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FORREST COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2008

FORREST COUNTY SCHOOL DISTRICT
HATTIESBURG, MISSISSIPPI

BOARD OF TRUSTEES

Charles McMahan, Chairman
Sabrina Morse
Ronnie Perkins
Frank Myers
Wanda White

SUPERINTENDENT

Debbie Burt

Business Manager

Ann Mitcham

FORREST COUNTY SCHOOL DISTRICT

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

February 4, 2009

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, 2008, which collectively comprise the Forrest County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Forrest County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Forrest County School District as of June 30, 2008, 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 February 4, 2009 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 15 and the Budgetary Comparison Schedule and corresponding notes on pages 43 through 46 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.

The other supplemental information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balance, General Fund, Last Four Years and the Statement of Revenues, Expenditures, and Changes in Fund Balance, All Governmental Funds, Last Four Years, is presented for the purposes of additional analysis as required by the Mississippi Department of Education and not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
February 4, 2009

FORREST COUNTY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION
AND ANALYSIS
(MD&A)**

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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, 2008. 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, including the effect of prior period adjustments, increased \$1,875,176, which represents a 10% increase from fiscal year 2007. This increase in net assets is primarily due to the following: 1) capital outlays related to the ongoing renovation and construction of school facilities and the purchase of various capital assets during the fiscal year were not reported as expenses in the Statement of Activities but were capitalized on the Statement of Net Assets, 2) capital asset donations received during the fiscal year related to the CISCO grant were capitalized on the Statement of Net Assets and recorded as revenue on the Statement of Activities, and 3) repayment of debt principal during the fiscal year was not reported as an expense in the Statement of Activities but as a reduction of long-term liabilities on the Statement of Net Assets.
- General revenues accounted for \$22,235,966 in revenue, or 84% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,117,916, or 16% of total revenues.
- The District had \$24,486,236 in expenses; only \$4,117,916 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$22,235,966 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,720,485 in revenues and \$17,744,109 in expenditures. After net other financing sources of \$104,813, the net change in fund balance for the General Fund was an increase of \$81,189 from the previous fiscal year.
- Capital assets, net of accumulated depreciation, increased by \$4,776,893 due primarily to the ongoing renovation and construction of school facilities and the donation of various items of equipment related to the CISCO grant.
- Long-term debt decreased by \$652,278 due primarily to principal payments made during the fiscal year on existing long-term debt.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 schedule has been provided for the General Fund and each additional major special revenue fund.

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

Additionally, a statement of revenues, expenditures and changes in fund balance for the general fund and for all governmental funds is included as other supplemental information. This schedule includes the last four years.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 \$20,079,911 as of June 30, 2008.

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. \$15,298,043 of the District's net assets (76%) 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. \$1,811,116 of the District's net assets (9%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$2,970,752 of the District's net assets (15%) 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, 2008 and comparative data for the fiscal year ended June 30, 2007.

	<u>Net Assets</u>		<u>Percentage</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	<u>Change</u>
Current assets	\$ 4,513,371	\$ 8,156,823	(44.7) %
Other assets	573,321	545,414	5.1 %
Capital assets, net	<u>21,560,973</u>	<u>16,784,080</u>	28.5 %
Total assets	<u>26,647,665</u>	<u>25,486,317</u>	4.6 %
Current liabilities	201,422	262,972	(23.4) %
Long-term debt outstanding	<u>6,366,332</u>	<u>7,018,610</u>	(9.3) %
Total liabilities	<u>6,567,754</u>	<u>7,281,582</u>	(9.8) %
Net assets:			
Invested in capital assets, net of related debt	15,298,043	9,851,103	55.3 %
Restricted	1,811,116	7,083,725	(74.4) %
Unrestricted	<u>2,970,752</u>	<u>1,269,907</u>	133.9 %
Total net assets	<u>\$ 20,079,911</u>	<u>18,204,735</u>	10.3 %

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 resulting from expenditures incurred related to the renovation and construction of school facilities.
- Capital assets increased from the previous fiscal year due primarily to the ongoing renovation and construction of school facilities, the donation of various items of equipment related to the CISCO grant and the purchase of various other items of mobile equipment and furniture and equipment.
- 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 during the fiscal year 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 school based activities and capital improvements. In the previous fiscal year, the fund balance in the Building Project Fund was reported as restricted net assets expendable for capital improvements. However, the fund balance in the Building Project Fund is a result of transfers from the General Fund and therefore is reported in unrestricted net assets for the current fiscal year. This resulted in an increase in the unrestricted net assets when compared with prior year.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2008 were \$26,353,882. The total cost of all programs and services was \$24,486,236. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007.

	<u>Change in Net Assets</u>		<u>Percentage Change</u>
	<u>June 30, 2008</u>	<u>June 30, 2007</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 514,512	\$ 490,245	4.9 %
Operating grants and contributions	3,603,404	3,747,318	(3.8) %
General revenues:			
Property taxes	5,576,434	5,549,673	0.5 %
Grants and contributions not restricted	12,309,827	11,345,341	8.5 %
Other	<u>4,349,705</u>	<u>2,349,462</u>	85.1 %

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Total revenues	<u>26,353,882</u>	<u>23,482,039</u>	12.2 %
Expenses:			
Instruction	14,752,982	13,719,441	7.5 %
Support services	8,082,257	7,752,388	4.3 %
Non-instructional	1,298,817	1,229,965	5.6 %
Sixteenth section	39,227	85,580	(54.2) %
Interest and other expenses on long-term liabilities	<u>312,953</u>	<u>341,816</u>	(8.4) %
Total expenses	<u>24,486,236</u>	<u>23,129,190</u>	5.9 %
 Increase (Decrease) in net assets	 1,867,646	 352,849	 429.3 %
 Net Assets, July 1	 18,204,735	 17,851,886	 2.0 %
Prior Period Adjustments	<u>7,530</u>	<u>0</u>	
Net Assets, Restated, July 1	<u>18,212,265</u>	<u>17,851,886</u>	2.0 %
 Net Assets, June 30	 <u>\$20,079,911</u>	 <u>\$ 18,204,735</u>	 10.3 %

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

- General revenues increased from the previous fiscal year due primarily to an increase in unrestricted state grants and contributions, specifically an increase in Mississippi Adequate Education Program (MAEP) funds, and an increase in other general revenues resulting mainly from the donation of various items of equipment under the CISCO grant.
- Instruction expenses increased from the previous fiscal year due primarily to an increase in the depreciation expense allocated to instruction related to the equipment donated during the fiscal year by CISCO.

