October 2000 Bonds Forward Termination Confirmation reflected a negative fair value at the time of the termination, and on October 24, 2008 the County paid $124,000 to the 2002 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008A-2 Bonds, which Series 2008A-2 Bonds carry coupon rates of approximately 4.00% to final maturity on October 1, 2031.

3. $7,500,000 Mississippi Development Bank Special Obligation Bonds, Series 2001 (Harrison County, Mississippi Public Improvements Project) dated January 2, 2001 (the "2001 Bonds")

a) On March 4, 2009 the parties to the 2002 Swap Agreement executed a Termination Agreement (the "2001 Bonds Initial Termination Confirmation") in connection with the 2001 Bonds, which 2001 Bonds Initial Termination Confirmation was executed at the option of the County to terminate a Confirmation dated May 30, 2002 between the parties under the 2002 Swap Agreement concerning the 2001 Bonds. The 2001 Bonds Initial Termination Confirmation reflected a negative fair value at the time of the termination, and on March 25, 2009 the County paid $66,000 to the 2002 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008D Bonds, which Series 2008D Bonds carry coupon rates ranging from 4.50% to 4.75% to final maturity on October 1, 2028.

b) On March 4, 2009 the parties to the 2002 Swap Agreement executed a Termination Agreement (the "2001 Bonds Forward Termination Confirmation") in connection with the 2001 Bonds, which 2001 Bonds Forward Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2002 Swap Agreement concerning the 2001 Bonds. The 2001 Bonds Forward Termination Confirmation reflected a negative fair value at the time of the termination, and the County paid $787,000 to the 2002 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008D Bonds, which Series 2008D Bonds carry coupon rates ranging from 4.50% to 4.75% to final maturity on October 1, 2028.

B. On January 21 2005, the County and the Mississippi Development Bank (collectively the "County") executed several confirmations with Ambac Financial Services, L.P. (the "2005 Swap Counterparty"), in connection with the execution of an ISDA Master Agreement and documents executed in connection therewith (collectively, the "2005 Swap Agreement") in order to hedge the interest rate risk associated with certain outstanding obligations of the County. The 2005 Swap Agreement was delivered in conjunction with, and together with certain Confirmations thereto, as described below:

1. $8,200,000 Mississippi Development Bank Special Obligation Bonds, Series 2002 (Harrison County, Mississippi Correctional Facilities Authority Revenue Bonds Refunding Project), dated April 30, 2002 (the "2002 Bonds")

   On March 4, 2009, the parties to the 2005 Swap Agreement executed a Termination Agreement (the "2002 Bonds Termination Confirmation") in connection with the 2002 Bonds, which 2002 Bonds Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2005 Swap Agreement concerning the 2002 Bonds. The 2002 Bonds Termination Confirmation reflected a negative fair value at the time of the termination, and on March 25, 2009 the County paid $670,000 to the 2005 Swap Counterparty in consideration of such termination, such termination payment was made from a portion of the proceeds of the Series 2008D Bonds, which Series 2008D Bonds carry coupon rates ranging from 4.50% to 4.75% to final maturity on October 1, 2028.

2. $15,000,000 Mississippi Development Bank Special Obligation Bonds, Series 2003 (MSLoan Program - Harrison County, Mississippi 2003 Refunding Project), dated December 30 2003 (the "2003 Revenue Bonds")

   On March 4, 2009, the parties to the 2005 Swap Agreement executed a Termination Agreement (the "2003 Revenue Bonds Termination Confirmation") in connection with the 2003 Revenue Bonds, which 2003 Revenue Bonds Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2005 Swap Agreement concerning the 2003 Revenue Bonds. The 2003 Revenue Bonds Termination Confirmation reflected a negative fair value at the time of the termination, and on March 25, 2009 the County paid $1,515,000 to the 2005 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008D Bonds, which Series 2008D Bonds carry coupon rates ranging from 4.50% to 4.75% to final maturity on October 1, 2028.

3. $20,900,000 Mississippi Development Bank Special Obligation Variable Rate Demand Refunding Bonds, Series 2005A (MSBond Program – Harrison County, Mississippi Hurricane Katrina General Obligation Refunding Project), dated January 10, 2006 (the "2005A Bonds")

On October 22, 2008, the parties to the 2005 Swap Agreement executed a Termination Agreement (the “2005A Bonds Termination Confirmation”) in connection with the 2005A Bonds, which 2005A Bonds Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2005 Swap Agreement concerning the 2005A Bonds. The 2005A Bonds Termination Confirmation reflected a negative fair value at the time of the termination, and the County paid $1,848,000 to the 2005 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008A-2 Bonds, which Series 2008A-2 Bonds carry coupon rates of approximately 4.00% to final maturity on October 1, 2031.

4. $14,600,000 Taxable Special Obligation Variable Rate Demand Bonds, Series 2005B (MSBond Program - Harrison County, Mississippi Hurricane Katrina General Obligation Project), dated January 10, 2006 (the “2005B Bonds”)

   On October 8, 2008, the parties to the 2005 Swap Agreement executed a Termination Agreement (the “2005B Bonds Termination Confirmation”) in connection with the 2005B Bonds, which 2005B Bonds Termination Confirmation was executed at the option of the County to terminate a Confirmation dated January 5, 2006 between the parties under the 2005 Swap Agreement concerning the 2005B Bonds. The 2005B Bonds Termination Confirmation reflected a negative fair value at the time of the termination, and on October 10, 2008 the County paid $1,551,000 to the 2005 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the $16,365,000 Mississippi Development Bank Taxable Special Obligation Variable Rate Demand Refunding Bonds, Series 2008B Bonds (Harrison County, Mississippi Variable Rate General Obligation Bonds Refunding Project), dated October 9, 2008 (the "Series 2008B Bonds"), which Series 2008B Bonds carry coupon rates of 4.301% to final maturity on October 31, 2031.

C. On November 24, 2003, the County and the Mississippi Development Bank (collectively the “County”) executed a confirmation with BNP Paribas Paris (the "2003 Swap Counterparty"), in connection with the execution of an ISDA Master Agreement and documents executed in connection therewith (collectively, the "<u>2003 Swap Agreement</u>") in order to hedge the interest rate risk associated with a certain outstanding obligation of the County. The 2003 Swap Agreement was delivered in conjunction with, and together with the Confirmation thereto, as described below:

$12,525,000 Mississippi Development Bank Special Obligation Bonds, Series 2003 (MSBond Program – Harrison County, Mississippi General Obligation Refunding Bond Project), dated March 26, 2003 (the “2003 GO Bonds”)

On October 22, 2008, the parties to the 2003 Swap Agreement executed a Termination Agreement (the “2003 GO Bonds Termination Confirmation”) in connection with the 2003 GO Bonds, which 2003 GO Bonds Termination Confirmation was executed at the option of the County to terminate a Confirmation dated November 24, 2003 between the parties under the 2003 Swap Agreement concerning the 2003 GO Bonds. The 2003 GO Bonds Termination Confirmation reflected a negative fair value at the time of the termination, and on October 24, 2008 the County paid $340,000 to the 2003 Swap Counterparty in consideration of such termination; such termination payment was made from a portion of the proceeds of the Series 2008A-2 Bonds, which Series 2008A-2 Bonds carry coupon rates of approximately 4.00% to final maturity on October 1, 2031.

