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FORREST COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2007

FORREST COUNTY SCHOOL DISTRICT
HATTIESBURG, MISSISSIPPI

BOARD OF TRUSTEES

Charles McMahan, Chairman
Sabrina Morse
John Clark
Frank Myers
Wanda White

SUPERINTENDENT

Kay H. Clay, Ed. D.

Business Manager

Ann Mitcham

FORREST COUNTY SCHOOL DISTRICT

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Certified Public Accountants

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Mississippi Society of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

May 7, 2008

Superintendent and School Board
Forrest County School District

We have audited the accompanying 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, 2007, 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 an opinion 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 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, 2007, 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 May 7, 2008 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 16 and the Budgetary Comparison Schedule and corresponding notes on page 44 through 45 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 performed for the purpose of forming opinions on the financial statements that collectively comprise the Forrest County School District'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. 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.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
May 7, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of the 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, 2007. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic 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.

FINANCIAL HIGHLIGHTS

- Total net assets increased $352,849 which represents a 2% increase from fiscal year 2006.

- General revenues accounted for $19,244,476 in revenue, or 82% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for $4,237,563, or 18% of total revenues.

- The District had $23,129,190 in expenses; only $4,237,563 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of $19,244,476 were adequate to provide for these programs.

- Among major funds, the General Fund had $17,750,201 in revenues and $17,887,960 in expenditures. After net other financing sources of $683,428, the net change in fund balance for the General Fund was an increase of $545,669 from the previous fiscal year.

- Capital assets, net of accumulated depreciation, increased by $2,019,336 due primarily to completed construction during the fiscal year and the purchase of various items of mobile equipment and furniture and equipment.

- Long-term debt decreased by $769,269 due primarily to principal payments made during the fiscal year on existing long-term debt.

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.

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 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.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. 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.

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.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

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.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds is also included in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by $18,204,735 as of June 30, 2007.

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. $9,851,103 of the District's net assets (54%) reflects its investment in capital assets (e.g., land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases), 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. $7,083,725 of the District's net assets (39%) 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. $1,269,907 of the District's net assets (7%) 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, 2007 and comparative data for the fiscal year ended June 30, 2006.

	Net Assets		Percentage
	June 30, 2007	June 30, 2006	Change
Current assets	$ 8,156,823	$ 11,253,330	(27.6) %
Other assets	545,414	398,878	36.7 %
Capital assets, net	16,784,080	14,764,744	13.7 %
Total assets	25,486,317	26,416,952	(3.5) %
Current liabilities	262,972	777,187	(66.2) %
Long-term debt outstanding	7,018,610	7,787,879	(9.9) %
Total liabilities	7,281,582	8,565,066	(15.0) %
Net assets:			
Invested in capital assets, net of related debt	9,851,103	7,069,691	39.3 %
Restricted	7,083,725	10,111,938	(29.9) %
Unrestricted	1,269,907	670,257	89.4 %
Total net assets	$ 18,204,735	17,851,886	1.9 %

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

- Current assets decreased from the previous fiscal year due primarily to a decrease in cash and cash equivalents in the Building Project Fund resulting from capital related expenditures incurred during the fiscal year

- Other assets increased from the previous fiscal year due primarily to the reporting of cash and cash equivalents in the MAEP Bond Retirement Fund as other (restricted) assets.

- Capital assets increased from the previous fiscal year due primarily to completed construction during the fiscal year and the purchase of various items of mobile equipment and furniture and equipment.

- Current liabilities decreased from the previous fiscal year due primarily to a decrease in unearned (deferred) revenue.

- Long-term debt outstanding decreased from the previous fiscal year due primarily to 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 previous fiscal year due primarily to the increase in capital assets and the reduction of long-term debt related to the capital assets.

- Restricted net assets decreased from the previous fiscal year due primarily to a decrease in amounts restricted for capital improvements. Capital related expenditures were incurred during the fiscal year related to the new additions at Dixie Attendance Center resulting in a decrease in net assets restricted for capital improvements.

- Unrestricted net assets increased from the previous fiscal year due primarily to the increase in the fund balance of the General Fund.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were $23,482,039. The total cost of all programs and services was $23,129,190. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006.

	Change in Net Assets		Percentage
	June 30, 2007	June 30, 2006	Change
Revenues:			
Program revenues:			
Charges for services	$ 490,245	$ 417,898	17.3 %
Operating grants and contributions	3,747,318	7,187,151	(47.9) %
General revenues:			
Property taxes	5,549,673	5,744,992	(3.4) %
Grants and contributions not restricted	11,345,341	10,763,604	5.4 %
Other	2,349,462	1,485,909	58.1 %
Total revenues	23,482,039	25,599,554	(8.3) %
Expenses:			
Instruction	13,719,441	11,385,863	20.5 %
Support services	7,752,388	6,519,770	18.9 %
Non-instructional	1,229,965	1,159,856	6.0 %
Sixteenth section	85,580	63,030	35.8 %
Interest and other expenses on long-term liabilities	341,816	371,500	(8.0) %
Total expenses	23,129,190	19,500,019	18.6 %
Increase (Decrease) in net assets	352,849	6,099,535	(94.3) %
Net Assets, July 1	17,851,886	11,809,038	51.2 %
Prior Period Adjustments	0	(56,687)	(100.0) %
Net Assets, Restated, July 1	17,851,886	11,752,351	51.9 %
Net Assets, June 30	$18,204,735	$ 17,851,886	1.9 %

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

- Program revenues decreased from the previous fiscal year due primarily to a decrease in operating grants and contributions. In the previous fiscal year, the District received approximately $3,600,000 in federal funds under the Displaced Student Grant and Restart School Grant which resulted from Hurricane Katrina.

- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions and other general revenues. Unrestricted state grants and contributions increased primarily due to an increase in Mississippi Adequate Education Program (MAEP) funds. Other general revenues increased primarily due to an increase in donations and contributions in the Strategic Pilot – CSIP Grant Fund, the High School Redesign Grant Fund and the Product Support Grant Fund.

- Instruction expenses and support services expenses increased from the previous fiscal year due primarily to an increase in salaries and benefits, an increase in the purchase of computer equipment, and the expenditure of a large portion of the donations and contributions received from CISCO during the fiscal year.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2007 and comparative data for the fiscal year ended June 30, 2006, 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.

	2007		2006	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	$13,719,441	$(11,331,761)	$11,385,863	$ (5,953,845)
Support services	7,752,388	(7,053,248)	6,519,770	(5,546,325)
Non-instructional	1,229,965	(79,538)	1,159,856	31,334
Sixteenth section	85,580	(85,264)	63,030	(54,634)
Interest and other expenses on long-term liabilities	341,816	(341,816)	371,500	(371,500)
Total expenses	$23,129,190	$(18,891,627)	$19,500,019	$ (11,894,970)

- The net cost of governmental activities for fiscal year 2007 in the amount of $18,891,627 was financed by general revenue, which is made up of primarily property taxes of $5,549,673 and state revenue of $10,976,900.

- Investment earnings accounted for $363,569 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, 2007, its governmental funds reported a combined fund balance of $8,550,927. The net change in fund balance for the fiscal year was a decrease of

$2,449,319 due primarily to capital expenditures incurred during the fiscal year related to the new additions at Dixie Attendance Center. $6,943,258, or 81%, of the fund balance is reported by fund type in the unreserved, undesignated section of the Governmental Funds Balance Sheet. 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 used for school based activities. The portion of the fund balance reported in the Capital Project Funds is a result of transfers from other governmental funds and earning on investments and will be used for future renovation and construction projects. The remaining fund balance of $1,607,669, or 19%, 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 net change in fund balance for the General Fund for the fiscal year was an increase of $545,669 due primarily to the transfer of unreserved, undesignated funds previously placed in the Building Project Fund. The net change in fund balance for the School Food Service Fund for the fiscal year was a decrease of $50,944. The net change in fund balance for the Building Project Fund was a decrease of $2,634,995 due primarily to capital related expenditures incurred during the fiscal year related to the new additions at Dixie Attendance Center and the transfer of unreserved, undesignated funds to the General Fund that were previously placed in the Building Project Fund. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of $309,049 due primarily to the deficiency of revenues and other financing sources over expenditures and other financing uses in various funds.

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue from local sources in the General Fund were increased primarily to reflect donations and contributions received from CISCO that were not originally budgeted.

- Budgeted amounts for revenue from federal sources in the General Fund were increased to reflect an increase in E-rate reimbursements, national forest receipts and Medicaid reimbursements.

- Budgeted amounts for instructional and support services expenditures in the General Fund were increased primarily to reflect the expenditure of a portion of CISCO grant funds received during the fiscal year and the purchase of additional other computer equipment.

- Budgeted amounts for transfers into the General Fund were increased during the fiscal year to reflect transfers from the School Food Service Fund and the transfer of funds from the Building Project Fund to pay for the purchase of computer equipment. These transfers into the General Fund were not included in the original budget.

- Budgeted amounts for transfers out of the General Fund were increased during the fiscal year to reflect transfers to the Building Project Fund and additional transfers to the Vocational Education Fund and Special Education Fund to cover the increase in salaries and benefits. These transfers out of the General Fund were not included in the original budget.

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

Capital Assets. As of June 30, 2007, the District's total capital assets, before depreciation, were $23,261,648, including land, construction in progress, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment and leased property under capital leases. This amount represents a gross increase of $2,584,262 from the previous year. During the fiscal year, the District completed additions to Dixie Attendance Center, continued various other renovation and/or construction contracts, completed various bleacher projects, purchased two school buses and various other items of mobile equipment, and purchased numerous items of computer equipment. The District also disposed of seven buses and several copiers during the fiscal year. Total depreciation expense for the year was $762,661. Total accumulated depreciation as of June 30, 2007 was $6,477,568, resulting in total net capital assets of $16,784,080.

	Capital Assets, Net of Depreciation		Percentage
	2007	2006	Change
Land	$ 189,828	$ 189,828	0.0 %
Construction in progress	169,460	275,099	(38.4) %
Buildings	14,885,016	13,267,074	12.2 %
Building improvements	151,096	157,964	(4.3) %
Improvements other than buildings	146,091	34,751	320.4 %
Mobile equipment	738,497	653,123	13.1 %
Furniture and equipment	473,685	150,502	214.7 %
Leased property under capital leases	30,407	36,403	(16.5) %
Total	$16,784,080	$14,764,744	13.7 %

Debt Administration. At June 30, 2007, the District had $7,018,610 in general and limited obligation bonds and other long-term debt outstanding, of which $672,809 is due within one

year. During the fiscal year, the District made principal payments in the amount of $769,269 on existing long-term debt.

	Outstanding Debt		Percentage
	2007	2006	Change
General obligation bonds payable	$ 190,000	$ 490,000	(61.2) %
Limited obligation bonds payable	3,465,000	3,685,000	(6.0) %
Certificates of participation payable	904,769	1,023,614	(11.6) %
Three mill notes payable	2,325,000	2,430,000	(4.3) %
Obligations under capital leases	48,208	66,439	(27.4) %
Compensated absences payable	85,633	92,826	(7.7) %
Total	$ 7,018,610	$ 7,787,879	(9.9) %

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. In addition, 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.