Governmental activities. The following table presents, for the fiscal year ended June 30, 2008 and comparative data for the fiscal year ended June 30, 2007, 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.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>2008</u>		<u>2007</u>	
	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net (Expense) Revenue</u>
Instruction	\$ 14,752,982	\$ (12,396,022)	\$ 13,719,441	\$ (11,331,761)
Support services	8,082,257	(7,405,232)	7,752,388	(7,053,248)
Non-instructional	1,298,817	(214,886)	1,229,965	(79,538)
Sixteenth section	39,227	(39,227)	85,580	(85,264)
Interest and other expenses on long-term liabilities	<u>312,953</u>	<u>(312,953)</u>	<u>341,816</u>	<u>(341,816)</u>
Total expenses	<u>\$ 24,486,236</u>	<u>\$ (20,368,320)</u>	<u>\$ 23,129,190</u>	<u>\$ (18,891,627)</u>

- The net cost of governmental activities for fiscal year 2008 in the amount of \$20,368,320 was financed by general revenue, which is made up of primarily property taxes of \$5,576,434 and state revenue of \$11,921,019.
- Investment earnings accounted for \$256,014 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, 2008, its governmental funds reported a combined fund balance of \$4,989,851. The net change in fund balance for the fiscal year was a decrease of \$3,561,076, due primarily to expenditures incurred during the fiscal year related to the renovation and construction of school facilities. \$3,516,581, or 70%, 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 unreserved, undesignated fund balance reported in the Capital Project Funds is a result of transfers from the General Fund and will be used for the renovation and construction of school facilities. The remaining fund balance of \$1,473,270, or 30%, 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.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

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 \$81,189. The net change in fund balance for the 16th Section Interest Fund for the fiscal year was an increase of \$65,348 due primarily to revenue received from federal sources during the fiscal year. The net change in fund balance for the Building Project Fund for the fiscal year was a decrease of \$2,772,902 due primarily to expenditures incurred during the fiscal year related to the renovation and construction of school facilities. The net change in fund balance for the Other Governmental Funds for the fiscal year was a decrease of \$934,711, 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. Budget revisions primarily included changes made to increase or decrease revenues and expenditures as needed during the fiscal year and to more accurately reflect transfers between governmental funds during the fiscal year. The budget revisions were routine in nature and were not considered significant when compared to overall revenues and expenditures.

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, 2008, the District's total capital assets, before depreciation, were \$29,593,502, 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 \$6,331,854 from the previous year due primarily to the ongoing renovation and construction of school facilities, the donation of equipment from CISCO and the purchase of various items of mobile equipment and furniture and equipment. Total depreciation expense for the year was \$1,652,719. Total accumulated depreciation as of June 30, 2008 was \$8,032,529, resulting in total net capital assets of \$21,560,973.

	<u>Capital Assets, Net of Depreciation</u>		Percentage
	<u>2008</u>	<u>2007</u>	<u>Change</u>
Land	\$ 189,828	\$ 189,828	0.0 %
Construction in progress	3,573,599	169,460	2008.8 %
Buildings	14,512,610	14,885,016	(2.5) %
Building improvements	144,228	151,096	(4.5) %
Improvements other than buildings	163,173	146,091	11.7 %
Mobile equipment	774,830	738,497	4.9 %
Furniture and equipment	2,178,295	473,685	359.9 %
Leased property under capital leases	24,410	30,407	(19.7) %
Total	<u>\$ 21,560,973</u>	<u>\$ 16,784,080</u>	28.5 %

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2008**

Debt Administration. At June 30, 2008, the District had \$6,366,332 in general and limited obligation bonds and other long-term debt outstanding, of which \$494,887 is due within one year. During the fiscal year, the District made principal payments in the amount of \$670,047 on existing long-term debt.

	<u>Outstanding Debt</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
General obligation bonds payable	\$ 0	\$ 190,000	(100.0) %
Limited obligation bonds payable	3,240,000	3,465,000	(6.5) %
Certificates of participation payable	779,194	904,769	(13.9) %
Three mill notes payable	2,215,000	2,325,000	(4.7) %
Obligations under capital leases	28,736	48,208	(40.4) %
Compensated absences payable	<u>103,402</u>	<u>85,633</u>	20.8 %
Total	<u>\$ 6,366,332</u>	<u>\$ 7,018,610</u>	(9.3) %

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
STATEMENT OF NET ASSETS
JUNE 30, 2008

EXHIBIT A

ASSETS	
Cash and cash equivalents	\$ 3,759,245
Due from other governments	725,572
Other receivables, net	350
Inventories	28,204
Restricted assets	573,321
Capital assets, not being depreciated	
Land	189,828
Construction in progress	3,573,599
Capital assets, net of accumulated depreciation	
Buildings	14,512,610
Building improvements	144,228
Improvements othe than buildings	163,173
Mobile equipment	774,830
Furniture and equipment	2,178,295
Leased property under capital leases	24,410
Total Assets	<u>\$ 26,647,665</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 39,544
Unearned revenue	57,297
Interest payable on long-term liabilities	104,581
Long-term liabilities (due within one year)	
Capital-related liabilities	491,785
Non-capital related liabilities	3,102
Long-term liabilities (due beyond one year)	
Capital-related liabilities	5,771,145
Non-capital related liabilities	100,300
Total Liabilities	<u>6,567,754</u>
NET ASSETS	
Invested in capital assets, net of related debt	15,298,043
Restricted net assets	
Expendable:	
School-based activities	470,631
Debt service	808,199
Forestry improvements	53,598
Unemployment benefits	61,560
Non-expendable:	
Sixteenth section	417,128
Unrestricted	2,970,752
Total Net Assets	<u>\$ 20,079,911</u>

