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**Forrest County School District**

Audited Financial Statements  
June 30, 2011

**Fortenberry & Ballard, PC**  
Certified Public Accountants

**Forrest County School District  
TABLE OF CONTENTS**

	PAGE #
INDEPENDENT AUDITOR’S REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION .....	4
MANAGEMENT’S DISCUSSION AND ANALYSIS .....	7
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-wide Financial Statements	
Exhibit A - Statement of Net Assets .....	20
Exhibit B - Statement of Activities .....	21
Governmental Funds Financial Statements	
Exhibit C - Balance Sheet .....	22
Exhibit C-1 - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets .....	23
Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances .....	24
Exhibit D-1 - Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities .....	25
Fiduciary Funds Financial Statements	
Exhibit E - Statement of Financial Assets and Liabilities .....	26
Notes to the Financial Statements .....	28
<b>REQUIRED SUPPLEMENTAL INFORMATION</b>	
Budgetary Comparison Schedule - General Fund .....	50
Budgetary Comparison Schedule - School Food Service Fund .....	51
Budgetary Comparison Schedule - Title I - A Basic Fund .....	52
Budgetary Comparison Schedule - Sixteenth Section Interest Fund .....	53
Notes to the Required Supplemental Information .....	55
<b>SUPPLEMENTAL INFORMATION</b>	
Schedule of Expenditures of Federal Awards .....	57
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds .....	58
<b>OTHER INFORMATION</b>	
Statement of Revenues, Expenditures and Changes in Fund Balances - General Fun, Last Four Years .....	60
Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years .....	61
<b>REPORTS ON INTERNAL CONTROL AND COMPLIANCE</b>	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	63
Independent Auditor’s Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 .....	65
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS .....	68
SCHEDULE OF FINDINGS AND QUESTIONED COSTS .....	71

## FINANCIAL AUDIT REPORT

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously 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, 2011, 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 November 21, 2011, 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 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted 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 and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the Forrest County School District's basic financial statements. The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is 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 do not express an opinion or provide any assurance on it.

*Fortenberry & Ballard, PC*

Fortenberry & Ballard, PC  
November 21, 2011

Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

The following discussion and analysis of Forrest County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2011. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

**FINANCIAL HIGHLIGHTS**

- Total net assets for 2011 increased \$1,861,300, which represents a 9% increase from fiscal year 2010. Total net assets for 2010 increased \$982,344, including a prior period adjustment of \$52, which represents a 5% increase from fiscal year 2009.
- General revenues amounted to \$19,083,034 and \$18,994,422, or 78% and 79% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$5,287,628, or 22% of total revenues for 2011, and \$5,004,206, or 21% of total revenues for 2010.
- The District had \$22,509,362 and \$23,016,336 in expenses for fiscal years 2011 and 2010; only \$5,287,628 for 2011 and \$5,004,206 for 2010 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,083,034 for 2011 and \$18,994,422 for 2010 were adequate to provide for these programs.
- Among the major funds, the General Fund had \$17,178,372 in revenues and \$14,246,081 in expenditures for 2011, and \$16,795,836 in revenues and \$15,379,283 in expenditures for 2010. The General Fund's fund balance increased by \$3,322,853 from 2010 to 2011 and increased by \$1,583,954 from 2009 to 2010.
- Capital assets, net of accumulated depreciation, decreased by \$582,369 for 2011 and decreased by \$1,319,667 for 2010. The decrease for 2011 was due to primarily to the increase in accumulated depreciation.
- Long-term debt decreased by \$281,431 for 2011 and increased by \$1,944,651 for 2010. This decrease for 2011 was due primarily to the principal payments on outstanding long-term debt. In addition, the liability for compensated absences decreased by \$6,944 for 2011 and increased by \$6,508 for 2010.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis serves as an introduction to the District's basic financial statements, which include government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains required supplemental information, supplemental information, and other information.

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

**Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the District's nonfiduciary assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether its financial position 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 periods.

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 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** - Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near term financing requirements.

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-

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities 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 funds Balance Sheet and in the governmental funds 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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

### **Reconciliation of Government-wide and Fund Financial Statements**

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

**Notes to the financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Required Supplemental Information**

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. 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 as required by the Governmental Accounting Standard Board.

**Supplemental Information**

Additionally, a Schedule of Expenditures of Federal Awards as required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for governmental funds can be found in this report.

**Other Information**

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets**

Net assets may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$22,412,383 as of June 30, 2011.

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.