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

BASIC FINANCIAL STATEMENTS

FORREST COUNTY SCHOOL DISTRICT **EXHIBIT A**

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS		
Cash and cash equivalents	$	7,416,450
Due from other governments		699,285
Other receivables, net		350
Inventories		40,738
Restricted assets		545,414
Capital assets, not being depreciated		
Land		189,828
Construction in progress		169,460
Capital assets, net of accumulated depreciation		
Buildings		14,885,016
Building improvements		151,096
Improvements othe than buildings		146,091
Mobile equipment		738,497
Furniture and equipment		473,685
Leased property under capital leases		30,407
Total Assets	$	25,486,317
LIABILITIES		
Accounts payable and accrued liabilities	$	54,115
Unearned revenue		97,195
Interest payable on long-term liabilities		111,662
Long-term liabilities (due within one year)		
Capital-related liabilities		670,240
Non-capital related liabilities		2,569
Long-term liabilities (due beyond one year)		
Capital-related liabilities		6,262,737
Non-capital related liabilities		83,064
Total Liabilities		7,281,582
NET ASSETS		
Invested in capital assets, net of related debt		9,851,103
Restricted net assets		
Expendable:		
School-based activities		1,079,621
Debt service		953,684
Capital improvements		4,548,835
Forestry improvements		45,021
Unemployment benefits		57,686
Non-expendable:		
Sixteenth section		398,878
Unrestricted		1,269,907
Total Net Assets		18,204,735
Total Liabilities and Net Assets	$	25,486,317

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

FORREST COUNTY SCHOOL DISTRICT **EXHIBIT B**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Total
Primary Government:					
Governmental Activities:					
Instruction	$ 13,719,441	$ 213,009	$ 2,174,671	$ -	$ (11,331,761)
Support services	7,752,388	-	699,140	-	(7,053,248)
Non-instructional services	1,229,965	276,920	873,507	-	(79,538)
Sixteenth section	85,580	316	-	-	(85,264)
Interest and other charges related to long-term liabilities	341,816	-	-	-	(341,816)
Total Governmental Activities	$ 23,129,190	$ 490,245	$ 3,747,318	$ -	(18,891,627)

General Revenues:	
Taxes:	
Property taxes - General purpose	5,263,864
Property taxes - Debt purpose	285,809
Unrestricted grants and contributions:	
State	10,976,900
Federal	368,441
Unrestricted investment earnings	363,569
Sixteenth section sources	130,574
Other	1,855,319
Total General Revenues	19,244,476
Change in Net Assets	352,849
Net Assets - Beginning	17,851,886
Net Assets - Ending	$ 18,204,735

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

FORREST COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2007

EXHIBIT C

	Major Funds					
	General Fund	School Food Service Fund	Sixteenth Section Interest Fund	Building Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 862,966	$ 500,821	$ 107,337	$ 4,464,843	$ 1,879,361	$ 7,815,328
Cash with fiscal agent	-	-	-	-	146,536	146,536
Due from other governments	418,474	21,816	-	-	256,132	696,422
Other receivables, net	350	-	-	-	-	350
Due from other funds	110,605	-	-	83,992	210	194,807
Inventories	-	40,738	-	-	-	40,738
Total Assets	$ 1,392,395	$ 563,375	$ 107,337	$ 4,548,835	$ 2,282,239	$ 8,894,181
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	$ 40,743	$ -	$ -	$ -	$ 13,372	$ 54,115
Due to other funds	1,021	43,220	107,337	-	40,366	191,944
Deferred revenue	-	-	-	-	97,195	97,195
Total Liabilities	41,764	43,220	107,337	-	150,933	343,254
Fund balances:						
Reserved for:						
Inventory	-	40,738	-	-	-	40,738
Unemployment benefits	-	-	-	-	57,686	57,686
Forestry improvement	-	-	-	-	45,021	45,021
Debt service purposes	-	-	-	-	1,065,346	1,065,346
Permanent fund purposes	-	-	-	-	398,878	398,878
Unreserved, undesignated, reported in:						
General fund	1,350,631	-	-	-	-	1,350,631
Special revenue funds	-	479,417	-	-	564,375	1,043,792
Capital project funds	-	-	-	4,548,835	-	4,548,835
Total Fund Balances	1,350,631	520,155	-	4,548,835	2,131,306	8,550,927
Total Liabilities & Fund Balances	$ 1,392,395	$ 563,375	$ 107,337	$ 4,548,835	$ 2,282,239	$ 8,894,181

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

FORREST COUNTY SCHOOL DISTRICT

EXHIBIT C-1

RECONCILIATION OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2007

		Amount
Total Fund Balance - Governmental Funds		$ 8,550,927
Amounts reported for governmental activities 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	23,261,648	
Less Accumulated Depreciation	(6,477,568)	
		16,784,080
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:		
Long-term liabilities	(7,018,610)	
Accured interest on debt	(111,662)	
		(7,130,272)
Total Net Assets		$ 18,204,735