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

FORREST COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

EXHIBIT B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
					Total
Governmental Activities:					
Instruction	\$ 14,752,982	\$ 235,729	\$ 2,121,231	\$ -	\$ (12,396,022)
Support services	8,082,257	-	677,025	-	(7,405,232)
Non-instructional services	1,298,817	278,783	805,148	-	(214,886)
Sixteenth section	39,227	-	-	-	(39,227)
Interest and other charges related to long-term liabilities	312,953	-	-	-	(312,953)
Total Governmental Activities	\$ 24,486,236	\$ 514,512	\$ 3,603,404	\$ -	(20,368,320)
General Revenues:					
Taxes:					
Property taxes - General purpose					5,346,678
Property taxes - Debt purpose					229,756
Unrestricted grants and contributions:					
State					11,921,019
Federal					388,808
Unrestricted investment earnings					256,014
Sixteenth section sources					123,719
Other					3,969,972
Total General Revenues					22,235,966
Change in Net Asscts					1,867,646
Net Assets - Beginning					18,204,735
Prior Period Adjustment					7,530
Net Assets - Beginning - Restated					18,212,265
Net Assets - Ending					\$ 20,079,911

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

**FORREST COUNTY SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2008**

EXHIBIT C

	Major Funds					Total Governmental Funds
	General Fund	Vocational Education Fund	Sixteenth Section Interest Fund	Building Project Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 887,270	\$ -	\$ 177,858	\$ 1,561,849	\$ 1,549,396	\$ 4,176,373
Cash with fiscal agent	-	-	-	-	156,193	156,193
Due from other governments	325,404	126,371	-	-	261,565	713,340
Other receivables, net	350	-	-	-	-	350
Due from other funds	258,341	-	-	214,084	-	472,425
Inventories	-	-	-	-	28,204	28,204
Total Assets	\$ 1,471,365	\$ 126,371	\$ 177,858	\$ 1,775,933	\$ 1,995,358	\$ 5,546,885
LIABILITIES & FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 39,544	\$ -	\$ -	\$ -	\$ -	\$ 39,544
Due to other funds	-	126,371	112,510	-	221,312	460,193
Unearned Revenue	-	-	-	-	57,297	57,297
Total Liabilities	39,544	126,371	112,510	-	278,609	557,034
Fund balances:						
Reserved for:						
Inventory	-	-	-	-	28,204	28,204
Unemployment benefits	-	-	-	-	61,560	61,560
Forestry improvement	-	-	-	-	53,598	53,598
Capital project funds	-	-	-	172,000	-	172,000
Debt service purposes	-	-	-	-	912,780	912,780
Permanent fund purposes	-	-	-	-	417,128	417,128
Unreserved, undesignated, reported in:						
General fund	1,298,221	-	-	-	-	1,298,221
Special revenue funds	-	-	65,348	-	377,079	442,427
Capital project funds	-	-	-	1,603,933	-	1,603,933
Total Fund Balances	1,298,221	-	65,348	1,775,933	1,850,349	4,989,851
Total Liabilities & Fund Balances	\$ 1,337,765	\$ 126,371	\$ 177,858	\$ 1,775,933	\$ 2,128,958	\$ 5,546,885

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

FORREST COUNTY SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008

EXHIBIT C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 4,989,851
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	29,593,502
Less Accumulated Depreciation	<u>(8,032,529)</u>
	21,560,973
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
Long-term liabilities	(6,366,332)
Accrued interest on debt	<u>(104,581)</u>
	(6,470,913)
Total Net Assets	<u>\$ 20,079,911</u>

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, 2008**

	Major Funds					Total Governmental Funds
	General Fund	Vocational Education Fund	Sixteenth Section Interest Fund	Building Project Fund	Other Governmental Funds	
REVENUES						
Local sources	\$ 6,052,469	\$ 371	\$ -	\$ 104,069	\$ 743,268	\$ 6,900,177
State sources	11,342,449	793,209	-	-	634,220	12,769,878
Federal sources	325,567	35,745	65,348	-	2,716,693	3,143,353
Sixteenth section sources	-	-	109,987	-	33,820	143,807
Total Revenues	17,720,485	829,325	175,335	104,069	4,128,001	22,957,215
EXPENDITURES						
Instruction	10,759,170	1,014,376	-	-	1,607,429	13,380,975
Support services	8,887,019	48,031	-	95,837	1,049,033	8,059,920
Non-instructional services	94,845	-	-	-	1,138,784	1,233,629
Sixteenth section	-	-	34,767	-	4,480	39,227
Facilities acquisition and construction	-	-	-	2,681,134	785,255	3,466,389
Debt Service:						
Principal	19,472	-	-	-	650,575	670,047
Interest	3,603	-	-	-	313,049	316,652
Other	-	-	-	-	3,382	3,382
Total Expenditures	17,744,109	1,062,407	34,767	2,776,971	5,551,967	27,170,221
Excess (Deficiency) of Revenues over (under) Expenditures	(23,624)	(233,082)	140,568	(2,672,902)	(1,423,966)	(4,213,006)
OTHER FINANCING SOURCES (USES)						
Insurance loss recoveries	-	-	-	-	661,912	661,912
Sale of transportation equipment	2,003	-	-	-	-	2,003
Sale of other property	247	-	-	-	675	922
Transfers in	426,745	233,453	14,065	-	95,356	769,619
Other financing sources	-	-	-	-	-	-
Transfers out	(323,809)	(371)	(89,285)	(100,000)	(256,154)	(769,619)
Other financing uses	(373)	-	-	-	-	(373)
Total Other Financing Sources (Uses)	104,813	233,082	(75,220)	(100,000)	501,789	664,464
Net change in fund balances	81,189	-	65,348	(2,772,902)	(922,177)	(3,548,542)
Fund Balances—July 1, 2007	1,350,631	-	-	4,548,835	2,651,461	8,550,927
Decrease in reserve for inventory	-	-	-	-	(12,534)	(12,534)
Fund Balances—June 30, 2008	\$ 1,431,820	\$ -	\$ 65,348	\$ 1,775,933	\$ 1,716,750	\$ 4,989,851

