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FORREST COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2005

FORREST COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

December 13, 2005

Superintendent and School Board
Forrest County School District

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Forrest County School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2005, on our consideration of the Forrest County School District's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages (3) through (11) and the Budgetary Comparison Schedule and corresponding notes on pages (35) through (38) 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 it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Forrest County School District's basic financial statements. The 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. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis 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.

McDaniel CPA Firm

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

The discussion and analysis of Forrest County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented and is included in this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The change in net assets for the fiscal year was an increase of \$1,986,970. This increase was due primarily to the increase in capital assets related to the construction of new school facilities and the purchase of several items of mobile equipment and furniture and equipment.
- General revenues account for \$16,597,600 in revenue, or 83% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,399,844, or 17% of total revenues.
- The District had \$18,010,474 in expenses; only \$3,399,844 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$16,597,600 were adequate to provide for these programs.
- Among major funds, the General Fund had \$15,326,755 in revenues and \$13,768,943 in expenditures. This resulted in an excess of revenues over expenditures in the amount of \$1,557,812, before other financing sources/uses. This excess is due primarily to an increase in advalorem receipts and the increase in Mississippi Adequate Education Program funds during the fiscal year. The district also attempted to limit expenditures during the fiscal year in order to increase the fund balance to be used for future capital improvement projects. After net other financing uses of \$(1,674,893), the net change in the General Fund's fund balance was a decrease of \$(117,081). Other financing uses during the fiscal year for the General Fund included a transfer of funds to the Building Project Fund to be used for capital improvement projects.

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

- Capital assets, net of accumulated depreciation, increased by \$1,340,476. Capital assets were increased during the fiscal year due to the construction of new school facilities and the purchase of several items of mobile equipment and furniture and equipment. However, capital assets were also decreased due to current year disposals, current year depreciation and adjustments to correct the overstatement of capital assets and accumulated depreciation in the prior fiscal year.
- Long-term debt decreased in total by \$799,315. The district made principal payments in the amount of \$802,378 during the fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

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

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

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term liabilities.

The government-wide financial statements can be found on pages 12 - 13 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 15 and 17, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 14 - 18 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in a separate Statement of Fiduciary Obligations – Agency Funds on page 18.

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19 -34 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 35 - 38 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 39 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$11,809,038 as of June 30, 2005.

The district's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$6,325,971 of the District's net assets reflects its investment in capital assets (e.g., land, construction in progress, buildings, improvements other than buildings, mobile equipment and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending. \$4,977,956 of the District's net assets reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, capital improvements, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$505,111 of the District's net assets reflects its unrestricted net assets.

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

The following table presents a summary of the District's net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets	\$ 5,359,163	\$ 5,482,163

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Other assets	504,565	503,037
Capital assets, net	<u>14,726,163</u>	<u>13,358,687</u>
Total assets	<u>20,589,891</u>	<u>19,343,887</u>
Current liabilities	215,574	175,500
Long-term debt outstanding	<u>8,565,279</u>	<u>9,364,594</u>
Total liabilities	<u>8,780,853</u>	<u>9,540,094</u>
Net assets:		
Invested in capital assets, net of related debt	6,325,971	4,226,594
Restricted	4,977,956	5,022,421
Unrestricted	<u>505,111</u>	<u>554,778</u>
Total net assets	<u>\$ 11,809,038</u>	<u>\$ 9,803,793</u>

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

- Current assets increased from the prior fiscal year due primarily to a increase in cpital assets.
- Other assets increased from the prior fiscal year. This increase is due primarily to the reclassification of cash with fiscal agent in the MAEP Retirement Fund to restricted assets.
- Long-term debt outstanding decreased from the prior fiscal year due primarily to the principal payments made during the fiscal year on existing long-term debt.
- Net assets invested in capital assets, net of related debt, increased from the prior fiscal year due to the increase in capital assets during the fiscal year and the reduction of debt associated with the capital assets.
- Unrestricted net assets decreased from the prior fiscal year. In the prior year Statement of Net Assets, funds reported in capital projects funds were reported as unrestricted net assets but were reported as expendable net assets restricted for capital improvements in the current year Statement of Net Assets.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$19,997,444. The total cost of all programs and services was \$18,010,474. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2005 and comparative data for the fiscal year ended June 30, 2004.