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

**Table 1**  
**Condensed Statement of Net Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 10,873,346	7,197,533	51%
Restricted assets	1,215,229	2,965,743	(59)%
Capital assets, net	<u>18,174,773</u>	<u>18,757,142</u>	(3)%
<b>Total assets</b>	<u>30,263,348</u>	<u>28,920,418</u>	5%
Current liabilities	167,879	397,874	(58)%
Long-term debt outstanding	<u>7,683,086</u>	<u>7,971,461</u>	(4)%
<b>Total liabilities</b>	<u>7,850,965</u>	<u>8,369,335</u>	(6)%
<b>Net assets:</b>			
Invested in capital assets, net of related debt	13,561,984	15,471,824	(12)%
Restricted	3,023,535	2,358,533	28%
Unrestricted	<u>5,826,864</u>	<u>2,720,726</u>	114%
<b>Total net assets</b>	<u>\$ 22,412,383</u>	<u>20,551,083</u>	9%

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

- Decrease in net capital assets in the amount of \$582,369.
- The principal retirement of \$577,306 of long-term debt.

**Changes in net assets**

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$24,370,662 and \$23,998,628, respectively. The total cost of all programs and services was \$22,509,362 for 2011 and \$23,016,336 for 2010.

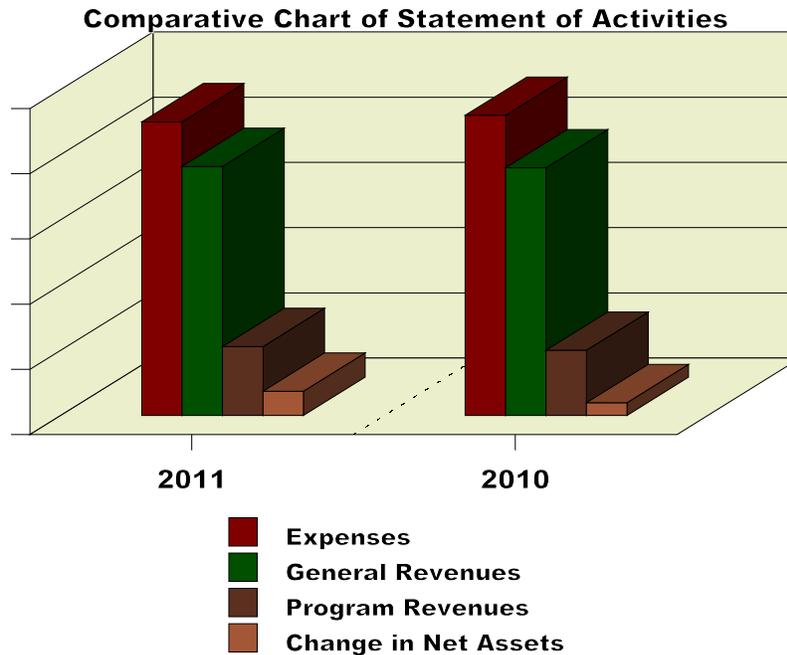
Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

**Forrest County School District**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2011**

**Table 2**  
**Changes in Net Assets**

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>	<u>Percentage Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 577,396	535,423	8%
Operating grants and contributions	<u>4,710,232</u>	<u>4,468,783</u>	5%
Total program revenues	<u>5,287,628</u>	<u>5,004,206</u>	6%
General revenues:			
Property taxes	6,875,948	6,601,435	4%
Grants and contributions not restricted	11,437,707	11,455,320	0%
Unrestricted investment earnings	247,689	198,754	25%
Sixteenth section sources	459,775	620,264	(26)%
Other	<u>61,915</u>	<u>118,649</u>	(48)%
Total general revenues	<u>19,083,034</u>	<u>18,994,422</u>	0%
<b>Total revenues</b>	<u>24,370,662</u>	<u>23,998,628</u>	2%
<b>Expenses:</b>			
Instruction	11,736,472	13,271,974	(12)%
Support services	9,282,930	8,219,175	13%
Non-instructional	1,193,154	1,215,886	(2)%
Sixteenth section	65,449	145,594	(55)%
Interest on long-term debt	<u>231,357</u>	<u>163,707</u>	41%
<b>Total expenses</b>	<u>22,509,362</u>	<u>23,016,336</u>	(2)%
<b>Increase (Decrease) in net assets</b>	<u>1,861,300</u>	<u>982,292</u>	89%
<b>Net Assets, July 1, as originally reported</b>	20,551,083	19,568,739	5%
<b>Prior Period Adjustment</b>	<u>52</u>	<u>52</u>	(100)%
<b>Net Assets, July 1, as restated</b>	<u>20,551,083</u>	<u>19,568,791</u>	5%
<b>Net Assets, June 30</b>	<u>\$ 22,412,383</u>	<u>20,551,083</u>	9%