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

FORREST COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

EXHIBIT D-1

	<u>Amount</u>
Net Change in Fund Balances	\$ (3,548,542)
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.	6,430,807
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.	(1,652,719)
Gains and losses from the sale or disposal of capital assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(8,725)
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	670,047
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	(17,769)
Accrued interest on debt decreases	7,081
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.	<u>(12,534)</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,867,646</u>

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

**FORREST COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
JUNE 30, 2008**

EXHIBIT E

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 760,324
Total Assets	<u>\$ 760,324</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 718,972
Due to other funds	12,232
Due to student clubs	<u>29,120</u>
Total Liabilities	<u>\$ 760,324</u>

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

FORREST COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(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.

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 to which each member was elected by the citizens of each defined county district.

For financial reporting purposes, Forrest County School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

Blended component unit.

The Forrest County School District Foundation, Inc., 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 Foundation 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 Foundation'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 10).

B. Basis of Presentation.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. *Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. *Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.
3. *Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements:

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The school district reports the following major governmental funds:

General Fund – This is the school district’s primary operating fund. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support, and other costs.

Vocational Education Fund - This is a special revenue fund used to account for the school district’s revenues earned and expenditures incurred for the vocational department.

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.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include the following:

Payroll Clearing Fund – This agency fund is used to report resources held by the District on behalf of other funds for payroll related liabilities.

Accounts Payable Clearing Fund – This agency fund is used to report resources held by the District on behalf of other funds for related liabilities.

Dixie Agency Fund – This fund is used to report resources held by the District for students at Dixie Attendance Center.

North Forrest High School Agency Fund – This fund is used to report resourced held by the District for students at North Forrest High School.

South Forrest Agency Fund – This fund is used to report resources held by the District for students at South Forrest Attendance Center.

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.

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 recorded when earned and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of interfund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi Adequate Education Program Revenues are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

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.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

F. Assets, Liabilities, and net assets or equity

1. Cash, Cash equivalents and Investments

Cash, and cash equivalents

The districts' cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

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 an original maturity greater than three months when acquired.

Investments for the district, as well as for its component units are reported at fair market value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e. the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

3. Due from Other Governments

Due from other governments presents amounts due from the State of Mississippi, and various grants and reimbursements from other governments.

4. 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.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the balance sheet because their use is limited by applicable debt statutes. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this account.

6. Capital Assets.

Capital assets, which include property, plant, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement costs. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the following table and estimated useful lives in excess of two years.

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.

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 5 for details.

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. 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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

8. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. Fund equity.

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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 a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvements - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for debt service purposes - An account that represents that portion of fund balance in the Debt Service Fund which was 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 a 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.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(2) Cash and Cash Equivalents and Cash with Fiscal Agents

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments 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 public entity'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 Deposit Insurance Corporation.

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 \$4,176,373 and \$760,324, respectively. The bank balance was \$7,528,598.

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 financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2008, none of the district's bank balance of \$7,528,598 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 \$156,193 reported in Restricted Assets. See Note 4 for details.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(3) Interfund Receivables, Payables and Transfers.

The following is a summary of interfund transactions and balances:

A. A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	Sixteenth Section Interest Fund	\$ 112,510
	Other Governmental Funds	133,599
	Fiduciary Funds	12,232
Building Project Fund	Vocational Education Fund	126,371
	Other Governmental Funds	<u>87,713</u>
Total		<u>\$ 472,425</u>

The primary purpose of the interfund loans was to cover federal funds not received prior to year end.

B. Interfund Transfers:

Transfer Out	Transfer In	Amount
General Fund	Vocational Education Fund	\$ 233,453
	Other Governmental Funds	90,356
Vocational Education Fund	General Fund	371
Sixteenth Section Interest Fund	General Fund	89,285
Building Project Fund	General Fund	100,000
Other Governmental Funds	General Fund	237,089
	Other Governmental Funds	5,000
	Sixteenth Section Interest Fund	<u>14,065</u>
Total		<u>\$ 769,619</u>

Transfers are used primarily to move unrestricted general fund monies to finance various programs and projects accounted for in other funds.

(4) Restricted Assets.

The restricted assets represent the cash balance totaling \$417,128 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent cash with fiscal agent totaling \$156,193 of the MAEP Limited Obligation Bond/Note Fund.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(5) Capital Assets.