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Program revenues	\$ 3,399,844	\$ 3,309,862

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

General revenues	<u>16,597,600</u>	<u>15,204,450</u>
Total revenues	<u>19,997,444</u>	<u>18,514,312</u>
Expenses:		
Instruction	10,660,986	10,108,227
Support services	5,757,159	5,426,609
Non-instructional	1,173,340	995,669
Sixteenth section	22,293	57,395
Interest and other expenses on long-term liabilities	<u>396,696</u>	<u>547,817</u>
Total expenses	<u>18,010,474</u>	<u>17,135,717</u>
 Increase in net assets	 \$ <u>1,986,970</u>	 \$ <u>1,378,595</u>

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

- Program revenues increased from the prior fiscal year due primarily to an increase in operating grants and contributions.
- General revenues increased from the prior fiscal year due primarily to an increase in ad valorem receipts and Mississippi Adequate Education Program funds for the current fiscal year.
- Instruction and support services expenditures increased from the prior fiscal year due primarily to an increase in teacher salaries and the increase in insurance costs.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2005, the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section and interest and other expenses on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 10,660,986	\$ (9,209,934)	\$ 10,108,227	\$ (8,499,115)
Support services	5,757,159	(5,001,615)	5,426,609	(4,757,262)
Non-instructional	1,173,340	12,976	995,669	35,509
Sixteenth section	22,293	(15,361)	57,395	(57,170)
Interest on long-term liabilities	<u>396,696</u>	<u>(396,696)</u>	<u>547,817</u>	<u>(547,817)</u>
Total expenses	<u>\$ 18,010,474</u>	<u>\$(14,610,630)</u>	<u>\$ 17,135,717</u>	<u>\$(13,825,855)</u>

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

- The net cost of governmental activities for fiscal year 2005 in the amount of \$14,610,630 was financed by general revenue, which is made up of primarily property taxes of \$5,462,099 and state revenue of \$ 9,967,725.
- Investment earnings accounted for \$175,182 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed fiscal year June 30, 2005, its governmental funds reported a combined fund balance of \$5,774,222, a decrease of \$168,989 after prior period adjustments and the increase in the reserve for inventory. This decrease is due primarily to the expenditures related to the construction and renovation of school facilities during the fiscal year. The portion of the fund balance reported in the General Fund is available for spending at the District's discretion. The portion of the fund balance reported in the Special Revenue Funds will be spent for school based activities and the portion reported in the Capital Project Funds will be spent for capital improvements. The remaining fund balance is reserved or designated to indicate that it is not available for spending because it has already been committed. This portion of the fund balance is reserved for inventory, unemployment benefits, forestry improvements, debt service purposes and permanent fund purposes.

The General Fund is the principal operating fund of the District. The General Fund had \$15,326,755 in revenues and \$13,768,943 in expenditures during the fiscal year. This resulted in an excess of revenues over expenditures in the amount of \$1,557,812, before over financing sources/uses. This excess is due primarily to an increase in advalorem receipts and the increase in Mississippi Adequate Education Program funds during the fiscal year. The district also attempted to limit expenditures during the fiscal year in order to increase the fund balance to be used for future capital improvement projects. After net other financing uses of \$1,674,893, the net change in the General Fund's fund balance was a decrease of \$117,081. Other financing uses during the fiscal year for the General Fund included a transfer of funds to the Building Project Fund to be used for capital improvement projects.

The net change in fund balance for the School Food Service Fund for the fiscal year was an increase of \$ 1,543. The net change in fund balance for the Building Project Fund was a decrease of \$119,401, a result of the transfer of funds from the General Fund and the 16th Section Interest

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Fund to be used for capital improvements. The net change in fund balance for the Bond Retirement Fund was an increase of \$47,587, a result of the increase in advalorem receipts and the refunding of long-term debt during the fiscal year. The net change in fund balance for Other Governmental Funds was an increase of \$18,484.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. Significant budget revisions made during the fiscal year are as follows:

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in advalorem receipts during the fiscal year.
- Budgeted amounts for revenue from state sources in the General Fund were increased to reflect the increase in Mississippi Adequate Education Program (MAEP) funds received during the fiscal year. The original budgeted amounts were underestimated in response to potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.
- Budgeted amounts for instruction expenditures in the General Fund were decreased during the fiscal year. The original budgeted amounts included salaries for experienced teachers that retired during the fiscal year and were replaced with teachers with less years of experience.
- Budgeted amounts for support services expenditures in the General Fund were increased to reflect the increase in the cost of insurance, gasoline and operation and maintenance expenditures during the fiscal year.
- Budgeted amounts for transfers from the General Fund were increased to reflect the transfer of funds from the General Fund to the Building Project Fund to be used for capital improvements.
- Budgeted amounts for transfers from the School Food Service Fund were increased to reflect the actual transfer of funds to the General Fund for indirect costs.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Forrest County School District
Management's Discussion and Analysis
For the Year Ended June 30, 2005

Capital Assets. As of June 30, 2005, the District's total capital assets, before depreciation, were \$20,125,251, including land, construction in progress, buildings, improvements other than buildings, mobile equipment and furniture and equipment. This amount represents a gross increase of \$1,839,126 from the previous year. Capital assets were increased during the fiscal year resulting from the construction of new school facilities and the purchase of several items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$480,065. Total accumulated depreciation as of June 30, 2005 was \$5,399,088, resulting in total net assets of \$14,726,163.

Additional information on the District's capital assets can be found in Note 4.

Debt Administration. At June 30, 2005, the District had \$8,565,279 in general and limited obligation bonds and other long-term debt outstanding, of which \$781,202 is due within one year. During the fiscal year, the district made principal payments in the amount of \$802,378 on long-term debt outstanding.

Additional information on the District's long-term debt can be found in Note 5 of this report.