D. On June 26, 2006, the County and the Mississippi Development Bank (collectively the “County”) executed confirmations with Deutsche Bank AG, New York Branch (the "2006 Swap Counterparty"), in connection with the execution of an ISDA Master Agreement and documents executed in connection therewith (collectively, the "<u>2006 GO Bonds Swap Agreement</u>") in order to hedge the interest rate risk associated with a certain outstanding obligation of the County. The 2006 GO Bonds Swap Agreement was delivered in conjunction with, and together with the Confirmations thereto, as described below:

1. $68,000,000 Mississippi Development Bank Special Obligation Bonds, Series 2005 (MSBond Program – Harrison County, Mississippi General Obligation Coliseum/Convention Center Expansion and Refunding Project), dated February 2, 2005 (the “February 2005 Bonds”)

a) On February 27, 2008 the parties to the 2006 GO Bonds Swap Agreement executed a Forward Starting Confirmation in connection with the February 2005 Bonds (the “February 2005 Bonds Novated Confirmation”). The February 2005 Bonds Novated Confirmation has an original notional amount of $68,000,000, which will equal the outstanding principal amount of the February 2005 Bonds as of the effective date of January 2, 2010, and terminates January 1, 2020. The notional amount declines as the principal amount of the associated debt declines. Under the February 2005 Bonds Novated Confirmation, the County pays a fixed payment based on 4.11% and receives a variable payment based on USD-LIBOR-BBA multiplied by seventy percent (70%). An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $9,086,219, which is not recorded on the County’s financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

b) On February 13, 2008 the parties to the 2006 GO Bonds Swap Agreement executed a Forward Starting Revised Confirmation in connection with the February 2005 Bonds (the “February 2005 Bonds Revised Confirmation”), which February 2005 Bonds Revised Confirmation was executed to revise a Confirmation dated June 28, 2006 between the parties under the 2006 GO Bonds Swap Agreement concerning the February 2005 Bonds. The February 2005 Bonds Revised Confirmation original notional amount is $63,410,000, which is equal to the outstanding principal amount of the February 2005 Bonds as of the effective date of January 2, 2014, and which terminates January 1, 2040. Under the February 2005 Bonds Revised Confirmation, the County pays the counterparty a variable payment based on the USD-BMA Municipal Swap Index and receives a variable payment based upon the product of the BMA Reference Rate (the USSMQ10 Index Rate) and 85.68%. An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $968,870, which is not recorded on the County’s financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

2. On February 13, 2008 the parties to the 2006 GO Bonds Swap Agreement executed a Forward Starting Revised Confirmation in connection with the 2005A Bonds (the “2005A Bonds Revised Confirmation”), which 2005A Bonds Revised Confirmation was executed to revise a Confirmation dated June 28, 2006 between the parties under the 2006 GO Bonds Swap Agreement concerning the 2005A Bonds. The 2005A Bonds Revised Confirmation original notional amount is $17,705,000, which is equal to the outstanding principal amount of the February 2005 Bonds as of the effective date of January 2, 2014, and which terminates March 1, 2031. Under the 2005A Bonds Revised Confirmation, the County pays the counterparty a variable payment based on the USD-BMA Municipal Swap Index and receives a variable payment based upon the product of the BMA Reference Rate (the USSMQ10 Index Rate) and 84.30%. An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $163,042, which is not recorded on the County’s financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

3. On February 13, 2008 the parties to the 2006 GO Bonds Swap Agreement executed a Forward Starting Revised Confirmation in connection with the 2005B Bonds (the "2005B Bonds Revised Confirmation"), which 2005B Bonds Revised Confirmation was executed to revise a Confirmation dated June 28, 2006 between the parties under the 2006 GO Bonds Swap Agreement concerning the 2005B Bonds. The 2005B Bonds Revised Confirmation original notional amount is $12,595,000, which is equal to the outstanding principal amount of the 2005B Bonds as of the effective date of January 2, 2014, and which terminates March 3, 2031. Under the 2005B Bonds Revised Confirmation, the County pays the counterparty a variable payment based on the USD-BMA Municipal Swap Index and receives a variable payment based upon the product of the BMA Reference Rate (the USSMQ10 Index Rate) and 86.30%. An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $43,846, which is not recorded on the County's financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

4. $27,525,000 Mississippi Development Bank Special Obligation Variable Rate Demand Refunding Bonds, Series 2008A-2 (Harrison County, Mississippi Variable Rate General Obligation Bonds Refunding Project), dated October 23, 2008 (the "2008A-2 Bonds")

   On November 25, 2008, the parties to the 2006 GO Bonds Swap Agreement executed a Forward Starting Confirmation in connection with the 2008A-2 Bonds (the "2008A-2 Bonds Confirmation"). The 2008A-2 Bonds Confirmation has an original notional amount of $27,525,000, which is equal to the outstanding principal amount of the 2008A-2 Bonds as of the effective date of October 1, 2010, and terminates October 1, 2031. The notional amount declines as the principal amount of the associated debt declines. Under the 2008A-2 Bonds Confirmation, the County pays a fixed payment based on 2.64% and receives a variable payment based on USD-LIBOR-BBA multiplied by seventy percent (70%). An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a positive $389,459, which is not recorded on the County's financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

E. On June 26, 2006, the County and the Mississippi Development Bank (collectively the "County") executed confirmations with the 2006 Swap Counterparty in connection with the execution of an ISDA Master Agreement and documents executed in connection therewith (collectively, the "2006 Revenue Bonds Swap Agreement") in order to hedge the interest rate risk associated with a certain outstanding obligation of the County. The 2006 Revenue Bonds Swap Agreement was delivered in conjunction with, and together with the Confirmations thereto, as described below:

1. On February 13, 2008, the parties to the 2006 Revenue Bonds Swap Agreement executed a Forward Starting Revised Confirmation in connection with the 2002 Bonds (the "2002 Bonds Revised Confirmation"), which 2002 Bonds Revised Confirmation was executed to revise a Confirmation dated June 28, 2006 between the parties under the 2006 Revenue Bonds Swap Agreement concerning the 2002 Bonds. The 2002 Bonds Revised Confirmation original notional amount is $4,700,000, which is equal to the outstanding principal amount of the 2002 Bonds as of the effective date of January 2, 2014, and which terminates April 1, 2022. Under the 2002 Bonds Revised Confirmation, the County pays the counterparty a variable payment based on the USD-BMA Municipal Swap Index and receives a variable payment based upon the product of the BMA Reference Rate (the USSMQ10 Index Rate) and 86.00%. An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $252, which is not recorded on the County's financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

2. On February 13, 2008, the parties to the 2006 Revenue Bonds Swap Agreement executed a Forward Starting Revised Confirmation in connection with the 2003 Revenue Bonds (the "2003 Revenue Bonds Revised Confirmation"), which 2003 Revenue Bonds Revised Confirmation was executed to revise a Confirmation dated June 28, 2006 between the parties under the 2006 Revenue Bonds Swap Agreement concerning the 2003 Revenue Bonds. The 2003 Revenue Bonds Revised Confirmation original notional amount is $10,065,000, which is equal to the outstanding principal amount of the 2003 Revenue Bonds as of the effective date of January 2, 2014 and which terminates December 1, 2023. Under the 2003 Revenue Bonds Revised Confirmation, the County pays the counterparty a variable payment based on the USD-BMA Municipal Swap Index and receives a variable payment based upon the product of the BMA Reference Rate (the USSMQ10 Index Rate) and 86.20%. An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $7,402, which is not recorded on the County's financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

F. On October 7, 2008, the County and the Mississippi Development Bank (collectively the "County") executed a confirmation with Bank of America, N.A. (the "2008 Swap Counterparty"), in connection with the execution of an ISDA Master Agreement and documents executed in connection therewith (collectively, the "2008 Swap Agreement") in order to hedge the interest rate risk with a certain outstanding obligation of the County. The 2008 Swap Agreement was delivered in conjunction with, and together with the Confirmation thereto, as described below:

1. $16,365,000 Mississippi Development Bank Taxable Special Obligation Variable Rate Demand Refunding Bonds, Series 2008B (Harrison County, Mississippi Variable Rate General Obligation Bonds Refunding Project), dated October 9, 2008 (the "2008B Bonds")

   On October 8, 2008, the parties to the 2008 Swap Agreement executed a Confirmation in connection with the 2008B Bonds (the "2008B Bonds Confirmation"). The 2008B Bonds Confirmation has an original notional amount of $16,365,000, which was equal to the outstanding principal amount of the 2008B Bonds as of the effective date of October 9, 2008, and terminates October 1, 2031. The notional amount declines as the principal amount of the associated debt declines. Under the 2008B Bonds Confirmation, the County pays a fixed payment based on 4.301% and receives a variable payment based on USD-LIBOR-BBA. An early termination of this swap transaction may result in the County making or receiving a termination payment based on the prevailing market interest rates at the time of such termination. As of September 30, 2009, the fair market value of the transaction represented a negative $1,199,707, which is not recorded on the County's financial statements. The fair value may vary throughout the life of the swap agreement due to swap market conditions.