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

	Balance 7/1/2007	Additions	Retirements	Adjustments	Balance 6/30/2008
<u>Non-depreciable capital assets:</u>					
Land	\$ 189,828	\$ -	\$ -	\$ -	\$ 189,828
Construction in progress	169,460	3,404,139	-	-	3,573,599
Total non-depreciable capital assets	<u>\$ 359,288</u>	<u>\$ 3,404,139</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,763,427</u>
<u>Depreciable capital assets:</u>					
Buildings	\$ 19,186,949	\$ -	\$ -	\$ -	\$ 19,186,949
Building improvements	171,700	-	-	-	171,700
Improvements other than buildings	191,395	25,768	-	-	217,163
Mobile equipment	2,127,404	159,089	65,373	-	2,221,120
Furniture and equipment	1,182,512	2,841,811	44,120	10,540	3,990,743
Leased property under capital leases	42,400	-	-	-	42,400
Total depreciable capital assets	<u>\$ 22,902,360</u>	<u>\$ 3,026,668</u>	<u>\$ 109,493</u>	<u>\$ 10,540</u>	<u>\$ 25,830,075</u>
<u>Less accumulated depreciation:</u>					
Buildings	\$ 4,301,933	\$ 372,406	\$ -	\$ -	\$ 4,674,339
Building improvements	20,604	6,868	-	-	27,472
Improvements other than buildings	45,304	8,686	-	-	53,990
Mobile equipment	1,388,907	116,219	58,836	-	1,446,290
Furniture and equipment	708,827	1,142,543	41,932	3,010	1,812,448
Leased property under capital leases	11,993	5,997	-	-	17,990
Total accumulated depreciation	<u>\$ 6,477,568</u>	<u>\$ 1,652,719</u>	<u>\$ 100,768</u>	<u>\$ 3,010</u>	<u>\$ 8,032,529</u>
Total depreciable capital assets, net	<u>\$ 16,424,792</u>	<u>\$ 1,373,949</u>	<u>\$ 8,725</u>	<u>\$ 7,530</u>	<u>\$ 17,797,546</u>
Governmental activities capital assets, net	<u>\$ 16,784,080</u>	<u>\$ 4,778,088</u>	<u>\$ 8,725</u>	<u>\$ 7,530</u>	<u>\$ 21,560,973</u>

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 1,371,906
Support Services	198,463
Non-instructional	82,350
	<u>\$ 1,652,719</u>

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

The capital assets above include significant amounts of land which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

Commitments under construction contracts at June 30, 2008 are summarized as follows:

	<u>Spent to June 30, 2008</u>	<u>Remaining Commitment</u>
Governmental Activities		
Renovation and Additions - Dixie Elem	1,014,571	74,000
Renovation and Additions - North Forrest HS	814,190	31,000
Renovation and Additions - North Forrest Elem	<u>1,744,838</u>	<u>67,000</u>
	<u>3,573,599</u>	<u>172,000</u>

Construction projects included in governmental activities are funded with building project reserve funds accumulated by the District over a period of years.

(6) Long-term liabilities.

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

	<u>Balance 7/1/2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2008</u>	<u>Amount Due Within One Year</u>
A. General obligation bonds payable	\$ 190,000	\$ -	\$ 190,000	\$ -	\$ -
B. Limited obligation bonds payable	3,465,000	-	225,000	3,240,000	230,000
C. Certificates of participation payable	904,769	-	125,575	779,194	132,871
D. Three mill notes payable	2,325,000	-	110,000	2,215,000	115,000
E. Obligations under capital lease	48,208	-	19,472	28,736	13,914
F. Compensated absences payable	85,633	17,769	-	103,402	3,102
 Total long-term debt	 <u>\$ 7,018,610</u>	 <u>\$ 17,769</u>	 <u>\$ 670,047</u>	 <u>\$ 6,366,332</u>	 <u>\$ 494,887</u>

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:

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

This debt was retired from the Bond Retirement Fund (4031).

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). 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 Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2008, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2007.

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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds	4.37-5.8%	4/1/1998	8/1/2018	\$ 4,745,000	\$ 3,240,000

Details of the district's June 30, 2008 limited obligation bonds indebtedness is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2014-2018	1,605,000	282,119	1,887,119
2019	370,000	8,695	378,695
	<u>\$ 3,240,000</u>	<u>\$ 905,877</u>	<u>\$ 4,145,877</u>

This debt will be retired from the MAEP Retirement Fund (4041).

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. The district received \$387,774 in MAEP Retirement Fund money that was used to pay this debt.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

C. Certificates of participation payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1 Certificates of participation issued, June 1999	5.45%	6/30/1999	7/1/2014	\$ 1,459,469	\$ 719,608
2 Certificates of participation issued, June 1995	5.94%	7/26/1995	7/1/2010	<u>294,000</u>	<u>59,586</u>
				<u>\$ 1,753,469</u>	<u>\$ 779,194</u>

Details of the district's June 30, 2008 certificates of participation are as follows:

1. Certificates of participation issued June 1999

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	106,075	36,595	142,670
2010	112,003	30,667	142,670
2011	118,262	24,408	142,670
2012	124,871	17,800	142,671
2013	131,849	10,822	142,671
2014-2015	<u>126,548</u>	<u>3,457</u>	<u>130,005</u>
	<u>\$ 719,608</u>	<u>\$ 123,749</u>	<u>\$ 843,357</u>

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

2. Certificates of participation issued June 1995

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	26,796	3,246	30,042
2010	<u>32,790</u>	<u>1,669</u>	<u>34,459</u>
	<u>\$ 59,586</u>	<u>\$ 4,915</u>	<u>\$ 64,501</u>

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

3. Total certificates of participation payments for all issues.

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	132,871	39,841	172,712
2010	144,793	32,336	177,129
2011	118,262	24,408	142,670
2012	124,871	17,800	142,671
2013	131,849	10,822	142,671
2014-2015	<u>126,548</u>	<u>3,457</u>	<u>130,005</u>
	<u>\$ 779,194</u>	<u>\$ 128,664</u>	<u>\$ 907,858</u>

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

D. Three mill notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mill notes payable	4.35-5.5%	2/1/2002	2/1/2022	\$ 2,800,000	\$ 2,215,000

Details of the district's June 30, three mill notes payable are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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
2014-2018	795,000	279,311	1,074,311
2019-2022	785,000	87,720	872,720
	<u>\$ 2,215,000</u>	<u>\$ 809,801</u>	<u>\$ 3,024,801</u>

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

E. Obligations under capital lease.

The school district has entered into lease agreements, which qualify as capital leases for accounting purposes, for the acquisition of the following:

1. A communication system consisting of three Motorola two-way radio control systems, nine Motorola radios and 41 Motorola mobile radios with microphones at a cost of \$54,600. The district will take possession of the equipment at the expiration date of the lease.
2. Eight copy machines at a cost of \$42,400. The district will take possession at the expiration of the lease.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1 BancorpSouth Radio Lease	3.11%	11/10/2003	1/10/2009	\$ 54,600	\$ 5,849
2 DeLage Laden Copier Lease	11.82%	12/5/2005	11/5/2010	42,400	22,887
				<u>\$ 97,000</u>	<u>\$ 28,736</u>

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

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

1. BancorpSouth Capital Lease.

<u>Year Ending June 30</u>		<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2009	\$	4,868	\$	51	\$ 4,919
2010		981		3	984
		<u>\$ 5,849</u>		<u>\$ 54</u>	<u>\$ 5,903</u>

2. DeLage Laden Copier Lease.

<u>Year Ending June 30</u>		<u>Principal</u>		<u>Interest</u>	<u>Total</u>
2009	\$	9,046	\$	2,225	\$ 11,271
2010		10,174		1,096	11,270
2011		3,667		91	3,758
		<u>\$ 22,887</u>		<u>\$ 3,412</u>	<u>\$ 26,299</u>

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between effective interest method and the straight line method is not considered material.

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

F. Compensated absences payable.

As more fully explained in Note 1(F)(7), 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.

(7) 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 employer's rate for fiscal year ended June 30, 2008 was 11.85% 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, 2008, 2007 and 2006 were \$1,489,043, \$1,362,920 and \$1,070,961, respectively, which equaled the required contributions for each year.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(8) 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
2009	\$ 84,576.26
2010	70,805.62
2011	68,872.27
2012	53,319.03
2013	51,334.03
2014-2018	249,850.55
2019-2023	160,820.45
2024-2028	82,127.20
2029-2033	46,210.94
2034-2038	9,889.15
2039-2043	6,595.80
Total	\$ 884,401.30

(9) 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 95 school districts and one community college 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 Wells Fargo in Portland Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, 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 pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

(10) 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, 2008

SCHEDULE 1A

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
REVENUES					
Local sources	\$ 8,360,177	\$ 6,064,245	\$ 6,052,469	\$ (295,832)	\$ (11,776)
State sources	11,340,145	11,342,449	11,342,449	2,304	-
Federal sources	225,000	325,567	325,567	100,567	-
Total Revenues	17,925,322	17,732,261	17,720,485	(193,061)	(11,776)
EXPENDITURES					
Instruction	11,436,779	10,731,423	10,759,170	705,356	(27,747)
Support services	8,871,160	6,863,775	6,867,019	7,405	(3,244)
Non-instructional services	88,950	94,845	94,845	(5,895)	-
Debt Service:					
Principal	10,742	19,472	19,472	(8,730)	-
Interest	1,064	3,603	3,603	(2,539)	-
Total Expenditures	18,408,715	17,713,118	17,744,109	695,597	(30,991)
Excess (deficiency) of Revenues over (under) Expenditures	(483,393)	19,143	(23,624)	502,536	(42,787)
OTHER FINANCING SOURCES (USES)					
Insurance loss recoveries	5,000	-	-	(5,000)	-
Sale of transportation equipment	100	2,003	2,003	1,903	-
Sale of other property	1,500	247	247	(1,253)	-
Transfers in	1,238,411	1,465,839	426,745	229,428	(1,039,094)
Other financing sources	-	-	-	-	-
Transfers out	(1,318,875)	(1,506,277)	(323,809)	(189,402)	1,184,468
Other financing uses	-	(373)	(373)	(373)	-
Total Other Financing Sources (Uses)	(75,864)	(40,561)	104,813	35,303	145,374
Net change in fund balances	(559,257)	(21,418)	81,189	537,839	102,607
Fund Balances-- July 1, 2007			1,350,631		
Fund Balances---June 30, 2008			\$ 1,431,820		

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

FORREST COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - VOCATIONAL EDUCATION FUND
FOR THE YEAR ENDED JUNE 30, 2008

SCHEDULE 1B

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Variances</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
REVENUES					
Local sources	\$ -	\$ 371	\$ 371	\$ 371	\$ -
State sources	462,770	793,209	793,209	330,439	-
Federal sources	<u>46,667</u>	<u>35,745</u>	<u>35,745</u>	<u>(10,922)</u>	<u>-</u>
Total Revenues	<u>509,437</u>	<u>829,325</u>	<u>829,325</u>	<u>319,888</u>	<u>-</u>
EXPENDITURES					
Support services	651,713	1,014,376	1,014,376	(362,663)	-
Noninstructional services	<u>48,281</u>	<u>48,031</u>	<u>48,031</u>	<u>250</u>	<u>-</u>
Total Expenditures	<u>699,994</u>	<u>1,062,407</u>	<u>1,062,407</u>	<u>(362,413)</u>	<u>-</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>(190,557)</u>	<u>(233,082)</u>	<u>(233,082)</u>	<u>(42,525)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	190,557	233,453	233,453	42,896	-
Transfers out	<u>-</u>	<u>(371)</u>	<u>(371)</u>	<u>(371)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>190,557</u>	<u>233,082</u>	<u>233,082</u>	<u>42,525</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances-- July 1, 2007			<u>-</u>		
Fund Balances--June 30, 2006			<u>\$ -</u>		

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

FORREST COUNTY SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - SIXTEENTH SECTION INTEREST FUND
FOR THE YEAR ENDED JUNE 30, 2008

SCHEDULE 1C

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
	Original	Final		Original to Final	Final to Actual
REVENUES					
Federal sources	\$ -	\$ 65,348	\$ 65,348	\$ 65,348	\$ -
Sixteenth section sources	113,093	109,987	109,987	(3,106)	-
Total Revenues	113,093	175,335	175,335	62,242	-
EXPENDITURES					
Sixteenth section	36,288	34,787	34,787	1,501	-
Total Expenditures	36,288	34,787	34,787	1,501	-
Excess (deficiency) of Revenues over (under) Expenditures	76,825	140,568	140,568	63,743	-
OTHER FINANCING SOURCES (USES)					
Transfers in	-	14,065	14,065	14,065	-
Transfers out	(76,825)	(89,285)	(89,285)	(12,460)	-
Total Other Financing Sources (Uses)	(76,825)	(75,220)	(75,220)	1,605	-
Net change in fund balances	-	65,348	65,348	65,348	-
Fund Balances-- July 1, 2007			-		
Fund Balances--June 30, 2008			\$ 65,348		