CURRENT ISSUES

The Forrest County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage rate for fiscal year 2005 was 55.0 mills. The millage rate did not increase significantly from the previous fiscal year. The District's system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District has not increased or decreased significantly over the past several years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Forrest County School District, P. O. Box 1977, Hattiesburg, MS 39403.

FORREST COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

Exhibit A

	<u>Primary Government</u> Governmental Activities
Assets:	
Cash and cash equivalents (Note 2)	\$ 4,707,028
Cash with fiscal agents (Note 2)	105,687
Due from other governments	521,559
Inventories and prepaid items (Note 1)	24,889
Restricted assets	504,565
Capital assets, net (Note 4)	14,726,163
 Total Assets	 <u>20,589,891</u>
Liabilities:	
Accounts payable and accrued liabilities	89,506
Interest payable on long-term liabilities	126,068
 Long-term liabilities (Due within one year):(Note 5)	
Capital related liabilities	740,143
Non-capital related liabilities	41,059
 Long-term liabilities (Due beyond one year):(Note 5)	
Capital related liabilities	7,660,049
Non-capital related liabilities	124,028
 Total Liabilities	 <u>8,780,853</u>
Net Assets:	
Investments in capital assets (net of related debt)	6,325,971
Restricted net assets:	
Expendable:	
School-based activities	607,623
Debt service	1,087,998
Capital improvements	2,767,500
Forestry improvements	53,435
Unemployment benefits	62,522
Non-expendable:	
Sixteenth section	398,878
Unrestricted	505,111
 Total Net Assets	 <u>11,809,038</u>
 Total Liabilities and Net Assets	 <u>\$ 20,589,891</u>

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

FORREST COUNTY SCHOOL DISTRICT
 Statement of Activities
 For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Instruction	\$ 10,660,986	208,011	1,243,041		\$ (9,209,934)
Support Services	5,757,159		755,544		(5,001,615)
Non-instructional	1,173,340	291,682	894,634		12,976
Sixteenth section	22,293	6,932			(15,361)
Interest on long-term liabilities	396,696				(396,696)
Total governmental activities	\$ 18,010,474	\$ 506,625	\$ 2,893,219	\$ -	\$ (14,610,630)
General Revenues:					
Taxes:					
					4,790,813
					671,286
Unrestricted grants and contributions:					
					9,967,725
					593,897
					175,182
					171,291
					227,406
					16,597,600
Change in Net Assets					
					1,986,970
Net Assets - Beginning					
					9,803,793
Prior period adjustment					
					18,275
Net Assets - Restated					
					9,822,068
Net Assets - Ending					
					\$ 11,809,038

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

FORREST COUNTY SCHOOL DISTRICT
Balance Sheet - Governmental Funds
June 30, 2005

Exhibit C

	Major Funds						Total Governmental Funds
	General Fund	School Food Service Fund	16th Section Interest Fund	Building Project Fund	Bond Retirement Fund	Other Governmental Funds	
ASSETS							
Cash and cash equivalents	\$ 349,888	497,797	171,596	2,669,967	679,747	842,598	\$ 5,211,593
Cash with fiscal agents						105,687	105,687
Due from other government	284,787				12,149	224,623	521,559
Due from other funds (Note 3)	57,597	24,889		159,489		210	217,296
Inventories and prepaid items (Note 1)							24,889
Total Assets	692,272	522,686	171,596	2,829,456	691,896	1,173,118	6,081,024
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable and accrued liabilities	21,906	22		61,956		5,622	89,506
Due to other funds (Note 3)	168	45,532	171,596			-	217,296
Total Liabilities	22,074	45,554	171,596	61,956	-	5,622	306,802
Fund Balances:							
Reserved for:							
Inventory		24,889					24,889
Debt service					691,896	522,170	1,214,066
Capital projects				2,767,500			2,767,500
Unreserved:							
Undesignated, reported in:							
General Fund	670,198						670,198
Special Revenue funds		452,243				246,448	698,691
Permanent fund						398,878	398,878
Total Fund Balances	670,198	477,132	-	2,767,500	691,896	1,167,496	5,774,222
Total Liabilities and Fund Balances	\$ 692,272	522,686	171,596	2,829,456	691,896	1,173,118	\$ 6,081,024

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

Forrest County School District
Reconciliation of Balance Sheet - Governmental Funds to
Statement of Net Assets
June 30, 2005

Exhibit C-1

		<u>Amounts</u>
Total fund balance - governmental funds	\$	<u>5,774,222</u>
Amounts reported for net assets in the Statement of Net Assets (Exhibit A) are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Capital Assets	20,125,251	
Less Accumulated Depreciation	<u>(5,399,088)</u>	<u>14,726,163</u>
Liabilities not due and payable in the current period are not reported in the funds, as follows:		
Long - term liabilities	(8,565,279)	
Accrued interest on debt	<u>(126,068)</u>	<u>(8,691,347)</u>
Total Net Assets	\$	<u><u>11,809,038</u></u>