The following table summarizes the interest rate swaps outstanding as of September 30, 2009:

Description	Initial Notional	Counterparty	Maturity Date	Base Value*	Accrued	Net Value**
$16.365MLIBOR Swap	16,365,000	Bank of America, NA	10/01/2031	(1,146,451)	(53,256)	(1,199,707)
$68M 70% LIBOR Swap	68,000,000	Deutsche Bank AG	01/02/2020	(9,086,219)	0	(9,086,219)
$4.7MSIFMA CMS Basis Swap	4,700,000	Deutsche Bank AG	04/01/2022	(252)	0	(252)
$10.065MSIFMA CMS Basis Swap	10,065,000	Deutsche Bank AG	12/01/2023	(7,402)	0	(7,402)
$12.595MSIFMA CMS Basis Swap	12,595,000	Deutsche Bank AG	03/03/2031	(43,846)	0	(43,846)
$17.705MSIFMA CMS Basis Swap	17,705,000	Deutsche Bank AG	03/03/2031	(163,043)	0	(163,043)
$27.525M70% LIBOR Swap	27,525,000	Deutsche Bank AG	10/01/2031	389,459	0	389,459
$63.41MSIFMA CMS Basis Swap	63,410,000	Deutsche Bank AG	01/01/2040	(968,870)	0	(968,870)
Total	220,365,000			(11,026,625)	(53,256)	(11,079,881)

*Base value excludes accrued interest
**Net value includes accrued interest

Risks Associated with the Swap Agreements:

Interest Rate Risk – Although the interest rate is synthetically fixed the outstanding Confirmations described in D.1.(a), D.4. and F. above under the respective interest rate exchange agreements, interest payments on the corresponding variable rate bonds subject to each such interest rate exchange agreement and the net swap payments will vary as interest rates changes. The County believes, with respect to the transactions described above, that it has substantially reduced the interest rate risk with respect to the corresponding variable rate bonds by entering into the interest rate swaps described in D.1.(a), D.4 and F.

Credit Risk – Credit risk can be measured by actual market value exposure or theoretical exposure. When the fair value of any swap has a positive market value, then the County is exposed to the actual risk that the counterparty will not fulfill its obligations. As of September 30, 2009, the County had no net exposure to actual credit risk on its derivatives because the total exposure to each counterparty is a liability to the County. The County does not measure theoretical exposure on its derivative portfolio.

Each swap agreement requires that the counterparties have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories, and ratings, which are obtained from any other nationally recognized statistical rating agencies shall also be with the three highest grade categories. All of the swap agreements require that should the rating of the applicable counterparty or of the entity unconditionally guaranteeing such counterparty’s obligations fall below the required rating, that the applicable counterparty transfer the agreement to an entity that meets the required rating. Each outstanding swap agreement is with a counterparty that met the required rating as of September 30, 2009.

The table below shows each counterparty rating as of September 30, 2009:

Counterparty	Moody's Rating	S&P Rating
Deutsche Bank AG	Aa1	A+
Bank of America, NA	Aa3	A+

Basis Risk – The County is exposed to basis risk when the variable payment on its obligations does not match the variable payment received on its hedges. The February 2008 Novated Confirmation and the February 2005 Bonds Revised Confirmation under the 2006 GO Bonds Swap Agreement and the Confirmation under the 2006 Swap Agreement expose the County to basis risk as the relationship between the USD-LIBOR-BBA and the associated variable rate bonds vary, which changes the synthetic rate on such Bonds. The other Confirmations under the 2006 GO Bonds Swap Agreement and all Confirmations under the 2006 Revenue Bonds Swap Agreement expose the County to basis risk to the extent of the difference between the BMA Municipal Swap Index and the USSMQ10 Index rate as it appears on the Bloomberg screen times an applicable percentage. The relationship between these rates will vary over time and any variation will result in an adjustment to the intended synthetic interest rate.

Termination Risk – Each Swap Agreement is documented by using the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to each Master Agreement includes additional termination events, providing that the swaps may be terminated if either the County's or a counterparty's credit rating falls below certain levels. The County or the counterparties may terminate a swap agreement if the other party fails to perform under the terms of the contract. If one or more of the swap agreements is terminated, the related variable rate Bonds would no longer be hedged and the County would no longer effectively be paying a synthetic fixed rate with respect to these Bonds. Also, if at the time of termination a swap has a negative fair value, the County would incur a loss and would be required to settle with the applicable counterparty at the swap's fair value at the time of the termination. If a swap has a positive fair value at the time of termination, the County would realize a gain that the applicable counterparty would be required to pay. In either case, the County would increase its interest rate risk because the variable rate bonds would no longer be hedged.

Market-Access Risk - Market access risk refers to the ability of the County to continue to access the capital markets. The County is subject to market access risk in the event that the credit enhancement that is supporting the variable rate bonds cannot be renewed or extended beyond its original term or if general market conditions disrupt the variable rate markets.

Rollover Risk – Rollover risk exists when a hedge matures prior to the maturity date of its hedged item. Except as noted below, all Confirmations are for the term (maturity) of the corresponding variable rate bonds, and therefore, there is no rollover risk. The February 2005 Bonds Novated Confirmation terminates prior to the maturity date of the February 2005 Bonds related to such Confirmations. In the event the February 2005 Bonds Novated Confirmation terminates at the termination date thereof, the County would become subject to the variable interest rates that were previously hedged to fixed rates as to the February 2005 Bonds.

(20) Subsequent Events.

Subsequent to September 30, 2009, the county issued the following debt obligations:

Issue Date	Interest Rate	Issue Amount	Type of Financing	Source of Financing
01/28/2010	4.25%-5.25%	$ 30,400,000	Refunding Bond	Tax Revenue
01/26/2010	Varies	40,000,000	Refunding Bond	Tax Revenue
02/11/2010	2.00%-4.25%	9,970,000	Refunding Bond	Tax Revenue
03/23/2010	1.75%-6.05%	7,885,000	General Obligation Bond	Tax Revenue
11/29/2010	3.60%	2,540,000	Refunding Bond	Tax Revenue

In November, 2011 the Community Disaster Loans, principal and accrued interest totaling $16,435,950 were forgiven.

On August 16, 2010, the parties to the Swap Agreement with an original trade date of June 28, 2006, an initial notional amount of $6,535,000 and an effective date of January 2, 2014 executed a Termination Agreement (reference number N490577N). The Swap Agreement was originally referenced to the $8,200,000 Mississippi Development Bank Special Obligation Bonds, Series 2002 (Harrison County Mississippi Correctional Facilities Authority Revenue Bonds Refunding Project), dated April 30, 2002. In consideration of the termination, Harrison County will receive a payment of $50,000.

On August 16, 2010, the parties to the Swap Agreement with an original trade date of June 28, 2006, an initial notional amount of $6,535,000 and an effective date of January 2, 2014 executed a Termination Agreement (reference number N490567N). The Swap Agreement was originally referenced to the $15,000,000 Mississippi Development Bank Special Obligation Bonds, Series 2003 (MSLoan Program – Harrison County, Mississippi 2003 Refunding Project), dated December 30, 2003. In consideration of the termination, Harrison County will receive a payment of $108,000.

On September 8, 2011, the parties to the Swap Agreement with a trade date of August 16, 2010, a notional amount of $14,990,000 and an effective date of January 1, 2018 executed a Termination Agreement (reference number N490534N). The Swap Agreement was originally referenced to the $20,900,000 Mississippi Development Bank Special Obligation Variable Rate Demand Refunding Bonds, Series 2005A (MSBond Program – Harrison County, Mississippi Hurricane Katrina General Obligation Refunding Project), dated January 10, 2006. In consideration of the termination, Harrison County will receive a payment of $20,000.

On September 8, 2011, the parties to the Swap Agreement with a trade date of August 16, 2010, a notional amount of $10,815,000 an effective date of January 1, 2018 executed a Termination Agreement (reference number N490529N). The Swap Agreement was originally referenced to the $14,600,000 Mississippi Development Bank Taxable Special Obligation Variable Rate Demand Bonds, Series 2005B (MSBond Program – Harrison County, Mississippi Hurricane Katrina General Obligation Project), dated January 10, 2006. In consideration of the termination, Harrison County will receive a payment of $70,000.

On September 8, 2011, the parties to the Swap Agreement with a trade date of August 16, 2010 (as amended from the previously amended Trade Date of February 13, 2008, which was amended from the original Trade Date of June 28, 2006), a notional amount of $40,000,000 and an effective date of January 1, 2018 executed a Termination Agreement (reference number N490583N). The Swap Agreement was originally referenced to the $68,000,000 Mississippi Development Bank (MSBond Program – Harrison County, Mississippi General Obligation Coliseum/Convention Center Expansion and Refunding Project), Series 2005 dated February 1, 2005. In consideration of the termination, Harrison County will receive a payment of $525,000.