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

FORREST COUNTY SCHOOL DISTRICT

EXHIBIT D

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2007

	Major Funds					
	General Fund	School Food Service Fund	Sixteenth Section Interest Fund	Building Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES						
Local sources	$ 6,948,619	$ 275,666	$ -	$ 188,811	$ 364,866	$ 7,775,762
State sources	10,420,922	6,663	-	-	991,925	11,419,510
Federal sources	380,660	979,146	-	-	2,313,341	3,673,149
Sixteenth section sources	-	-	119,999	-	29,923	149,922
Total Revenues	17,750,201	1,261,477	119,999	186,611	3,700,055	23,018,343
EXPENDITURES						
Instruction	11,166,401	-	-	-	2,446,011	13,612,412
Support services	6,623,200	151,424	-	107,214	1,064,643	7,946,481
Non-instructional services	75,166	1,078,577	-	-	12,143	1,165,886
Sixteenth section	-	-	50,082	-	35,498	85,580
Facilities acquisition and construction	-	-	-	1,969,597	41,543	2,011,140
Debt Service:	-				-	
Principal	18,231	-	-	-	743,845	762,076
Interest	4,962	-	-	-	339,848	344,810
Other	-	-	-	-	3,972	3,972
Total Expenditures	17,887,960	1,230,001	50,082	2,076,811	4,687,503	25,932,357
Excess (Deficiency) of Revenues over (under) Expenditures	(137,759)	31,476	69,917	(1,890,200)	(987,448)	(2,914,014)
OTHER FINANCING SOURCES (USES)						
Insurance loss recoveries	-	-	-	59,896	400,000	459,896
Sale of transportation equipment	113	-	-	-	-	113
Sale of other property	1,615					1,615
Transfers in	1,556,683	-	14,075	595,309	378,776	2,544,843
Other financing sources	3,800	-	-	-	-	3,800
Transfers out	(878,054)	(82,420)	(83,992)	(1,400,000)	(100,377)	(2,544,843)
Other financing uses	(729)	-	-	-	-	(729)
Total Other Financing Sources (Uses)	683,428	(82,420)	(69,917)	(744,795)	678,399	464,895
Net change in fund balances	545,669	(50,944)	-	(2,634,995)	(309,049)	(2,449,319)
Fund Balances---July 1, 2006	804,962	564,502	-	7,183,830	2,440,355	10,993,649
Increase in reserve for inventory	-	6,597	-	-	-	6,597
Fund Balances---June 30, 2007	$ 1,350,631	$ 520,155	$ -	$ 4,548,835	$ 2,131,306	$ 8,550,927

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

FORREST COUNTY SCHOOL DISTRICT

EXHIBIT D-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 JUNE 30, 2007

	Amount
Net Change in Fund Balances	$ (2,449,319)
Amounts reported for governmental activities 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.	2,802,759
Depreciation is not an expenditure in governmental funds but is an expense of allocating the cost of capital assets over their estimated useful lives in the statement of activities.	(762,661)
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:	
Losses on the sale of capital assets	(20,762)
The issuance of long-term debt provides current financial resources to governmental funds, but the issuance 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	762,076
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:	
Compensated absences decreases	7,193
Accrued interest on debt decreases	6,966
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.	6,597
Change in Net Assets of Governmental Activities	$ 352,849

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

FORREST COUNTY SCHOOL DISTRICT

EXHIBIT E

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2007

		Agency Funds
ASSETS		
Cash and cash equivalents	$	558,824
Total Assets	$	558,824
LIABILITIES		
Accounts payable and accrued liabilities	$	521,590
Due to other funds		2,863
Due to student clubs		34,371
Total Liabilities	$	558,824

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

FORREST COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

(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 five member board of 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 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 of the school district (see Note 9).

B. Basis of Presentation.

The school district's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a 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 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 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 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, as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used regardless of when the related cash flow takes place. 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 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 a special revenue fund used to account for the school district's revenues earned and expenditures incurred through the Child Nutrition Cluster federal grant monies, state monies and daily sales.

16th Section Interest Fund - This is a special revenue fund that accounts for expendable sixteenth section revenues from various sixteenth section sources. Expendable revenues from this fund are either shared with other school districts or transferred to the district's General fund per specific statutory board order.

Building Project Fund – This is a capital projects fund that accounts for funds transferred from governmental funds to be used for the acquisition, construction or renovation of major capital facilities.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

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 costs.

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 broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* 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 the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of three 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 three months when acquired.

Investments are reported at fair value.

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 acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

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.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
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.

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. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the government activities column. 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 borrowing that are attributable to the acquisition, construction 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:

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 unemployment benefits - An account that represents the fund that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements - An account that represents the fund balance that legally restricted for improving sixteenth section forestlands.

Reserved for debt service purposes - An account that represents a portion of fund balance in the Debt Service Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted

Reserved for permanent fund purposes - An account that represents the portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Unreserved, undesignated - An account that represents the portion of the fund balance that is expendable available financial resources.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority 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 only if the payable has matured, for example, an employee retires..

(2) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann (1972). The collateral pledged for the school district's 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 Depository Insurance Corporation.

Investments. Section 29-3-113 and Section 37-59-43 Miss Code Ann. (1972), authorize the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direst United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects Funds), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of $100 or more of any fund must be credited to that fund. Amounts less than $100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was $7,815,328 and $558,824, respectively. The carrying amount of deposits reported in the government-wide financial statement was: cash and cash equivalents of $7,416,450 and restricted assets of $545,414. The restricted assets represent the cash with fiscal agent of $146,536 reported in the MAEP Bond Retirement Fund and the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) of $398,878 which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was $9,950,710.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2007, none of the district's bank balance of $9,950,710 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was $146,536 reported in the MAEP Bond Retirement Fund.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds:		
General Fund	$ 110,605	$ 1,021
School Food Service Fund	-	43,220
Sixteenth Section Interest	-	107,337
Building Project Fund	83,992	-
Other Governmental Funds	210	40,366
Fiduciary Funds	-	2,863
	$ 194,807	$ 194,807

The interfund loans were made primarily to cover the initial payments of reimbursable expenditures of federal and state programs. Interfund loans were also made to record amounts due to the Building Project Fund.

B. Transfers In/Out.

	Transfer Out	Transfer In
Governmental Funds:		
General Fund	$ 878,054	$ 1,556,683
School Food Service Fund	82,420	-
Sixteenth Section Interest	83,992	14,075
Building Project Fund	1,400,000	595,309
Other Governmental Funds	100,377	378,776
	$ 2,544,843	$ 2,544,843

The transfers were made primarily to cover expenditures accounted for in other funds and to transfer funds to be used for the acquisition, construction and renovation of school facilities. The school district has made operating transfers in previous years from district maintenance (1120) to the building fund (3021) for future projects. During fiscal year 2007, $1,400,000 was transferred back to district maintenance (1120) for cash flow needs.

(4) Capital Assets.