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

FORREST COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
For Governmental Funds
For the Year Ended June 30, 2005

	Major Funds					Total Governmental Funds
	General Fund	School Food Service Fund	10th Section Interest Fund	Building Project Fund	Bond Retirement Fund	
Revenues:						
Local sources	\$ 5,308,385	273,165	66	54,388	382,507	\$ 6,337,396
State sources	9,420,972	56,301				10,866,040
Federal sources	597,398	875,600	169,794			2,588,801
Sixteenth section sources						195,062
Total Revenues	15,326,755	1,205,066	169,860	54,388	382,507	19,987,299
Expenditures:						
Instruction	8,837,419					10,453,703
Support services	4,861,775	113,135		45,994		5,688,015
Noninstructional services	57,944	1,006,654	22,293			1,111,977
Sixteenth section						22,293
Facilities acquisition and construction				1,687,284		1,687,284
Debt service:						
Principal	10,413				320,000	802,378
Interest	1,392				14,170	401,031
Other					750	3,108
Total Expenditures	13,768,943	1,119,789	22,293	1,733,278	334,920	20,169,789
Excess (deficiency) of revenues over expenditures	1,557,812	85,277	147,567	(1,678,890)	47,587	(182,490)
Other Financing Sources:						
Insurance loss recoveries	10,145					10,145
Sale of transportation equipment	225					225
Sale of other property	810					810
Operating transfers in	1,108,914		11,922	1,559,489		3,085,351
Operating transfers out	(2,794,987)	(86,176)	(159,489)			(3,085,351)
Total Other Financing Sources (Uses)	(1,674,893)	(86,176)	(147,567)	1,559,489	-	11,180
Net change in fund balances	(117,081)	(899)	-	(119,401)	47,587	(171,310)
Fund Balances:						
July 1, 2004	787,279	475,589	-	2,886,901	644,309	5,943,211
July 1, 2004, as restated	787,279	475,589	-	2,886,901	644,309	(121)
Increase (decrease) in reserve for inventory		2,442				2,442
June 30, 2005	\$ 670,198	477,132	-	2,767,500	691,896	\$ 5,774,222

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

Forrest County School District
 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances to
 Statement of Activities
 For the Year Ended June 30, 2005

Exhibit D-1

	<u>Amounts</u>
Net change in fund balances	\$ (171,310)
 Amounts reported in the Statement of Activities (Exhibit B) are different because:	
Capital outlays are reported as expenditures in governmental funds but are not reported as expenses in the Statement of Activities. Instead, costs associated with capital assets are capitalized in the Statement of Net Assets. (+)	1,847,626
Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their useful lives in the Statement of Activities. (-)	(480,065)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in 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 a combination of the following items:	
Proceeds from the sale of capital assets	(1,035)
Losses on the sale of capital assets (-)	(17,446)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. (+)	802,378
 Under the modified accrual basis of accounting used in 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 of accounting, 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:	
Compensated Absences increases	(3,063)
Accrued interest on debt decreases	7,443
An increase (+) / decrease (-) in the reserve for inventory is reported as a direct increase/decrease to the fund balance in the governmental funds but is a decrease/increase in noninstructional service expenses in the Statement of Activities.	2,442
 Change in net assets of governmental activities	\$ 1,986,970

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

FORREST COUNTY SCHOOL DISTRICT
Statement of Net Assets - Fiduciary Funds
June 30, 2005

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 602,030
Total Assets	<u>602,030</u>
Liabilities	
Accounts payable and accrued liabilities	569,304
Due to student clubs	32,726
Total Liabilities	<u>\$ 602,030</u>
Net Assets	
Total Net Assets	<u>-</u>

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

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a 5 member board which each member was elected by the citizens of each defined county district.

The Forrest County School District Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a Forrest County School District member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements (see Note 10).

B. Basis of Presentation.

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

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district 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 school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, with certain limited exceptions. The comparison

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

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 school district.

Fund Financial Statements:

Fund financial statements of the school district are organized in 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/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities 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. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental fund and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

School Food Service Fund – This is the school districts fund for the recording of transactions related to the food service program.

16th Section Interest Fund – These funds are to account for transactions related to the district's 16th section property.

Building Project Fund – This fund is a capital project fund used to collect and expend state capital grants.

Bond Retirement Fund – This fund is a debt service fund used to accumulate funds for the repayment of outstanding debt.

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of Exhibit C.

Additionally the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

Permanent Funds – Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

FIDUCIARY FUNDS

Agency Funds – Agency funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems*, 1990 issued by the U.S. Department of Education.

E. Encumbrances.

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

F. Cash and Cash Equivalents.

The school district deposits excess funds in financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

G. Investments.

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

I. Capital Assets:

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 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	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note (4) for details:

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, 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. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. (See Note (5) for details).

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

1. 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, mortgages, notes, or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets – (Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

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

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory – An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

Reserved for debt service – An account that represents a portion of the fund balance that is reserved to pay for future debt service requirements.

Reserved for capital projects – An account that represents a portion of the fund balance that is reserved for capital projects.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authorities of the county on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

(2) Changes in Accounting Standards.