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REQUIRED SUPPLEMENTARY INFORMATION

HARRISON COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
General Fund
For the Year Ended September 30, 2009

		Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES					
Property taxes	$	38,338,714	38,262,072	38,002,135	(259,937)
Licenses, commissions and other revenue		2,643,060	3,037,560	2,725,004	(312,556)
Fines and forfeitures		1,380,200	1,343,700	1,771,446	427,746
Intergovernmental revenues		9,086,000	8,636,000	8,171,411	(464,589)
Charges for services		2,100,000	2,605,000	3,103,242	498,242
Interest income		1,213,000	1,205,000	923,055	(281,945)
Miscellaneous revenues		1,189,200	745,200	1,946,350	1,201,150
Total Revenues		55,950,174	55,834,532	56,642,643	808,111
EXPENDITURES					
Current:					
General government		24,659,028	28,140,893	26,756,750	1,384,143
Public safety		22,888,854	25,851,510	26,028,421	(176,911)
Public works		54,786	54,786	49,775	5,011
Health and welfare		5,102,750	5,226,927	4,520,640	706,287
Culture and recreation		2,742,593	2,789,448	2,568,024	221,424
Conservation of natural resources		129,824	130,440	135,158	(4,718)
Economic development and assistance				877,247	(877,247)
Debt service:					
Principal		1,133,347	1,133,347	397,811	735,536
Interest		588,335	589,076	456,300	132,776
Bond issue costs				13,465	(13,465)
Total Expenditures		57,299,517	63,916,427	61,803,591	2,112,836
Excess of Revenues over (under) Expenditures		(1,349,343)	(8,081,895)	(5,160,948)	2,920,947
OTHER FINANCING SOURCES (USES)					
Transfers in			4,098,933	4,223,097	124,164
Transfers out		(570,756)	(953,244)	(671,494)	281,750
Total Other Financing Sources and Uses		(570,756)	3,145,689	3,551,603	405,914
Net Change in Fund Balance		(1,920,099)	(4,936,206)	(1,609,345)	3,326,861
Fund Balances - Beginning		8,627,909	8,185,897	17,240,372	9,054,475
Fund Balances - Ending	$	6,707,810	3,249,691	15,631,027	12,381,336

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

HARRISON COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Hurricane Fund
For the Year Ended September 30, 2009

		Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES					
Intergovernmental revenues	$	5,360,000	30,960,000	32,508,943	1,548,943
Miscellaneous revenues				2,045	2,045
Total Revenues		5,360,000	30,960,000	32,510,988	1,550,988
EXPENDITURES					
Current:					
Public works		6,110,000	22,284,000	19,885,392	2,398,608
Total Expenditures		6,110,000	22,284,000	19,885,392	2,398,608
Excess of Revenues over (under) Expenditures		(750,000)	8,676,000	12,625,596	3,949,596
OTHER FINANCING SOURCES (USES)					
Transfers in		1,750,000	1,750,000	0	(1,750,000)
Total Other Financing Sources and Uses		1,750,000	1,750,000	0	(1,750,000)
Net Change in Fund Balance		1,000,000	10,426,000	12,625,596	2,199,596
Fund Balances - Beginning		108,622	(30,718,328)	(29,464,192)	1,254,136
Fund Balances - Ending	$	1,108,622	(20,292,328)	(16,838,596)	3,453,732

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

HARRISON COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Katrina Supplemental CDBG Grant Fund
For the Year Ended September 30, 2009

		Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES					
Intergovernmental revenues	$	19,079,000	19,079,000	20,134,945	1,055,945
Total Revenues		19,079,000	19,079,000	20,134,945	1,055,945
EXPENDITURES					
Current:					
Economic development and assistance		24,400,000	24,400,000	20,675,073	3,724,927
Total Expenditures		24,400,000	24,400,000	20,675,073	3,724,927
Excess of Revenues over (under) Expenditures		(5,321,000)	(5,321,000)	(540,128)	4,780,872
Net Change in Fund Balance		(5,321,000)	(5,321,000)	(540,128)	4,780,872
Fund Balances - Beginning		0	0	0	0
Fund Balances - Ending	$	(5,321,000)	(5,321,000)	(540,128)	4,780,872

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

HARRISON COUNTY
Budgetary Comparison Schedule -
Budget and Actual (Non-GAAP Basis)
Coast Coliseum Fund
For the Year Ended September 30, 2009

		Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
REVENUES					
Intergovernmental revenues	$	3,350,000	2,859,240	2,859,240	0
Interest income		5,000	457,672	457,672	0
Miscellaneous			130,208	130,208	0
Total Revenues		3,355,000	3,447,120	3,447,120	0
EXPENDITURES					
Culture and recreation			36,028,995	36,028,995	
Debt service:					
Principal					0
Interest		2,700,000	3,060,000	3,060,000	0
Bond issue costs		647,208	299,307	299,307	0
Total Expenditures		3,347,208	39,388,302	39,388,302	0
Net Change in Fund Balance		7,792	(35,941,182)	(35,941,182)	0
Fund Balances - Beginning		1,179,037	(647,966)	(264,417)	383,549
Fund Balances - Ending	$	1,186,829	(36,589,148)	(36,205,599)	383,549

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

HARRISON COUNTY
Schedule of Funding Progress – Other Postemployment Benefits
September 30, 2009

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (b-a)	Percent Funded (a / b)	Annual Covered Payroll (c)	Unfunded AAL as a Percentage of Annual Covered payroll ((b-a) / c)
October 1, 2009	$ 0	$ 2,353,878	$ 2,353,878	0.00%	$ 31,405,825	7.50%

Notes to the Required Supplementary Information
For the Year Ended September 30, 2009

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 and each major Special Revenue Fund:

	Governmental Fund Types			
	General Fund	Hurricane Fund	Katrina Supplemental CDBG Grant Fund	Coast Coliseum Fund
Budget (Cash Basis)	$ (1,609,345)	12,625,596	(540,128)	(35,941,182)
Increase (Decrease)				
Net adjustments for revenue	(1,257,286)	3,030,866	2,134,976	298,983
Net adjustments for expenditure	360,976	(8,285,998)		
GAAP Basis	$ (2,505,655)	7,370,464	1,594,848	(35,642,199)

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HARRISON COUNTY

SUPPLEMENTAL INFORMATION

HARRISON COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number		Federal Expenditures
U.S. Department of Agriculture - Office of Food and Nutrition Service/				
Passed-through the South Mississippi Planning and Development District				
Child and adult care food program	10.558	N/A	$	8,138
U.S. Department of Commerce/				
Passed-through the Mississippi Department of Environmental Quality				
Coastal zone management administration awards	11.419	N/A		31,220
U.S. Department of Housing and Urban Development/				
Passed-through the Mississippi Development Authority				
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-024-02-KED		8,950,817
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-024-01-KED		8,186,449
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-024-03-KED		6,421,585
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-109-024-01-KCR		567,043
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-109-024-02-KCR		480,045
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-024-01-KP		454,495
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-024-03-KCR		249,967
Community development block grants/state's program and Non-Entitlement grants in Hawaii	14.228	R-103-024-04-KED		188,011
Total U.S. Department of Housing and Urban Development			*	25,498,412
U.S. Department of Justice				
State and Local Equitable Sharing (Direct Award)	16.000	N/A	*	867,934
U.S. Department of Justice - Office of Justice Programs/				
Passed-through the Mississippi Department of Public Safety				
Violence against women formula grants	16.588	06SP1242		18,907
Violence against women formula grants	16.588	08SP1241		8,122
Subtotal				27,029
U.S. Department of Justice - Executive Office for Weed and Seed/				
Community capacity development office (Direct Award)	16.595	N/A		168,179
U.S. Department of Justice - Office of Justice Programs/				
Passed-through the Mississippi Department of Public Safety				
Edward Byrne memorial justice assistance grant program	16.738	07HS024T4		110,999
Edward Byrne memorial justice assistance grant program	16.738	08HS024T		11,638
Subtotal				122,637
Total U.S. Department of Justice				1,185,779