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

FORREST COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

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, 2008

Federal Grantor/ Pass-through Grantor/ <u>Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster		
School breakfast program	10.553	258,775
National school lunch program	10.555	720,845
Summer food service program for children	10.559	9,989
Total child nutrition cluster		<u>989,609</u>
Fresh fruit and vegetable program	10.582	<u>13,102</u>
Schools and roads - grants to states	10.665	<u>179,130</u>
Total U.S. Department of Agriculture		<u>1,181,841</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The Schools and Libraries Program of the universal service fund	32.XXX	<u>72,258</u>
Total Federal Communications Commission		<u>72,258</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	875,363
Career and technical education - basic grants to states	84.048	35,745
Safe and drug-free schools and communities national programs	84.184	44,268
Safe and drug-free schools and communities - state grants	84.186	36,923
Education technology state grants	84.318	11,533
State personnel development grant	84.323	60,140
Rural education	84.358	34,732
Improving teacher quality - state grants	84.367	155,656
Grants for state assessments and related activities	84.369	13,640
Total		<u>1,268,000</u>
Special education cluster:		
Special education - grants to states	84.027	513,819
Special education - preschool grants	84.173	37,784
Total		<u>551,603</u>
Total passed-through Mississippi Department of Education		<u>1,819,603</u>
Total U.S. Department of Education		<u>1,819,603</u>

FORREST COUNTY SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED JUNE 30, 2008

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U. S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Health and Human Services:		
Abstinence education program	93.235	6,200
Total		<u>6,200</u>
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	62,237
Comprehensive school health	93.938	6,000
Total		<u>68,237</u>
Total U.S. Department of Health and Human Services		<u>74,437</u>
 <u>U S Department of Homeland Security</u>		
Pass-through Mississippi Emergency Management Agency:		
Disaster Grants - Public Assistance (Presidentially declared disasters)	97.036	57,805
Total Department of Homeland Security		<u>57,805</u>
Total for All Federal Awards		<u>\$ 3,205,944</u>

Notes to Schedule

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies used for the financial statements.
2. The expenditure amounts include transfers out.

Forrest County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2008

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 17,168,725	\$ 13,288,593	\$ 755,459	\$ 1,031,056	\$ 2,093,617
Other	<u>10,001,496</u>	<u>2,029,632</u>	<u>369,363</u>	<u>42,342</u>	<u>7,560,159</u>
Total	<u>\$ 27,170,221</u>	<u>\$ 15,318,225</u>	<u>\$ 1,124,822</u>	<u>\$ 1,073,398</u>	<u>\$ 9,653,776</u>
Total number of students *	2,262				
Cost per student	<u>\$ 12,012</u>	<u>\$ 6,772</u>	<u>\$ 497</u>	<u>\$ 475</u>	<u>\$ 4,268</u>

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

OTHER SUPPLEMENTAL INFORMATION

FORREST COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

General Fund

Last Four Years

	<u>2008</u>	<u>2007*</u>	<u>2006*</u>	<u>2005*</u>
Revenues:				
Local sources	\$ 6,052,469	6,948,619	5,467,648	5,308,385
State sources	11,342,449	10,420,922	10,001,579	9,420,972
Federal sources	<u>325,567</u>	<u>380,660</u>	<u>287,101</u>	<u>597,398</u>
Total Revenues	<u>17,720,485</u>	<u>17,750,201</u>	<u>15,756,328</u>	<u>15,326,755</u>
Expenditures:				
Instruction	10,759,170	11,166,401	5,474,782	8,837,419
Support services	6,867,019	6,623,200	5,389,497	4,861,775
Noninstructional services	94,845	75,166	62,338	57,944
Debt service:				
Principal	19,472	18,231	15,062	10,413
Interest	<u>3,603</u>	<u>4,962</u>	<u>4,257</u>	<u>1,392</u>
Total Expenditures	<u>17,744,109</u>	<u>17,887,960</u>	<u>10,945,936</u>	<u>13,768,943</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(23,624)</u>	<u>(137,759)</u>	4,810,392	<u>1,557,812</u>
Other Financing Sources (Uses):				
Inception of capital leases	0	0	42,400	0
Insurance loss recoveries	0	0	9,034	10,145
Sale of transportation equipment	2,003	113	0	225
Sale of other property	247	1,615	0	810
Operating transfers in	426,745	1,556,683	138,665	1,108,914
Other financing sources	0	3,800	0	0
Operating transfers out	(323,809)	(878,054)	(4,865,727)	(2,794,987)
Other financing uses	<u>(373)</u>	<u>(729)</u>	0	0
Total Other Financing Sources (Uses)	<u>104,813</u>	<u>683,428</u>	<u>(4,675,628)</u>	<u>(1,674,893)</u>
Net Change in Fund Balances	<u>81,189</u>	<u>545,669</u>	<u>134,764</u>	<u>(117,081)</u>
Fund Balances:				
July 1	<u>1,350,631</u>	<u>804,962</u>	<u>670,198</u>	<u>787,279</u>
June 30	\$ <u><u>1,431,820</u></u>	<u><u>1,350,631</u></u>	<u><u>804,962</u></u>	<u><u>670,198</u></u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

FORREST COUNTY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

"UNAUDITED"