As required, the School District has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(2-A) Cash and Cash Equivalents, and Cash with Fiscal Agents.

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions was \$ 5,813,623, and the bank balance was \$ 6,216,145.

Cash With Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by the financial institutions was \$ 105,687.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From / To Other Fund.

	Due From	Due To
Major Funds:		
General fund	\$ 57,597	168
School Food Service Fund		45,532
16th Section Interest Fund		171,596
Building Project Fund	159,489	-
Non-major Funds	210	-
Total Funds	217,296	217,296

B. Transfers In /Out.

	Transfers In	Transfers Out
Major Funds:		
General fund	\$ 1,108,914	2,794,987
School Food Service Fund	-	86,176
16th Section Interest Fund	11,922	159,489
Building Project Fund	1,559,489	-
Non-major Funds	405,026	44,699
Total Funds	3,085,351	3,085,351

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

(4) Capital Assets.

The following is a summary of changes in capital assets for governmental activities:

	Balance <u>7/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	Balance <u>6/30/2005</u>
<u>Non-depreciable capital</u>						
Land	\$ 189,828					\$ 189,828
Construction in progress	132,922	1,649,944		(1,782,866)		-
Total non-depreciable	<u>322,750</u>	<u>1,649,944</u>	<u>-</u>	<u>(1,782,866)</u>	<u>-</u>	<u>189,828</u>
<u>Depreciable capital assets</u>						
Buildings	15,585,434			1,611,166		17,196,600
Building improvements	-			171,700		171,700
Improvements other than buildings	72,399					72,399
Mobile equipment	1,863,668	51,530	(62,346)		62,346	1,915,198
Furniture and equipment	441,874	146,152	(54,551)		46,051	579,526
Total depreciable capital	<u>17,963,375</u>	<u>197,682</u>	<u>(116,897)</u>	<u>1,782,866</u>	<u>108,397</u>	<u>19,935,423</u>
<u>Less accumulated:</u>						
Buildings	3,264,327	332,600				3,596,927
Building improvements		6,868				6,868
Improvements other than buildings	31,856	2,896				34,752
Mobile equipment	1,292,642	73,851	(47,409)		47,409	1,366,493
Furniture and equipment	338,613	63,850	(51,007)		42,592	394,048
Total accumulated depreciation	<u>4,927,438</u>	<u>480,065</u>	<u>(98,416)</u>	<u>-</u>	<u>90,001</u>	<u>5,399,088</u>
Total depreciable capital assets, net	<u>13,035,937</u>	<u>(282,383)</u>	<u>(18,481)</u>	<u>1,782,866</u>	<u>18,396</u>	<u>14,536,335</u>
Governmental activities capital assets, net	<u>\$ 13,358,687</u>	<u>1,367,561</u>	<u>(18,481)</u>	<u>-</u>	<u>18,396</u>	<u>\$ 14,726,163</u>

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

Depreciation was charged to the following governmental functions:

	<u>Amount</u>
Instruction	318,837
Support Services	84,695
Non-instructional	76,533
Total depreciation expense	<u>\$ 480,065</u>

Various adjustments were made to various asset categories to adjust the accounts to actual values.

(5) Long-term liabilities.

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	Balance 7-1-2004	Additions	Reductions	Adjustments	Balance 6-30-2005	Amounts due within one year
A. General obligation bonds payable	\$ 1,120,000		\$ (320,000)		\$ 800,000	\$ 310,000
B. Limited obligation bonds payable	4,095,000		(200,000)		3,895,000	210,000
C. Certificates of participation payable	1,242,579		(106,488)		1,136,091	109,402
D. Three mill - ten year notes payable	2,625,000		(95,000)		2,530,000	100,000
E. Shortfall notes payable	144,631		(70,477)		74,154	36,512
F. Obligations under capital leases	49,514		(10,413)		39,101	10,741
G. Compensated absences payable	87,870	3,063			90,933	4,547
Total	<u>\$ 9,364,594</u>	<u>\$ 3,063</u>	<u>\$ (802,378)</u>	<u>\$ -</u>	<u>\$ 8,565,279</u>	<u>\$ 781,202</u>

A. General obligation bonds payable.

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2002	1.0%-1.8%	7/1/2003	12/1/2007	\$ 1,410,000	800,000
Total				<u>\$ 1,410,000</u>	<u>800,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	310,000	10,240	320,240
2007	300,000	5,745	305,745
2008	190,000	1,710	191,710
Total	<u>\$ 800,000</u>	<u>\$ 17,695</u>	<u>\$ 817,695</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15 % of the assessed value of the taxable property within such district, according to the last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 2.0% of property assessments as of October 1, 2004. This debt will be retired from the Bond Issue Retirement Fund.