HARRISON COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Transportation - Federal Highway Administration/			
Passed-through the Mississippi Department of Transportation			
Highway planning and construction	20.205	BR NBIS 070 B (24)	1,200
Highway planning and construction	20.205	EFLH 2108 1 BO	6,075
Highway planning and construction	20.205	ER 0024 18 B	29,500
Highway planning and construction	20.205	ER 0024 19 B	124,261
Highway planning and construction	20.205	SAP 24 (56)	42,606
Subtotal			203,642
National Highway Traffic Safety Administration/			
Passed-through the Mississippi Department of Public Safety			
Division of Public Safety Planning			
Highway Safety Cluster			
State and community highway safety	20.600	09TA1241	197,617
Total U.S. Department of Transportation			401,259
U.S. Department of Health and Human Services - Office of Administration on Aging/			
Passed-through the South Mississippi Planning and Development District			
Special programs for the aging Title III, Part B Grants for supportive services and senior centers	93.044	N/A	12,703
Nutrition services incentive program	93.053	N/A	6,453
Total U.S. Department of Health and Human Services			19,156
Corporation for National and Community Service			
Retired and Senior Volunteer Program	94.002	N/A	75,348
U.S. Department of Homeland Security			
Passed-through the Mississippi Department of Public Safety			
High intensity drug trafficking area	95.001	N/A	94,334
Passed-through the Mississippi Emergency Management Agency			
Disaster grants - public assistance	97.036	1604 DR MS	19,865,099
Disaster grants - public assistance	97.036	1794 DR MS	295,867
Subtotal			20,160,966
Hazard mitigation grant	97.039	1604-MS-0124	770,325
Emergency management performance grants	97.042	N/A	84,834
Total U.S. Department of Homeland Security			21,110,459
Total Expenditures of Federal Awards			$ 48,329,771

HARRISON COUNTY
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2009

Federal Grantor/ Pass-through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures

Note A – Significant Accounting Policies
The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

Note B - Community Disaster Loan
The County received Community Disaster Loans in prior years that totaled $13,049,154. There are no continuing compliance requirements associated with these loans. Also, they were cancelled subsequent to the issuance of the financial statements.

* Denotes major federal award program

SPECIAL REPORTS

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STATE OF MISSISSIPPI

OFFICE OF THE STATE AUDITOR

STACEY E. PICKERING

AUDITOR

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

Members of the Board of Supervisors
Harrison County, Mississippi

We have audited the 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, 2009, which collectively comprise the county's basic financial statements and have issued our report thereon dated December 16, 2011. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. The report is qualified on the governmental activities and the General Fund because management did not maintain an aging of fines receivable of the Justice and Circuit Courts as required by accounting principles generally accepted in the United States of America. Except as noted previously, 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the county's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the county's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 09-1, 09-2, 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, and 09-9 to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the county's internal control.

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 09-1, 09-2, 09-3, 09-4, 09-5, 09-6, 09-7, 09-8, and 09-9 to be material weaknesses.

Compliance and Other Matters

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

However, we noted certain matters that we reported to the management of Harrison County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated December 16, 2011, included within this document.

Harrison County's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Harrison County's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, 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.

William R. Doss

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 16, 2011

STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

INDEPENDENT AUDITOR'S 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, 2009. 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, 2009.

Internal Control Over Compliance

The management of Harrison County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Harrison County, Mississippi's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the county's internal control over compliance.

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Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency that we consider to be a significant deficiency.

A control deficiency in a county's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the county's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 09-10 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the county's internal control. We do not consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 09-10 to be a material weakness.

Harrison County's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Harrison County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Supervisors, others within the entity, 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.

William R. Doss

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 16, 2011

STATE OF MISSISSIPPI

OFFICE OF THE STATE AUDITOR

STACEY E. PICKERING

AUDITOR

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

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, 2009. 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.

The results of our audit procedures disclosed certain instances of noncompliance with the aforementioned code sections. These instances of noncompliance were considered in forming our opinion on compliance. Our finding and recommendation and your response are disclosed below:

Inventory Control Clerk.

1. Finding

Section 31-7-107, Miss. Code Ann (1972), requires the Inventory Control Clerk to maintain an inventory system. Certain fixed asset control procedures were inadequate for maintaining an accurate inventory or adequate subsidiary records documenting the existence, valuation, and completeness of the county's capital assets. In some instances, beginning balances could not be supported for various capital asset classifications and contra accounts.

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Recommendation

The Inventory Control Clerk should implement procedures to properly maintain accurate inventory records documenting the existence, valuation, and completeness of the county's capital assets.

Inventory Control Clerk's Response

We will meet with the firm that provides our accounting software to determine how to ensure better recording and control over the documenting over the various aspects of our capital asset inventory.

In our opinion, except for the noncompliance referred to in the preceding paragraph, 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.

Harrison County's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

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.

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 16, 2011

HARRISON COUNTY

Schedule of Purchases Not Made From the Lowest Bidder

For the Year Ended September 30, 2009

Schedule 1

Date	Item Purchased	Bid Accepted	Vendor	Lowest Bid	Reason for Accepting Other Than the Lowest Bid
12/8/2008	Fitness Equipment	$ 89,050	Indian Fitness	$ 68,389	Equipment did not meet specifications
5/11/2009	Electronic Public Agenda System	59,944	MCCI, Inc.	43,620	Bid did not meet specifications

HARRISON COUNTY
Schedule of Emergency Purchases
For the Year Ended September 30, 2009

Schedule 2

Date	Item Purchased	Amount Paid	Vendor	Reason for Emergency Purchase
10/8/2008	Voting booths	$ 46,125	Election Systems & Software	Equipment was needed for an election. There was no time to bid.
1/12/2009	Air and heat unit	5,186	Johnstone Supply of Gulfport	Events were planned. No time to bid (quote).
5/27/2009	Washing machine	498	Lowe's	Machine is used every day at the Children's Shelter. No time to bid (quote)
7/21/2009	Soccer goal	7,950	BSN Sports	Tournaments and regular season were ongoing. These items needed to be replaced quickly.
7/21/2009	Fence	1,466	Can't Be Beat Fence Co.	Tournaments and regular season were ongoing. These items needed to be replaced quickly.
7/22/2009	Tent	3,200	ABC Tent Rental Inc.	Tournaments and regular season were ongoing. These items needed to be replaced quickly.

HARRISON COUNTY

Schedule 3

Schedule of Purchases Made Noncompetitively From a Sole Source

For the Year Ended September 30, 2009

Date	Item Purchased		Amount Paid	Vendor
3/20/2009	Annual renewal and upgrade of user licenses and maintenance support	$	8,970	Advanced Business Systems, Inc.
3/24/2009	Additional in-car camera's for the Sheriff's Office Vehicles		5,889	TCS Ware, Inc.
6/2/2009	Supplies for Regional Response Trailer		5,869	Care Safety LLC
8/24/2009	Preloaded Coroner System Trailer		43,623	EMS Innovations Inc.
8/25/2009	Records management and software reload		13,884	AT&T
9/28/2009	Upgrade of computer aided dispatch software and equipment		214,385	AT&T

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
AUDITOR

LIMITED INTERNAL CONTROL AND COMPLIANCE REVIEW MANAGEMENT REPORT

Members of the Board of Supervisors
Harrison County, Mississippi

In planning and performing our audit of the financial statements of Harrison County, Mississippi for the year ended September 30, 2009, we considered Harrison County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Harrison County, Mississippi's financial reporting, we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the county's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated December 16, 2011, on the financial statements of Harrison County, Mississippi.

Due to the reduced scope, these review procedures and compliance tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

The results of our review procedures and compliance tests identified certain areas that are opportunities for strengthening internal controls and operating efficiency. Our findings, recommendations, and your responses are disclosed below:

Circuit Clerk.

<u>The Circuit Clerk did not maintain a fee journal in the form prescribed by Section 9-1-43, Miss. Code Ann. (1972).</u>

1. <u>Finding</u>

   Section 9-1-43, Miss. Code Ann. (1972), requires the Circuit Clerk to maintain a fee journal to account for the receipts and expenses related to the operation of the office. A correct cash balance was not being maintained in the fee journal, and the monthly fee account bank statements were not reconciled to the fee journal. Failure to reconcile the fee account bank statements to the fee journal could result in the loss of public funds.

   <u>Recommendation</u>

   The Circuit Clerk should ensure that a correct cash balance is maintained in the fee journal and that the monthly fee account bank statements are reconciled to the fee journal.

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Circuit Clerk's Response:

The fee journal was reconciled to the bank statements on an annual basis. We did do a monthly reconciliation from the check book to the bank statements. However, in the future we will do a monthly reconciliation from the fee journal to the bank statements.

Sheriff.

The Sheriff's office is not making bank deposits in a timely manner.

2. Finding

Management is responsible for establishing a proper internal control system to ensure deposits are made in a timely manner. During our testing of fifteen receipts at the sheriff's office, we noted six receipts were deposited more than five days after the date of receipt. Deposits are not being made in a timely manner due to inadequate internal controls relating to revenue collection in the sheriff's office. Inadequate internal controls related to deposits could result in a loss of assets and improper revenue recognition in the Sheriff's Office.