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

	Balance 7/1/2006	Additions	Retirements	Completed Construction	Balance 6/30/2007
Non-depreciable capital assets:					
Land	$ 189,828	$ -	$ -	$ -	$ 189,828
Construction in progress	275,099	1,884,710	-	(1,990,349)	169,460
Total non-depreciable capital assets	$ 464,927	$ 1,884,710	$ -	$ (1,990,349)	$ 359,288
Depreciable capital assets:					
Buildings	$ 17,196,600	$ -	$ -	$ 1,990,349	$ 19,186,949
Building improvements	171,700	-	-	-	171,700
Improvements other than buildings	72,399	118,996	-	-	191,395
Mobile equipment	2,071,664	202,439	146,699	-	2,127,404
Furniture and equipment	657,696	596,614	71,798	-	1,182,512
Leased property under capital leases	42,400	-	-	-	42,400
Total depreciable capital assets	$ 20,212,459	$ 918,049	$ 218,497	$ 1,990,349	$ 22,902,360
Less accumulated depreciation:					
Buildings	$ 3,929,526	$ 372,407	$ -	$ -	$ 4,301,933
Building improvements	13,736	6,868	-		20,604
Improvements other than buildings	37,648	7,656	-		45,304
Mobile equipment	1,418,541	101,900	131,534		1,388,907
Furniture and equipment	507,194	267,834	68,201		708,827
Leased property under capital leases	5,997	5,996	-	-	11,993
Total accumulated depreciation	$ 5,912,642	$ 762,661	$ 197,735	$ -	$ 6,477,568
Total depreciable capital assets, net	$ 14,299,817	$ 155,388	$ 20,762	$ -	$ 16,424,792
Governmental activities capital assets, net	$ 14,764,744	$ 2,040,098	$ 20,762	$ -	$ 16,784,080

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	$ 512,106
Support Services	173,224
Non-instructional	77,331
	$ 762,661

(5) Long-term liabilities.

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

	Balance 7/1/2006	Additions	Retirements	Balance 6/30/2007	Amount Due Within One Year
General obligation bonds payable	$ 490,000	$ -	$ 300,000	$ 190,000	$ 190,000
Limited obligation bonds payable	3,685,000	-	220,000	3,465,000	225,000
Certificates of participation payable	1,023,614	-	118,845	904,769	125,768
Three mill notes payable	2,430,000	-	105,000	2,325,000	110,000
Obligations under capital lease	66,439	-	18,231	48,208	19,472
Compensated absences payable	92,826	-	7,193	85,633	2,569
Total long-term debt	$ 7,787,879	$ -	$ 769,269	$ 7,018,610	$ 672,809

A. General obligation bonds payable.

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 2003	1.0-1.8%	07-01-2003	12-01-2007	$ 1,410,000	190,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 190,000	$ 1,710	$ 191,710
	$ 190,000	$ 1,710	$ 191,710

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 then last completed

assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2007, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2006. This debt will be retired from the Bond Retirement Fund (4031).

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement Bonds,	4.37-5.8%	04-01-1998	08-01-2018	$4,745,000	$3,465,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 225,000	$ 154,992	$ 379,992
2009	230,000	145,010	375,010
2010	235,000	134,663	369,663
2011	250,000	123,750	373,750
2012	260,000	112,145	372,145
2013	290,000	99,495	389,495
2014	295,000	85,893	380,893
2015	305,000	71,793	376,793
2016	320,000	57,105	377,105
2017	335,000	41,713	376,713
2018	350,000	25,615	375,615
2019	370,000	8,695	378,695
	$ 3,465,000	$ 1,060,867	$ 4,525,867

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 MAEP Retirement Fund (4041).

C. Certificates of participation payable.

As more fully explained in note 12, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation	5.45%	06-30-1999	07-01-2014	$1,459,469	820,069
Certificates of participation	5.94%	07-26-1995	07-01-2010	294,000	84,700
				$1,753,469	$ 904,769

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

Year Ending June 30	Principal	Interest	Total
2008	$ 125,768	$ 46,944	$ 172,712
2009	132,871	39,841	172,712
2010	131,932	30,667	162,599
2011	118,262	26,077	144,339
2012	124,871	17,800	142,670
2013	131,849	10,822	142,670
2014	127,324	3,457	130,781
2015	11,893	-	11,893
	$ 904,769	$ 175,608	$ 1,080,377

This debt will be retired from the EEF Building and Buses Fund (2410).

D. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes payable	Var	02-01-2002	02-01-2022	$ 2,800,000	2,325,000

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

Year Ending June 30	Principal	Interest	Total
2008	$ 110,000	$ 109,209	$ 219,209
2009	115,000	102,609	217,609
2010	120,000	95,709	215,709
2011	125,000	88,509	213,509
2012	135,000	81,009	216,009
2013	140,000	74,934	214,934
2014	145,000	69,054	214,054
2015	150,000	62,819	212,819
2016	160,000	56,219	216,219
2017	165,000	49,219	214,219
2018	175,000	42,000	217,000
2019	185,000	34,344	219,344
2020	190,000	26,250	216,250
2021	200,000	17,938	217,938
2022	210,000	9,188	219,188
	$ 2,325,000	$ 919,006	$ 3,244,006

This debt will be retired from the Three Mill Note Retirement Fund (4022).

E. Obligations under capital lease.

The school district has entered into two lease agreements that qualify as capital leases for accounting purposes. Lease property under these capital leases is composed of:

1. The school district entered into a lease agreement to purchase a communication system consisting of three Motorola two-way radio control systems, nine Motorola radios and 41 Motorola mobile radios with microphones. The district will take possession of the equipment at the expiration date of the lease.

2. The school district entered into a capital lease purchase agreement to purchase eight copy machines. The district will take possession at the expiration of the lease.