B. Limited obligations bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligations bonds currently outstanding are as follows:

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	4.7-5.8%	4/4/1998	8/1/2018	4,745,000	3,895,000
Total				<u>\$ 4,745,000</u>	<u>\$ 3,895,000</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	210,000	175,104	385,104
2007	220,000	164,726	384,726
2008	225,000	154,992	379,992
2009	230,000	145,010	375,010
2010	235,000	134,663	369,663
2011-2015	1,400,000	487,076	1,887,076
2016-2019	1,375,000	141,619	1,516,619
Total	<u>\$ 3,895,000</u>	<u>\$ 1,403,190</u>	<u>\$ 5,298,190</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the state of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the Bond Issue Retirement Fund.

C. Certificates of participation payable.

As more fully explained in Note 10, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificate of participation payable	5.94%	8/19/1994	9/1/2014	\$ 1,700,000	\$ 1,012,650
Certificate of participation payable	5.94%	7/26/1995	9/1/2014	294,000	123,441
Total				<u>\$ 1,994,000</u>	<u>\$ 1,136,091</u>

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	109,402	68,713	178,115
2007	116,032	58,755	174,787
2008	123,062	51,683	174,745
2009	130,518	44,182	174,700
2010	135,279	36,228	171,507
2011-2015	521,798	70,342	592,140
Total	<u>\$ 1,136,091</u>	<u>\$ 329,903</u>	<u>\$ 1,465,994</u>

This debt will be retired from the Other Debt Retirement Fund .

D. Three mill – ten year notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill-ten year payable	various	2/1/2002	2/1/2022	\$ 2,800,000	2,530,000
Total				<u>\$ 2,800,000</u>	<u>2,530,000</u>

The following is a schedule by years of the total payments due on this debt:

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

Year Ending June 30	Principal	Interest	Total
2006	100,000	121,509	221,509
2007	105,000	115,509	220,509
2008	110,000	109,209	219,209
2009	115,000	102,609	217,609
2010	120,000	95,709	215,709
2011-2015	695,000	376,324	1,071,324
2016-2020	875,000	181,780	1,056,780
2021-2025	410,000	27,126	437,126
Total	<u>\$ 2,530,000</u>	<u>\$ 1,129,775</u>	<u>\$ 3,659,775</u>

This debt will be retired from the Three Mill Note Retirement Fund.

E. Shortfall notes payable.

Debt currently outstanding is as follows:

Description	Rate	Date	Date	Issued	Outstanding
Shortfall notes payable	5.50%	7/13/2001	7/13/2005	\$ 192,144	37,020
Shortfall notes payable	3.25%	7/16/2003	7/16/2006	109,458	37,134
Total				<u>\$ 301,602</u>	<u>74,154</u>

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	74,154	4,618	78,772
Total	<u>\$ 74,154</u>	<u>\$ 4,618</u>	<u>\$ 78,772</u>

This debt will be retired from the Short Fall Note Retirement Fund.

F. Obligations under capital leases.

The school district has entered into a lease agreement that qualifies as a capital lease for accounting purposes. Leased property under this lease is composed of cafeteria equipment.

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

The various options available to the lessee for this lease are as follows:

1. The district may retire the lease early upon which time title will vest with the district.

The following is a schedule by years of the total payments due on this debt:

Year Ending June 30	Principal	Interest	Total
2006	10,718	1,202	11,920
2007	11,099	820	11,919
2008	11,494	426	11,920
2009	5,790	61	5,851
Total	\$ 39,101	\$ 2,509	\$ 41,610

This debt will be retired from the general fund.

G. Compensated absences payable.

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Mississippi Code Annotated (1972). Compensated absences will be paid from the fund from which the employees' salaries are paid.

(6) Defined Benefit Pension Plan.

Plan Description. The school district 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 report may be obtained by writing to Public Employee's Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 7.25 % of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$ 991,914, \$ 915,125 and \$891,500, respectively, which equaled the required contributions for each year.

(7) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the school board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2006	77,714
2007	74,730
2008	65,906
2009	51,325
2010	49,191
2011-2015	48,848
2016-2020	47,794
2021-2025	33,174
2026-2030	6,354
Total	<u>\$ 455,036</u>

(8) Risk Management.

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The district carries commercial insurance for these risks. The district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Prior Period Adjustment/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation:</u>	<u>Amount</u>
To correct a prior year error in recording an asset or liability.	18,275

Exhibit D - Statement of Revenues, Expenditures, and Changes in Fund Balances

<u>Major Funds:</u>	<u>Explanation</u>	<u>Amount</u>
Other Governmental Funds	Adjustments related to the recording of prior period transactions	(121)
		\$ (121)

(10) Trust Agreements Dated August 1, 1994 and July, 26, 1995.

A deed of trust dated August 1, 1994, was executed by and between the Forrest County School District Foundation and Union Planters Bank. Simultaneously, a sale-lease back was executed by and between the Forrest County School District and the Forrest County School District Foundation. The deed of trust agreement authorized the issuance of \$ 1,700,000 in debt to the Foundation secured by several facilities purchased by the Foundation from the Forrest County School District and future sixteenth section lease revenue of the Forrest County School District.