Recommendation:

We recommend in the future management in the Sheriff Office ensure that procedures are followed to ensure receipts from fee collections are properly deposited in a timely manner.

Sheriff's Response:

The importance of making deposits in a timely manner is very much understood by our department. After reviewing the sample of Sheriff's Receipts that you emailed me on October 11, 2011. I was able to determine that the cause of your audit findings pertained to our Records and Process Departments. Those departments have been forwarding their daily fee income (checks) once a month to be deposited. Effective immediately that process has been changed to allow for deposits to be made on a weekly basis.

County Administrator.

The County Administrator is not properly bonded in accordance with Section 25-1-15, Miss. Code Ann. (1972).

3. Finding:

Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The county administrator's bond was written for an indefinite period of time. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation:

The Board of Supervisors should cancel the current bond and secure a new one for the duration of the current term.

County Administrator's Response:

Harrison County is aware and has been working with the bonding company to correct this. A new bond will be issued with a specific term. Either one year or every four years concurrent with the normal election cycle of the Board.

Justice Court Clerk.

The Justice Court Clerk is not properly bonded in accordance with Section 25-1-15, Miss. Code Ann. (1972).

4. Finding

Section 25-1-15, Miss. Code Ann. (1972), requires a new bond in an amount not less than that required by law shall be secured upon employment and coverage shall continue by the securing of a new bond every four years concurrent with the normal election cycle of the Governor or with the normal election cycle of the local government applicable to the employee. The Justice Court Clerk's bond was written for an indefinite period of time. This would limit the amount available for recovery if a loss occurred over multiple terms.

Recommendation:

The Justice Court Clerk should cancel the current bond and secure a new one for the duration of the current term.

Justice Court Clerk's Response:

Harrison County is aware and has been working with the bonding company to correct this. A new bond will be issued with a specific term that runs concurrent with the normal election cycle of the Board of Supervisors.

Harrison County's responses to the findings included in this report were not audited, and accordingly, we express no opinion on them.

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

WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

December 16, 2011

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SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Harrison County

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2009

Section 1: Summary of Auditor's Results

Financial Statements:

1. Type of auditor's report issued on the financial statements:

Governmental activities	Qualified
Aggregate discretely presented component units	Adverse
General Fund	Qualified
Hurricane Fund	Unqualified
Katrina Supplemental CDBG Grant Fund	Unqualified
Coast Coliseum Fund	Unqualified
Aggregate remaining fund information	Unqualified

2. Internal control over financial reporting:

   a. Material weaknesses identified? — Yes

   b. Significant deficiency identified that is not considered to be a material weakness? — None Reported

3. Noncompliance material to the financial statements noted? — No

Federal Awards:

4. Internal control over major programs:

   a. Material weakness identified? — No

   b. Significant deficiency identified that is not considered to be a material weakness? — Yes

5. Type of auditor's report issued on compliance for major federal programs: — Unqualified

6. Any audit finding(s) disclosed that are required to be reported in accordance with Section ___.510(a) of OMB Circular A-133? — Yes

7. Federal programs identified as major programs:

   a. Community development block grants/state's program, CFDA #14.228

   b. State and Local Equitable Sharing, CFDA #16.000

8. The dollar threshold used to distinguish between type A and type B programs: — $1,449,893

9. Auditee qualified as a low-risk auditee? — No

10. Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____.315(b) of OMB Circular A-133? — No

Section 2: Financial Statement Findings

Board of Supervisors.

Significant Deficiency – Material Weakness

The Board of Supervisors should establish policies and procedures to strengthen internal controls over documentation and periodic monitoring of its complex interest rate swap transactions.

09-01. Finding

Harrison County Board of Supervisors is responsible for establishing and maintaining effective internal controls over financial reporting. Internal control is defined in auditing standards as "a process - effected by those charged with governance, management, and other personnel - designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Our audit revealed that the County has entered into multiple complex financial transactions involving interest rate swap agreements which could subject the County to significant gains and/ or losses due to factors outside the County's control. As of September 30, 2009, the County has disclosed material negative fair market values of several of its derivatives in the notes to the financial statements, and paid $7,366,000 of termination fees on swaps terminated during the year. Our audit procedures indicate that the County lacks the necessary training and qualifications and has not established adequate internal control procedures over periodic monitoring of these complex interest rate swaps. Also, it does not appear that anyone in County management understands whether these agreements represent an effective interest rate hedge. The County did, through the debt closing process, engage consultants to assist with these transactions. However, we were unable to obtain any documentation as to what information or advice the consultants may have provided to the County.

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, the County will be required to record these derivative instruments within the government- wide financial statements. In accordance with the implementation of GASB 53, the fair value of the derivatives and related deferred charges or credits must be considered as of the beginning of the reporting period and net assets may have to be restated. It is important to note that because some of the derivative instruments have a negative fair value at September 30, 2009, and, if determined under the guidance to be ineffective, will have a negative effect on the beginning net asset value in the financial statements.

Recommendation

The County should implement adequate internal control policies and procedures over the accounting and reporting of derivatives entered into by the County including assigning the responsibility for performing periodic monitoring of these highly complex financial agreements to a qualified person who reports the status regularly to management and the Board of Supervisors. The Board should ensure that the effects of future transactions of this nature are reviewed and clearly understood prior to entering into the agreements.

Board of Supervisors.

Significant Deficiency – Material Weakness

<u>The Board of Supervisors should establish policies and procedures for managing its debt service obligations, particularly its bonded debt, as well as maintaining effective internal control over its debt transactions.</u>

09-02. <u>Finding</u>

The Harrison County Board of Supervisors is responsible for establishing policies and procedures for managing its debt service obligations, particularly its bonded debt, as well as maintaining effective internal control over its debt transactions. As part of an attempt to reduce its interest expense, the County has entered into numerous complex transactions involving interest rate swap agreements which in turn subject the County to the risk of material financial losses.

The Board of Supervisors has not taken appropriate steps to manage this risk of material loss. The Board has not approved policies and procedures in its Minutes to establish guidelines for the participation in swap agreements and has not authorized in its Minutes any county employee to monitor the fluctuating risk of loss in these transactions and to establish adequate internal controls to prevent and detect loss. As an additional safeguard, the Board has not engaged a specialist charged with issuing written reports to County management on a regular basis detailing the present value of the swap instruments and the projected gain or loss from these transactions.

The Board of Supervisors does purport to follow the Derivatives Policy of the Mississippi Development Bank promulgated in the 2007 fiscal year but has not approved this policy on its Minutes.

To manage counterparty risk, the Mississippi Development Bank policy recommends that this risk be "reduced by ensuring proper diversification in counterparty exposure." However, the County entered into nearly all of its interest rate swap agreements with a single Counterparty.

To manage accounting risk, Bank policy recommends strict attention to assuring a "perfect hedge" in swap agreements. Our audit procedures did not identify anyone in Harrison County that has monitored the active swap transactions from this perspective.

Five of the eight interest rate swap agreements outstanding at September 30, 2009 constitute potential investment derivative swaps because the agreements were not terminated when the associated bonded debt was refunded. There appears to be no authority for this type of instrument in the Mississippi Development Bank policies, and in fact the Bank cautions that "careful attention should be paid to the relationship between the Derivative Contract and the underlying debt obligation to ensure compliance with accounting rules." Failure to adequately manage risks associated with debt service obligations could result in additional financial loss to the County.

<u>Recommendation</u>

The Board should adopt and approve policies and procedures in its Minutes to establish guidelines for the County's participation in interest rate swap agreements.

The Board also should authorize a county employee to monitor the risk of loss in the swap agreements and to establish a system of internal controls designed to prevent and detect loss.

The Board should engage an independent specialist charged with periodically issuing written reports to County management detailing the present values of the swap instruments and the projected gains or losses from these transactions.

The Board should comply with the Derivatives Policy of the Mississippi Development Bank.

Harrison County

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2009

Board of Supervisors.

Significant Deficiency – Material Weakness

Financial data for component units should be included in the financial statements.

09-03. Finding

Generally accepted accounting principles require the financial data for the county's component units to be reported with the financial data of the county's primary government unless the county also issues financial statements for the financial reporting entity that include the financial data for its component units. As reported in the prior years' audit reports, the financial statements do not include the financial data for the county's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units.

Recommendation:

The Board of Supervisors should provide the financial data for its discretely presented component units for the inclusion in the county's financial statements.

Board of Supervisors.