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

Year Ending June 30	Principal	Interest	Total
2008	$ 19,472	$ 3,603	$ 23,076
2009	13,914	2,275	16,189
2010	11,155	1,099	12,254
2011	3,667	91	3,757
	$ 48,208	$ 7,068	$ 55,276

This debt will be retired from the District Maintenance Fund (1120).

F. 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), Miss. Code. Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were 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 Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 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 11.30% 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, 2007, 2006 and 2005 were $1,362,920.51, $1,070,961 and $991,914, 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 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 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
2008	$	89,112.44
2009		80,258.62
2010		65,997.98
2011		64,064.63
2012		52,922.51
2013-2017		251,638.15
2018-2022		189,472.29
2023-2027		74,057.96
2028-2032		30,319.17
2033-2037		9,205.20
2038-2042		7,281.00
Total	$	914,329.95

(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. Settled claims resulting from these insured risks have not exceeded insurance coverage in any of the past three fiscal years.

The school is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 121 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to $700,000. For a claim exceeding $700,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies.

The district has not had an additional assessment for excess losses incurred by the pool.

(9) Trust Certificates.

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 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. The debt was reissued on June 30, 1999, at a lower interest rate.

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 was executed by and between the Forrest County School District and 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 as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). These leases represent capital leases under which ownership of the projects will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustees in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustees to pay the principal and interest payments due on the trust certificates.

It is not anticipated the projects will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 6 for details regarding the debt service requirement on the trust certificates.

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 trust accounts created by this trust agreement are part of the school districts financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

FORREST COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

FORREST COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

SCHEDULE 1A

	Budgeted Amounts		Actual	Variances	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Local sources	$ 5,951,668	$ 6,971,538	$ 6,948,619	$ 1,019,850	$ (22,919)
State sources	10,179,993	10,420,922	10,420,922	240,929	-
Federal sources	189,228	380,660	380,660	191,432	-
Total Revenues	16,320,909	17,773,120	17,750,201	1,452,211	(22,919)
EXPENDITURES					
Instruction	9,833,511	11,189,320	11,166,401	(1,355,809)	22,919
Support services	6,141,925	6,623,200	6,623,200	(481,275)	-
Non-instructional services	70,250	75,166	75,166	(4,916)	-
Debt Service:					
Principal	11,806	18,231	18,231	(6,425)	-
Interest	-	4,962	4,962	(4,962)	-
Total Expenditures	16,057,492	17,910,879	17,887,960	(1,853,387)	22,919
Excess (deficiency) of Revenues over (under) Expenditures	263,417	(137,759)	(137,759)	(401,176)	-
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	5,000	-	-	(5,000)	-
Sale of transportation equipment	100	113	113	13	-
Sale of other property	1,000	1,615	1,615	615	-
Transfers in	984,537	2,685,038	2,696,102	1,700,501	11,064
Other financing sources	-	3,800	3,800	3,800	-
Transfers out	(1,257,756)	(2,017,473)	(2,017,473)	(759,717)	-
Other financing uses	-	(729)	(729)	(729)	-
Total Other Financing Sources (Uses)	(267,119)	672,364	683,428	939,483	11,064
Net change in fund balances	(3,702)	534,605	545,669	538,307	11,064
Fund Balances– July 1, 2006			804,962		
Fund Balances---June 30, 2007			$ 1,350,631		

The notes to the required supplementary information are an integral part of this statement.

FORREST COUNTY SCHOOL DISTRICT

SCHEDULE 1B

BUDGETARY COMPARISON SCHEDULE - SCHOOL FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variances	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Local sources	$ 200,998	$ 275,666	$ 275,666	$ 74,668	$ -
State sources	6,500	6,663	6,663	163	-
Federal sources	1,044,351	979,148	979,148	(65,203)	-
Total Revenues	1,251,849	1,261,477	1,261,477	9,628	-
EXPENDITURES					
Support services	133,510	151,424	151,424	(17,914)	-
Noninstructional services	1,034,626	1,078,577	1,078,577	(43,951)	-
Total Expenditures	1,168,136	1,230,001	1,230,001	(61,865)	-
Excess (deficiency) of Revenues over (under) Expenditures	83,713	31,476	31,476	(52,237)	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	-	-
Transfers out	(83,713)	(82,420)	(82,420)	1,293	-
Total Other Financing Sources (Uses)	(83,713)	(82,420)	(82,420)	1,293	-
Net change in fund balances	-	(50,944)	(50,944)	(50,944)	-
Fund Balances-- July 1, 2006			564,502		
Increase (decrease) in reserve for inventory			6,597		
Fund Balances---June 30, 2007			$ 520,155		

The notes to the required supplementary information are an integral part of this statement.

FORREST COUNTY SCHOOL DISTRICT **SCHEDULE 1C**

BUDGETARY COMPARISON SCHEDULE - SIXTEENTH SECTION INTEREST FUND

FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variances	
	Original	Final	(GAAP Basis)	Original to Final	Final to Actual
REVENUES					
Local sources	$ 10,000	$ -	$ -	$ (10,000)	$ -
Sixteenth section sources	115,785	119,999	119,999	4,214	-
Total Revenues	125,785	119,999	119,999	(5,786)	-
EXPENDITURES					
Sixteenth section	41,028	50,082	50,082	(9,054)	-
Total Expenditures	41,028	50,082	50,082	(9,054)	-
Excess (deficiency) of Revenues over (under) Expenditures	84,757	69,917	69,917	(14,840)	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	14,075	14,075	14,075	-
Transfers out	(84,757)	(83,992)	(83,992)	765	-
Total Other Financing Sources (Uses)	(84,757)	(69,917)	(69,917)	14,840	-
Net change in fund balances	-	-	-	-	-
Fund Balances-- July 1, 2006			-		
Fund Balances---June 30, 2007			$ -		

The notes to the required supplementary information are an integral part of this statement.