FORREST COUNTY SCHOOL DISTRICT

Notes to the Financial Statements
For the Year Ended June 30, 2005

A deed of trust agreement dated July 26, 1995, was executed by and between the Forrest County School District Foundation and Trustmark Bank. Simultaneously, a sale-lease back agreement was executed by and between the Forrest County School District and the Forrest County School District Foundation. The deed of trust agreement authorized the issuance of \$ 294,000 in debt to the Foundation secured by Rawls Springs School purchased by the Foundation from the Forrest County School District and future sixteenth section lease revenue of the Forrest County School District.

The projects are leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act of 1986 as described in Section 37-7-351 et seq., Miss. Code Ann. (1972). These leases represent capital leases under which ownership of the project will transfer to the school district upon complete retirement of the certificates of participation.

The school district is obligated to make lease payments to the Foundation in an amount equal to the debt service requirements for the certificates of participation. The lease rental payments by the school district are used by the Foundation to pay the principal and interest payments due on the certificates of participation.

It is not anticipated that the projects will have sufficient value to satisfy the certificates of participation in the event the school district defaults under the lease; therefore, the source of payment of the certificates of participation is the responsibility of the school district. See note 5 (C) for details regarding the debt service requirements on the certificates of participation.

Using the guidance provided in Section 2100 of the Codification of Governmental Accounting and Financial Reporting Standards dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the Foundation accounts created by this trust agreement were consolidated as part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

**Forrest County School District
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2005**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
REVENUES					
Local sources	\$ 4,956,145	\$ 5,308,385	\$ 5,308,385	\$ 352,240	\$ -
State sources	8,853,267	9,420,972	9,420,972	567,705	-
Federal sources	190,120	597,398	597,398	407,278	-
Total revenues	<u>13,999,532</u>	<u>15,326,755</u>	<u>15,326,755</u>	<u>1,327,223</u>	<u>-</u>
EXPENDITURES					
Instruction	8,920,896	8,837,419	8,837,419	83,477	-
Support services	4,818,673	4,861,775	4,861,775	(43,102)	-
Noninstructional services	67,026	57,944	57,944	9,082	-
Debt service:					
Principal	10,413	10,413	10,413	-	-
Interest	1,631	1,392	1,392	239	-
Total expenditures	<u>13,818,639</u>	<u>13,768,943</u>	<u>13,768,943</u>	<u>49,696</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>180,893</u>	<u>1,557,812</u>	<u>1,557,812</u>	<u>1,376,919</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	1,000	10,145	10,145	9,145	-
Sale of transportation equipment	100	225	225	125	-
Sale of other property	1,200	810	810	(390)	-
Transfers in	1,035,852	1,108,914	1,108,914	73,062	-
Transfers out	(1,215,666)	(2,794,987)	(2,794,987)	(1,579,321)	-
Total other financing sources and uses	<u>(177,514)</u>	<u>(1,674,893)</u>	<u>(1,674,893)</u>	<u>(1,497,379)</u>	<u>-</u>
Net change in fund balances	<u>3,379</u>	<u>(117,081)</u>	<u>(117,081)</u>	<u>(120,460)</u>	<u>-</u>
Fund balances:					
July 1, 2004, as previously reported	787,279	787,279	787,279	787,279	-
Prior period adj. & reclassifications	-	-	-	-	-
July 1, 2004, as restated	<u>787,279</u>	<u>787,279</u>	<u>787,279</u>	<u>787,279</u>	<u>-</u>
June 30, 2005	<u>790,658</u>	<u>670,198</u>	<u>670,198</u>	<u>666,819</u>	<u>-</u>

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

Forrest County School District
 Budgetary Comparison Schedule
 School Food Service Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local sources	\$ 280,741	\$ 273,165	\$ 273,165	\$ (7,576)	\$ -
State sources	39,112	6,301	6,301	(32,811)	-
Federal sources	792,516	925,600	925,600	133,084	-
Total revenues	1,112,369	1,205,066	1,205,066	92,697	-
EXPENDITURES					
Support services	195,801	113,135	113,135	82,666	-
Noninstructional services	875,368	1,006,654	1,006,654	(131,286)	-
Total expenditures	1,071,169	1,119,789	1,119,789	(48,620)	-
Excess (deficiency) of revenues over expenditures	41,200	85,277	85,277	44,077	-
OTHER FINANCING SOURCES (USES)					
Transfers out	(41,200)	(86,176)	(86,176)	(44,976)	-
Total other financing sources and uses	(41,200)	(86,176)	(86,176)	(44,976)	-
Net change in fund balances	-	(899)	(899)	(899)	-
Fund balances:					
July 1, 2004, as previously reported	475,589	475,589	475,589	-	-
Prior period adj. & reclassifications	-	-	-	-	-
July 1, 2004, as restated	475,589	475,589	475,589	-	-
Increase (decrease) in reserve for inventory	-	-	2,442	-	2,442
June 30, 2005	475,589	474,690	477,132	(899)	2,442