Significant Deficiency – Material Weakness

The County did not complete the federal grant activity schedule for the fiscal year ended September 30, 2009.

09-04. *Finding*:

An effective system of internal control over federal grants includes properly identifying all revenues and expenditures, including accruals, on the federal grant activity schedule. The County did not complete the federal grant activity schedule for the fiscal year ended September 30, 2009. As a result, the auditors assisted the County in completing the Schedule of Expenditures of Federal Awards. The failure to properly complete the federal grant activity schedule increases the possibility of reporting incorrect amounts of federal expenditures, as well as the possibility of excluding a federal grant on the Schedule of Expenditures of Federal Awards.

Recommendation:

The county should properly complete the federal grant activity schedule.

Board of Supervisors.

Significant Deficiency – Material Weakness

The County should establish controls to ensure accurate presentation of the financial statements.

09-5. Finding

An effective system of internal control over financial statement preparation and reporting in accordance with generally accepted accounting principles should include adequate detail to document the compilation of individual funds' balances and transactions as well as any adjustments to these balances and transactions, proper accrual of revenues and expenditures, proper classification of funds, proper classification of revenues and expenditures/expenses, proper classification of restricted net assets and the inclusion of all required disclosures in the notes to the financial statements. We noted the following deficiencies in the financial statement preparation and reporting:

a. Amounts reported as cash on the compiled financial statements were incorrect. An adjustment in the amount of $1,378,162 was proposed in order to correctly record cash in the tax collector, circuit clerk and justice court offices. This error resulted in cash balances and related liabilities being understated by $1,378,162 for the General Fund, Aggregate Remaining Fund Information and Governmental Activities opinion units, respectively. Audit adjustments to correct this error were proposed to management and made to the financial statements with management's approval.

b. Revenues totaling $6,265,776 for reimbursement of federal grants were not accrued as a receivable in the financial statements. This error resulted in the Intergovernmental Receivable balance being understated in the General Fund, CDBG Fund, Other governmental funds and the Governmental Activities opinion units. An audit adjustment to correct this error was proposed to management and made to the financial statements with management's approval.

c. Expenditures incurred during the fiscal year that were not paid until the following fiscal year were not accrued as liabilities in the financial statements. This error resulted in Claims Payable and expenditure/expenses balances being understated by $2,635 and $5,569,746 for the General Fund and CDBG Fund, Aggregate Remaining Fund Information and Governmental Activities opinion units, respectively. Audit adjustments to correct this error were proposed to management and made to the financial statements with management's approval.

d. There were numerous errors in the reporting of other financing sources (uses). Long-term capital debt issued ($90,000,000), Payment to counterparties ($7,366,000), Discount on bonds issued ($193,731), Payments to refunding bond escrow agent ($73,083,946) and Premiums on bonds issued ($22,645) were not presented. Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval.

e. Amounts reported for several net asset restrictions on the statement of net assets were incorrect. Failure to document calculations of net asset restrictions resulted in incorrect amounts being reported on the statement of net assets. Audit adjustments to correct these errors were proposed to management and made to the financial statements with management's approval.

f. The county received $197,771 of proceeds from the sale of capital assets that were erroneously reported as miscellaneous revenue. An audit adjustment to correct this error was proposed to management and made to the financial statements with management's approval.

g. Revenues totaling $27,641,777 were incorrectly reported as Economic Development and Assistance - Operating Grants and Contributions instead of Economic Development and Assistance - Capital Grants and contributions. This error resulted in incorrect amounts being reported for these two revenue classifications in the statement of activities. An audit adjustment to correct this error was proposed to management and made to the financial statements with management's approval.

h. Liabilities totaling $4,949,409 were reported as Insurance Proceeds. This error resulted in incorrect amounts being reported for total liabilities in the statement of net assets. An audit adjustment to correct this error was proposed to management and made to the financial statements with management's approval.

i. The amounts reported for accrued interest payable were incorrect resulting in an error in reporting total liabilities in the statement of net assets. An audit adjustment to correct this error was proposed to management and made to the financial statements with management's approval.

j. The Katrina Supplemental CDBG Grant Fund was not reported as a major fund in the notes to the financial statements. This error resulted in an incomplete note disclosure. A note disclosure containing all of the major funds was proposed to management and included in the notes to the financial statements with management's approval.

k. Capital Projects was not listed as a Governmental Fund Type in the notes to the financial statements. This error resulted in an incomplete note disclosure. A note disclosure containing all of the Governmental Fund Types was proposed to management and included in the notes to the financial statements with management's approval. The lack of controls in financial statement preparation increases the risk that inaccurate financial may be reported.

Recommendation:

The Board of Supervisors should implement a system of internal control over financial statement preparation and reporting in accordance with generally accepted accounting principles that includes adequate detail to document the compilation of individual funds' balances and transactions as well as any adjustments to these balances and transactions, proper classification of funds, proper accrual of revenues and expenditures, proper classification of revenues and expenditures/expenses, proper classification of restricted net assets and the inclusion of all required disclosures in the notes to the financial statements.

Justice Court Clerk.

Significant Deficiency – Material Weakness

The Justice Court Clerk did not adequately document the aging schedule for fines receivable.

09-6. Finding:

As reported in the prior year, the Justice Court Clerk could not provide documentation to support a schedule for aging the Court's fines receivable and thereby appropriately valuing the Justice Court's allowance for doubtful accounts and the net fines receivable. The total amount of fines receivable is adequately documented, based on the audit tests performed, but the allowance for doubtful accounts is no more than a rough estimate provided by the Clerk unsupported by the systematic analysis of outstanding accounts required to produce a reliable aging schedule. The Justice Court Clerk has not engaged the software provider for assistance in the data processing required to produce the schedule. As a consequence, the Justice Court Clerk cannot provide an accurate statement of receivables for reporting purposes, and the lack of timely information could result in the loss of public funds through the failure to collect valid accounts.

Recommendation:

The Justice Court Clerk, after seeking Board approval, should enter into a contract with the software provider to implement a system for analyzing the receivables data so that an accurate schedule for aging fines receivable can be produced and updated periodically as required for collection and reporting purposes.

Circuit Clerk.

Significant Deficiency – Material Weakness

The Circuit Clerk did not adequately document the aging schedule for fines receivable.

09-7. Finding

As reported in the prior year, the Circuit Clerk could not provide documentation to support a schedule for aging the Court's fines receivable and thereby appropriately valuing the Circuit Clerk's allowance for doubtful accounts and the net fines receivable. The total amount of fines receivable is adequately documented, based on the audit tests performed, but the allowance for doubtful accounts is no more than a rough estimate provided by the Clerk unsupported by the systematic analysis of outstanding accounts required to produce a reliable aging schedule. The Circuit Clerk has not engaged the software provider for assistance in the data processing required to produce the schedule. As a consequence, the Circuit Clerk cannot provide an accurate statement of receivables for reporting purposes, and the lack of timely information could result in the loss of public funds through the failure to collect valid accounts.

Recommendation:

The Circuit Clerk, after seeking Board approval, should enter into a contract with the software provider to implement a system for analyzing the receivables data so that an accurate schedule for aging fines receivable can be produced and updated periodically as required for collection and reporting purposes.

Circuit Clerk.

Significant Deficiency – Material Weakness

The Circuit Clerk has not settled unidentified cash to the General Fund in accordance with Section 27-105-371, Miss. Code Ann. (1972).

09-8 Finding

Section 27-105-371, Miss. Code Ann. (1972), requires any unidentified cash on hand or in the bank to be settled into the General Fund of the County. At September 30, 2009, the Circuit Clerk had $459,907.81 of unidentified cash in the clearing accounts for both Civil and Criminal. The Circuit Clerk has been carrying the balance of these unidentified funds since 2003 instead of settling these funds over to the General Fund of the County. Failure to properly settle unidentified funds could result in loss of public funds to the county.

Recommendation:

The Circuit Clerk should settle the unidentified cash into the General Fund of the county.

Inventory Control Clerk.

Significant Deficiency – Material Weakness

The Board should implement controls to prevent and detect inconsistencies in the subsidiary ledgers for capital assets.

09-09. Finding

Effective internal controls over capital assets include the maintenance of accurate subsidiary records documenting asset values. Certain fixed asset control procedures were inadequate for maintaining an accurate inventory or adequate subsidiary records documenting the existence, valuation, and completeness of the county's capital assets. In some instances, beginning balances could not be supported for various capital asset classifications and contra accounts.