Budgetary Comparison Schedules

(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 revision

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 October 15. 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

SUPPLEMENTAL INFORMATION

FORREST COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. Department of Agriculture		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	$ 76,209
Child nutrition cluster		
School breakfast program	10.553	238,723
National school lunch program	10.555	670,660
Summer feeding	10.559	21,817
Total child nutrition cluster		931,200
Schools and roads - grants to states	10.665	169,247
Team nutrition grants	10.574	9,695
Total U.S. Department of Agriculture		1,186,351
Federal Communications Commission		
Administered through the Universal Service Administrative Company:		
The Schools and Libraries Program of the universal service fund	32.XXX	44,166
Total Federal Communications Commission		44,166
U. S. Department of Education		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	876,834
Vocational education - basic grants to states	84.048	31,432
Safe and drug-free schools and communities national programs	84.184	73,608
Safe and drug-free schools and communities - state grants	84.186	5,190
State grants for innovative programs	84.298	8,924
Education technology state grants	84.318	15,176
State personnel development grant	84.323	14,770
Comprehensive school reform demonstration	84.332	51,605
Transition to teaching grants	84.350	160
Rural education	84.358	92,911
English language acquistion grants	84.365	386
Improving teacher quality - state grants	84.367	164,983
Grants for state assessments and related activities	84.369	13,730
Hurricane education recovery	84.938	336,445
Total		1,686,154
Special education cluster:		
Special education - grants to states	84.027	497,149
Special education - preschool grants	84.173	34,361
Total		531,510
Total passed-through Mississippi Department of Education		2,217,664
Total U.S. Department of Education		2,217,664

FORREST COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
U. S. Department of Health and Human Services		
Passed-through Mississippi Department of Health and Human Services:		
Abstinence education program	93.235	55,600
Total		55,600
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	72,601
Comprehensive school health	93.938	5,014
Total		77,615
Total U.S. Department of Health and Human Services		133,215
U S Department of Homeland Security		
Pass-through Mississippi Emergency Management Agency:		
Disaster Grants - Public Assistance (Presidentially declared disasters)	97.036	10,903
Total Department of Homeland Security		10,903
Total for All Federal Awards		$ 3,592,299

Forrest County School District
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2007

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	$ 16,306,952	$ 12,524,746	$ 778,001	$ 1,051,453	$ 1,952,753
Other	9,625,404	3,198,672	275,889	60,274	6,090,569
Total	$ 25,932,357	$ 15,723,418	$ 1,053,890	$ 1,111,727	$ 8,043,322
Total number of students *	2,328				
Cost per student	$ 11,139	$ 6,754	$ 453	$ 478	$ 3,455

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

Instruction and Other Student Instructional Expenditures - 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, 2100, & 2200 functional codes)

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

School Administration - includes expenditures for the following function: Support Services - School Administration (2400s)

Other - includes all expenditure functions not included in Instruction or Administration Categories.

* 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

FORREST COUNTY SCHOOL DISTRICT

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

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Mississippi Society of
Certified Public Accountants

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

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, 2007, which collectively comprise the Forrest County School District's basic financial statements and have issued our report thereon dated May 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 school district's internal control.

Our consideration of the internal control over financial reporting was for the 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 or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated May 7, 2008, which is included in this report.

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.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
May 7, 2008

FORREST COUNTY SCHOOL DISTRICT

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

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

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 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 June 30, 2007. 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 each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-1.

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, 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 school district's internal control over compliance.

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 the internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be significant deficiencies.

A control deficiency in an entity'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 a combination of control deficiencies, that adversely affects the entity'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 entity's internal control. We consider the deficiencies in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-2 and 2007-3 to be significant deficiencies.

A material weakness is a significant deficiency, or a 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 entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Forrest County School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the district's responses and, accordingly, we do not express an opinion on it.

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.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
May 7, 2008

FORREST COUNTY SCHOOL DISTRICT

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

American Institute of
Certified Public Accountants

King CPA, PLLC

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Mississippi Society of
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

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, 2007, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated May 7, 2008. 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)(a), 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 funds".

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 **$17,354** of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate function level expenditure codes in expenditures by the school district."

The results of procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 1 Unlawful expenditures

An expenditure of $1,131 was made to a local restaurant for a Christmas party for the school board, staff and spouses.

Recommendation:

We recommend the district expend funds only for items and services that are authorized by law. The amount of $1,131 should be remitted to the general fund of the school district.

School District Response:

The meeting was a staff development meeting conducted with an agenda indicating items covered. However, to avoid any impression of impropriety, the funds have been repaid. This meeting has been discontinued.

Finding 2 Unlawful expenditures

The district contracted with the Superintendent's spouse for consulting services. Contracting with an elected official's spouse is in violation of state law. The amount of $1,006.25 was paid from the School Based Drug Testing Grant. Section 25-4-105(3)(a), Miss Code Ann. (1972), states " *No public servant shall be a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent, other than in his contract of employment, or have a material financial interest in any business which is a contractor, subcontractor or vendor with the governmental entity of which he is a member, officer, employee or agent.*"

Recommendation:

We recommend the district comply with Section 25-4-15(3)(a), Miss Code Ann. (1972).

School District Response:

The district will comply with Section 25-4-15(3)(a), Mississippi code Ann. (1972).

Finding 3 Unemployment Compensation Fund

The district's Unemployment Compensation Fund was under-funded by $210.43. Section 71-5-359, Miss Code Ann. (1972), requires districts to maintain a balance in cash and investments of 2% of the covered payroll up to $6,000 per person.

Recommendation:

We recommend the district comply with Section 71-5-359, Miss Code Ann. (1972).