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

Forrest County School District
 Budgetary Comparison Schedule
 16th Section Interest Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Local sources	\$ -	\$ 66	\$ 66	\$ 66	\$ -
Sixteenth section sources	105,125	169,794	169,794	64,669	-
Total revenues	105,125	169,860	169,860	64,735	-
EXPENDITURES					
Sixteenth section	25,420	22,293	22,293	3,127	-
Total expenditures	25,420	22,293	22,293	3,127	-
Excess (deficiency) of revenues over expenditures	79,705	147,567	147,567	67,862	-
OTHER FINANCING SOURCES (USES)					
Transfers In	-	11,922	11,922	11,922	-
Transfers out	(79,705)	(159,489)	(159,489)	(79,784)	-
Total other financing sources and uses	(79,705)	(147,567)	(147,567)	(67,862)	-
Net change in fund balances	-	-	-	-	-
Fund balances:					
July 1, 2004, as previously reported	-	-	-	-	-
Prior period adj. & reclassifications	-	-	-	-	-
July 1, 2004, as restated	-	-	-	-	-
June 30, 2005	-	-	-	-	-

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

FORREST COUNTY SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2005

Notes to the Required Supplementary Information

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

FORREST COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Grantor / Pass-through Grantor / Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food distribution	10.550	59,250
Child nutrition cluster:		
School breakfast program	10.553	247,616
National school lunch program	10.555	600,687
Total		<u>848,303</u>
Total U.S. Department of Agriculture		<u>907,553</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	975,008
Vocational education - basic grants to states	84.048	24,563
Safe and drug-free schools and communities - state grants	84.186	37,318
Education for homeless children and youth	84.196	4,654
Eisenhower professional development state grants	84.281	236,053
State grants for innovative programs	84.298	15,098
Comprehensive school reform demonstration	84.332	57,000
Teacher quality enhancement grants	84.336	5,000
Transition to teaching grants	84.350	1,400
English language acquisition grants	84.365	7,398
Grants for state assessments and related activities	84.369	4,152
Total		<u>1,367,644</u>
Special education cluster:		
Special education - grants to states	84.027	273,568
Special education - preschool grants	84.173	23,900
Total		<u>297,468</u>
Total passed-through Mississippi Department of Education		<u>1,665,112</u>
Total U.S. Department of Education		<u>1,665,112</u>
Total for All Federal Awards		<u>\$ 2,572,665</u>

NOTES TO SCHEDULE

- 1) This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the general purpose financial statements.
- 2) The expenditure amounts include transfers out.
- 3) The pass-through entities did not assign identifying numbers to the school district.

Forrest County School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2005

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 13,775,149	9,380,298	1,491,201	2,903,650
Other	6,394,640	1,073,405	276,054	5,045,181
Total	\$ 20,169,789	10,453,703	1,767,255	7,948,831
Total number of students *	2,441			
Cost per student \$	8,263	4,283	724	3,256

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000 functional codes)

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); and Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative

* include the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

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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*

December 13, 2005

Superintendent and School Board
Forrest County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Forrest County School District as of and for the year ended June 30, 2005, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated December 13, 2005. 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 the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district'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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

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Scotty McDaniel, CPA

Teresa Dodd, Accountant

MEMBER

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

December 13, 2005

Superintendent and School Board
Forrest County School District

Compliance

We have audited the compliance of the Forrest County School District with the types of compliance requirements described in *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 June 30, 2005. The school district'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 the school district's management. Our responsibility is to express an opinion on the school district'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 the school district'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 the school district's compliance with those requirements.

In our opinion, Forrest County School District complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Forrest County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on

compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be a material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE
LAWS AND REGULATIONS

December 13, 2005

Superintendent and School Board
Forrest County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Forrest County School District as of and for the year ended June 30, 2005, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated December 13, 2005. 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.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply fund". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$ 11,808 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with state laws and regulations.

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

McDaniel CPA Firm

FORREST COUNTY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2005

Section 1: Summary of Auditor's Results

Financial Statements:

1 .	Type of auditor's report issued on the general purpose financial statements:	unqualified
2 .	Material noncompliance relating to the general purpose financial statements:	no
3 .	Internal control over financial reporting:	
	a. Material weakness(es) identified?	no
	b. Reportable condition(s) identified that are not considered to be material weaknesses?	no

Federal Awards:

4 .	Type of auditor's report issued on compliance for major federal program:	unqualified
5 .	Internal Control over major program:	
	a. Material weakness(es) identified?	no
	b. Reportable condition(s) identified that are not considered to be material weaknesses?	no
6 .	Any audit finding(s) reported as required by section ____ .510(a) of Circular A-133?	no
7 .	Federal programs identified as a major program:	
	a. Title I - grants to local educational agencies	
	CFDA #: 84.010	
8 .	The dollar threshold used to distinguish between type A and type B programs:	\$ 300,000
9 .	Auditee qualified as a low-risk auditee?	yes
10 .	Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in section ____ .315(b) of OMB Circular A-133?	no

Section 2: Findings Relating to the Financial Statements

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

Section 3: Findings and Questioned Costs for Federal Awards

The results of our tests did not disclose any findings and questioned costs related to the federal awards.