Recommendation

The Inventory Control Clerk should implement procedures to properly maintain accurate inventory records documenting the existence, valuation, and completeness of the county's capital assets.

Section 3: Federal Award Findings and Questioned Costs

Sheriff.

Significant Deficiency.

Program - CFDA #16.000; State and Local Equitable Sharing (Direct Award) U.S. Department of Justice

Special Tests and Provisions

Equitable Sharing Agreement, Specifically Part 3, "Uses;" Part 4, "Transfers;" and Part 5, "Internal Controls" – Controls over Special Tests and Provisions Should Be Strengthened

09-10. Finding:

An effective system of internal controls over the Federal Equitable Sharing program should be established to assure that transactions are carried out in accordance with the Equitable Sharing Agreement. The following deficiencies in controls were discovered in the County's implementation of Parts 3-5 of the Agreement:

a. The subsidiary ledger and supporting documents for the Federal Equitable Sharing Agreement did not agree to the amount recorded in the general ledger and did not reconcile back to the amount reflected on the county's annual report filed with the United States Department of Justice.
b. Some forfeited vehicles were sold or scrapped without following the guidelines requiring deposit of proceeds in the Equitable Sharing account.
c. Donations were sometimes made to community-based programs without following the guidelines in the Equitable Sharing agreement.
d. Written policies and procedures were not in place to cover the use of Equitable Sharing funds for buy money and informant payments.

Recommendation:

The Sheriff should implement policies and procedures designed to correct control deficiencies in the areas noted: recordkeeping, accounting for the proceeds of forfeited vehicles, donations, and the use of equitable sharing funds for buy money and informant payments.

AUDITEE'S CORRECTIVE ACTION PLAN

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Harrison County, Mississippi
P.O. Drawer CC
1801 23rd Ave.
Gulfport, MS 39502
www.co.harrison.ms.us

CORRECTIVE ACTION PLAN

December 16, 2011

Office of the State Auditor
501 N. West Street, Suite 801
Jackson, Mississippi 39201

Gentlemen:

Harrison County respectfully submits the following corrective action plan for the year ended September 30, 2009.

The findings from the Schedule of Findings and Questioned Costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section 1: Summary of Auditor's Results, does not include findings and is not addressed.

SECTION 2: FINANCIAL STATEMENT FINDINGS

09-1 Corrective Action Planned:

The Board should establish policies and procedures over documentation and periodic monitoring of its complex interest rate swap transactions.

Harrison County has in the past issued bonds to finance various projects and refund previously issued bonds. We engaged a financial consultant to help determine the structure of the bonds and to help with issuance. Many of these issues were completed using variable rate debt with monoline bond insurance to take advantage of the low interest rate environment during this time period. The interest rate swap agreements were entered into to help guard against a significant rise in interest rates. This alternative provided a lower interest rate for the County than traditional fixed rate bonds available in the market at the time of issuance.

The financial consultants were also engaged by the County as the Administrator on the bonds to monitor variable and fixed interest rates and derivative interest rate structures on an ongoing basis and to provide reports to the County. The reporting to the County during this period of Administration has been on a more informal, unwritten report basis.

The swap agreements are separate financial instruments and have a market value of their own which is sometimes positive and sometimes negative. Many of the swaps that had negative values at September 30, 2009, have had positive values in subsequent years. During the calendar year 2008, the company providing the insurance on several variable rate bonds was downgraded by the rating agencies that are charged with evaluating a company's financial stability. This downgrade caused the Remarketing Agent to be unable to remarket the bonds resulting in increased interest rates the County had to pay on the bonds and an accelerated amortization of the bonds to a five year period. It was determined it was better to refund the bonds and pay the termination fees.

The Board of Supervisors will in the future require the Administrator of the bonds to regularly provide written reports to the Board of the status of the variable rates/swap agreements on the bonds outstanding which would have been determined through its monitoring of such financial instruments. The new GASB 53 rules will require that Issuers report the fair market value of their swaps and determine the "effectiveness" of the interest swaps. We will establish procedures to test and determine the effectiveness of the interest rate hedges.

The Board will also require the financial consultant to provide detailed written reports of the advantages of entering into variable rate bonds with swap agreements compared to fixed rate bonds as well as the known risk of these instruments prior to pricing and closing any bond issues.

Anticipated Completion Date:

September 30, 2012

Name of Contact Person Responsible for Corrective Action:

Doug Armstrong, 228-865-4119

09-2 Corrective Action Planned:

Harrison County has not formally adopted guidelines to be followed in conjunction with entering into swap agreements but have informally used the guidelines of the Mississippi Development Bank to date.

The County has not used an employee to monitor the swap agreements but has contracted with the financial consultant to be an administrator of the swap agreements and thus monitor those agreements.

The purpose and intent of the swap agreements were to protect the County from rising interest rates in the short term marketplace. It was not intended to speculate on interest rates. Changes in interest rates impact the market value of interest rate swaps, provided that the floating portion of the interest rate swap can closely approximate the floating rate bonds then the need to terminate a swap is not present and thus that termination value does not immediately impact the County.

The five interest rate swap agreements outstanding at September 30, 2009 that were not terminated when the associated debt was refunded had a negative market value at the time of the refunding and the result would have been the County making a termination payment. The swaps did not require an ongoing payment exchange as they were forward starting swaps. Since September 30, 2009, all five interest rate swap agreements have since turned to positive market value and have been terminated to the benefit of the County.

The County will adopt policies and procedures in its Minutes to establish guidelines to be used when considering future interest rate swap agreements.

Harrison County will authorize an employee, along with the Administrator of the bond issues, to 1) monitor the risk of loss on the swap agreements 2) establish a system of internal controls to prevent and detect loss and 3) present written reports to the Board of Supervisors detailing any significant events affecting the value of the swaps.

The Board will also comply with the Derivatives Policy of the Mississippi Development Bank.

Anticipated Completion Date:

September 30, 2012

Name of Contact Person Responsible for Corrective Action:

Doug Armstrong, 228-865-4119

09-3 Corrective Action Planned:

Harrison County will provide financial data on entities considered component units for inclusion in the county's financial statements.

Anticipated Completion Date:

September 30, 2012

Name of Contact Person Responsible for Corrective Action:
Doug Armstrong, 228-865-4119

09-4 Corrective Action Planned:

The County will prepare a federal grant activity schedule for future years.

Anticipated Completion Date:

September 30, 2012

Name of Contact Person Responsible for Corrective Action:

Doug Armstrong, 228-865-4119

09-5 Corrective Action Planned:

Harrison County engaged an independent CPA firm to prepare the fiscal year 2009 financial statements to be audited by the State Auditor's Office. In the future we will have the auditing CPA firm prepare the financial statements.

Anticipated Completion Date:

September 30, 2012

Name of Contact Person Responsible for Corrective Action:

Doug Armstrong, 228-865-4119

09-6 Corrective Action Planned:

Harrison County Justice Court is aware that we should have a report in place to properly age our accounts receivables. As of late October 2011, I have been in contact with our Court system software vendor (PCSS) to quote a price for the creation of a report that will properly age our receivables. Justice Court has a collection agency that is receiving past due cases several times a year. I feel that we are making a faithful attempt to collect all monies due Harrison County.

Anticipated Completion Date:

September, 2012

Name of Contact Person Responsible for Corrective Action:

Greg Illich; Phone 228-865-4213

09-7 Corrective Action Planned:

I will contact PCSS Company and get a quote on how much this will cost and submit it to the Board for consideration.

Anticipated Completion Date:

September, 2012

Name of Contact Person Responsible for Corrective Action:

Gayle Parker; Phone: 228-865-1635

09-8 Corrective Action Planned:

We are in the process of identifying the funds and will settle them to the county.

Anticipated Completion Date:

January, 2012

Name of Contact Person Responsible for Corrective Action:

Gayle Parker; Phone: 228-865-1635

09-9 Corrective Action Planned:

We will meet with the firm that provides our accounting software to determine how to ensure better recording and control over the documenting over the various aspects of our capital asset inventory.

Anticipated Completion Date:

September 30, 2012

Name of Contact Person Responsible for Corrective Action:

Doug Armstrong, 228-865-4119

SECTION 3: FEDERAL AWARD FINDINGS

09-10 Corrective Action Planned:

The Sheriff has implemented policies and procedures designed to properly assure that Federal Equitable transactions are carried out in accordance with the Equitable Sharing Agreement.

Anticipated Completion Date:

December, 2011

Name of Contact Person Responsible for Corrective Action:

Pete Moran; Phone: 228-865-7092