School District Response:

We agree with this finding in that the $210.43 was not in cash or investments as required. It was however, included in the fund balance of the Unemployment Compensation Fund at June 30, 2007 as a due from other fund. In the future, the balance required will be transferred as cash before June 30th of each year.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

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.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
May 7, 2008

FORREST COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2007

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. Significant Deficiency(ies) identified that are not considered to be material weakness? NO

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: UNQUALIFIED

5. Internal control over major programs:
   a. Material weakness (es) identified? NO
   b. Significant deficiency(ies) identified that are not considered to be material weaknesses? YES

6. Any audit finding(s) reported as required by section__.510(a) of OMB Circular A-133? YES

7. Federal programs identified as major programs:
   Child Nutrition Cluster
   School Breakfast Program CFDA # 10.553
   National School Lunch Program CFDA # 10.555
   Summer Feeding CFDA# 10.559

   Title I – Grants to local education 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? NO

10. Prior fiscal year audit finding(s) and questioned cost reactive to federal awards which would require the auditee to prepare a summary schedule of prior audits findings as discussed in Section__.315(b) of OMB Circular A-133? NO

Section 2: Financial Statement Findings

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: Federal Award Findings and Questioned Cost

2007-1 Finding: Compliance - Questioned Costs

Program: Title I Grants to LEA's CFDA # 84.010 (School-wide Program)

Condition: In our test of allowable costs charged to this federal program we found three charges which we believe are not in compliance with allowable cost principles as directed by Circular A-87.

Criteria: Circular A-87 requires costs charged to federally funded programs be reasonable and necessary costs of the program and not used for general expenses of the district.

Effects: Unallowable costs charged to the program are as follows:

- $100.00 spent on door prizes for staff development meeting.
- $2,677.99 spent on tote bags for all teachers of the district.
- $3,660.00 spent on motel rooms for district wide administrative training session.

Recommendation: We recommend the district obtain additional documentation regarding compliance with allowable cost principles for expenditures which are not 100% direct program related.

Response:

See attached corrective action plan.

2007-2 Finding: Internal Control – Significant Deficiency not considered a material weakness

Program: Title I Grants to LEA's CFDA # 84.010

Condition: In our tests of compliance with special tests and provisions of the program we found the district could not produce documentation regarding needs assessment.

Criteria: Controls require entities to maintain records and documentation to support compliance with applicable program requirements.

Effects: Insufficient documentation could cause program funding to be jeopardized

Recommendation: Procedures should be strengthened for filing and maintaining records during transition periods of personnel.

Response:

See attached corrective action plan.

2007-3 Finding: Internal Control – Significant Deficiency not considered a material weakness

Program: Title I Grants to LEA's CFDA # 84.010

Condition: In our tests of compliance with allowable cost provisions of the program we found the district charges general district expenses to the program due to the program being school-wide.

Criteria: Controls require entities to implement procedures to ensure compliance with allowable cost requirements. Circular A-87 requires costs charged to federally funded programs be reasonable and necessary costs of the program and not used for general expenses of the district.

Effects: Insufficient procedures could result in disallowed costs charged to the program.

Recommendation: Procedures should be strengthened to ensure compliance with Circular A-87 requirements.

Response:

See attached corrective action plan.

FORREST COUNTY SCOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

Forrest County

DEPARTMENT OF EDUCATION
Debbie D. Burt
Superintendent of Education
POST OFFICE BOX 1977
400 FORREST STREET, ROOM 104
HATTIESBURG, MISSISSIPPI 39403-1977
(601)545-6055 Fax (601)545-6054

Financial & Compliance Audit Division

As required by Section __.315(c) of OMB Circular A-133, the Forrest County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2007.

Finding		Corrective Action Plan Details
07-1	a.	Name of Contact Person Responsible for Corrective Action:

Debbie D. Burt
Superintendent of Education
Phone 601-545-6055

b. Corrective Action Planned:

The auditor has listed three expenditures which he believes are unallowable costs charged to Title I. The district will address each item separately.

1. We agree with this finding. This expenditure should have been a district expenditure; the $100.00 in question has been repaid from the general fund of the district to Title I.

2. We disagree with this finding. Title I purchased tote bags to contain handout materials for a professional development session. The purpose of the all-day session was to provide training to increase student achievement. Our program is a school wide program. All teachers were trained in a central location on this date. We feel that this purchase was reasonable and necessary.

3. We disagree with this finding. Title I paid travel expenses for principals and administrators to attend a three day training session. Various speakers and district administrators made presentations and provided materials and resources on increasing student achievement, classroom management and other topics to increase the effectiveness of the program offered by our district. Our program is a school wide program.

c. Anticipated Completion Date:

1. The funds have been repaid as of June 24, 2008.

2. We have contacted the Mississippi Department of Education regarding this purchase. We are awaiting resolution when a final determination is made by their office.

3. We have contacted the Mississippi Department of Education regarding these reimbursements. We are awaiting resolution when a final determination is made by their office.

07-2 a. Name of Contact Person Responsible for Corrective Action:

Debbie D. Burt
Superintendent of Education
Phone 601-545-6055

b. Corrective Action Planned:

The district already has a procedure for checking out an employee who is leaving it's employ. These procedures will be strengthened to include check off lists appropriate to the particular position to transfer custody of files and documents appropriately.

c. Anticipated Completion Date:

July 1, 2008

07-3 a. Name of Contact Person Responsible for Corrective Action:

Debbie D. Burt
Superintendent of Education
Phone 601-545-6055

b. Corrective Action Planned:

We disagree with this finding. Our procedures and controls are adequate to prevent general expenses of the district from being charged to Title I. The questioned costs were not charged to Title I due to inadequate controls. They were charged to Title I because management determined that they were both reasonable and necessary to provide professional development activities as required by our Title I project.

c. Anticipated Completion Date:

None

Sincerely

D. Burt

Debbie D. Burt
Superintendent of Education

FORREST COUNTY SCHOOL DISTICT

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

AUDITEE'S SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

As required by Section __.315 (b) of OMB Circular A-133, the Forrest County School District has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2007:

Finding	Corrective Action Plan Details

There are no unresolved prior audit findings.