All Governmental Funds

Last Four Years

	2008	2007*	2006*	2005*
Revenues:				
Local sources	\$ 6,900,177	7,775,762	6,456,519	6,337,396
State sources	12,769,878	11,419,510	11,037,591	10,866,040
Federal sources	3,143,353	3,673,149	6,913,515	2,588,801
Sixteenth section sources	143,807	149,922	182,894	195,062
Total Revenues	22,957,215	23,018,343	24,590,519	19,987,299
Expenditures:				
Instruction	13,380,975	13,612,412	11,089,456	10,453,703
Support services	8,059,920	7,946,481	6,610,606	5,688,015
Noninstructional services	1,233,629	1,165,886	1,107,240	1,111,977
Sixteenth section	39,227	85,580	63,030	22,293
Facilities acquisition and construction	3,466,389	2,011,140	275,099	1,687,284
Debt service:				
Principal	670,047	762,076	821,693	802,378
Interest	316,652	344,810	374,901	401,031
Other	3,382	3,972	4,039	3,108
Total Expenditures	27,170,221	25,932,357	20,346,064	20,169,789
Excess (Deficiency) of Revenues over Expenditures	(4,213,006)	(2,914,014)	4,244,455	(182,490)
Other Financing Sources (Uses):				
Inception of capital leases	0	0	42,400	0
Insurance loss recoveries	661,912	459,896	1,009,034	10,145
Sale of transportation equipment	2,003	113	0	225
Sale of other property	922	1,615	0	810
Operating transfers in	769,619	2,544,843	5,127,249	3,085,351
Other financing sources	0	3,800	0	0
Operating transfers out	(769,619)	(2,544,843)	(5,127,249)	(3,085,351)
Other financing uses	(373)	(729)	0	0
Total Other Financing Sources (Uses)	664,464	464,695	1,051,434	11,180
Net Change in Fund Balances	(3,548,542)	(2,449,319)	5,295,889	(171,310)
Fund Balances:				
July 1	8,550,927	10,993,649	5,774,223	5,943,211
Prior period adjustments			(85,715)	(120)
July 1, as restated	8,550,927	10,993,649	5,688,508	5,943,091
Increase (Decrease) in reserve for inventory	(12,534)	6,597	9,252	2,442
June 30	\$ 4,989,851	8,550,927	10,993,649	5,774,223

*SOURCE - PRIOR YEAR AUDIT REPORTS

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 ACCORDANCE 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 ACCORDANCE 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, 2008, which collectively comprise the Forrest County School District's basic financial statements and have issued our report thereon dated February 4, 2009. 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 opinions 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.

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

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. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Finding 2008-01 to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we consider the significant deficiency described above in Finding 2008-01 to be a material weakness.

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 disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The Forrest County School District's response to the finding identified in our audit is described in the accompanying Auditee's Corrective Action Plan. We did not audit Forrest County School District's response and, accordingly, we express no 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
February 4, 2009

FORREST COUNTY SCHOOL DISTRICT

**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**

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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, 2008. 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, 2008.

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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

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.

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.

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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the school board and management, others within the entity, 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
February 4, 2009

FORREST COUNTY SCHOOL DISTRICT

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
WITH STATE LAWS AND REGULATIONS**

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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, 2008, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated February 4, 2009. 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". 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 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 **\$7,270** 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 functional 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.

Page 2

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than 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
February 4, 2009

FORREST COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2008

Section 1: Summary of Auditor's Results

Financial Statements:

- | | |
|--|--------------------|
| 1. Type of auditor's report issued on the general purpose financial statements: | <u>UNQUALIFIED</u> |
| 2. Material noncompliance relating to the general purpose financial statements? | <u>NO</u> |
| 3. Internal control over financial reporting: | |
| a. Material weakness (es) identified? | <u>YES</u> |
| b. Significant Deficiency(ies) identified that are not considered to be material weakness? | <u>NO</u> |

Federal Awards:

- | | |
|--|----------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | <u>UNQUALIFIED</u> |
| 5. Internal control over major programs: | |
| a. Material weakness (es) identified? | <u>NO</u> |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? | <u>NO</u> |
| 6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? | <u>NO</u> |
| 7. Federal programs identified as major programs: | |
| Child Nutrition Cluster | |
| School Breakfast Program | CFDA # <u>10.553</u> |
| National School Lunch Program | CFDA # <u>10.555</u> |
| Summer Feeding | CFDA# <u>10.559</u> |
| Title I – Grants to local education agencies | CFDA # <u>84.010</u> |
| Special Education Cluster | |
| Special Education – grants to states | CFDA # <u>84.027</u> |
| Special Education – preschool grants | CFDA # <u>84.173</u> |
| 8. The dollar threshold used to distinguish between Type A and Type B programs: | <u>\$300,000</u> |
| 9. Auditee qualified as a low-risk auditee? | <u>NO</u> |

FORREST COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs (continued)

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

Finding 2008-01: Material Weakness in Internal Control

Condition: The School District's financial statements are the responsibility of management. During the course of our audit material misstatements in the financial statements were discovered.

Criteria: The audit adjustments were required because of material misstatements identified in the financial statements, this deficiency constitutes a material weakness in the district's internal control over financial reporting.

Cause: Year end accruals for indirect cost allocations were calculated but not recorded in the financial statements.

Effect: Failure to properly record year end accruals could cause the financial statements to be materially misstated.

Recommendation: We recommend management review its financial statement preparation procedures to ensure all accruals are properly recorded.

Section 3: Federal Award Findings and Questioned Cost

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

FORREST COUNTY SCHOOL 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, 2008.

Finding Corrective Action Plan Details

08-1 a. Name of Contact Person Responsible for Corrective Action:

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

b. Corrective Action Planned:

Management has set up a procedure for an additional review of end of the year journal entries. The financial assistant will review and compare the entries to the work papers and spreadsheets prior to the financial statements being finalized and submitted to the Mississippi Department of Education.

FORREST COUNTY SCHOOL DISTRICT

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, 2008:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
----------------	---------------------------------------

There are no unresolved prior audit findings.