**Forrest County School District**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2011**



**Governmental activities**

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

**Table 3**  
**Net Cost of Governmental Activities**

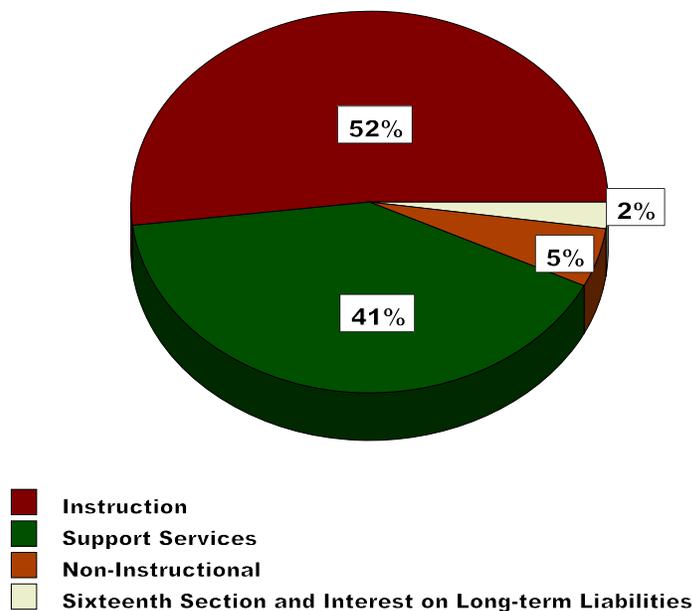
	<u>Total Expenses</u>		<b>Percentage Change</b>
	<b>2011</b>	<b>2010</b>	
Instruction	\$ 11,736,472	13,271,974	(12)%
Support services	9,282,930	8,219,175	13%
Non-instructional	1,193,154	1,215,886	(2)%
Sixteenth section	65,449	145,594	(55)%
Interest on long-term liabilities	231,357	163,707	41%
<b>Total expenses</b>	<u>\$ 22,509,362</u>	<u>23,016,336</u>	<u>(2)%</u>

**Forrest County School District**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2011**

**Net (Expense) Revenue**

	<u>2011</u>	<u>2010</u>	<u>Percentage Change</u>
Instruction	\$ (9,064,419)	(11,055,200)	(18)%
Support services	(8,010,771)	(6,812,196)	18%
Non-instructional	112,210	116,782	(4)%
Sixteenth section	(27,397)	(97,809)	(72)%
Interest on long-term liabilities	(231,357)	(163,707)	41%
<b>Total net (expense) revenue</b>	<b>\$ (17,221,734)</b>	<b>(18,012,130)</b>	<b>(4)%</b>

**Chart of Expenses as per Statement of Activities**



- Net cost of governmental activities (\$17,221,734 for 2011 and \$18,012,130 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$6,875,948 for 2011 and \$6,601,435 for 2010) and state and federal revenues (\$11,437,707 for 2011 and \$11,455,320 for 2010). In addition, there was \$459,775 and \$620,264 in Sixteenth Section sources for 2011 and 2010, respectively.
- Investment earnings amounted to \$247,689 for 2011 and \$198,754 for 2010.

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

**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, unassigned 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 the year, its governmental funds reported a combined fund balance of \$11,870,678, an increase of \$2,169,514, which includes an increase in reserve for inventory of \$11,251. This increase in fund balance is due primarily to the District's conservative approach to budgeting and spending during the fiscal year. \$6,630,065, or 56%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$5,240,613 or 44% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$3,322,853, which is due primarily to proceeds from the issuance of a shortfall note, the transfer of funds from the Sixteenth Section Interest Fund, and the District's conservative approach to budgeting and spending during the fiscal year. The fund balance of Other Governmental Funds showed a decrease in the amount of \$1,408,089. The increase (decrease) in the fund balances for the other major funds were as follows:

Major Fund	Increase (Decrease)
School Food Service Fund	\$ 189,602
Title I - A Basic Fund	no increase or decrease
Sixteenth Section Interest Fund	\$ 65,148

**BUDGETARY HIGHLIGHTS**

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Significant budget revisions during the fiscal year are explained as follows:

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

- Budgeted amounts for revenue from state sources in the General Fund were increased during the fiscal year to reflect an increase in Mississippi Adequate Education Program (MAEP) funds from amounts originally budgeted. The District took a conservative approach to budgeting and considered anticipated budget cuts when preparing the original budget.
- Budgeted amounts for instruction expenditures in the General Fund were decreased during the fiscal year. The District received approximately \$630,000 in Budget Stabilization fund and approximately \$460,000 in Federal Education Jobs fund that were reported in special revenue funds. Instructional expenditures normally incurred in the General Fund were reclassified to these special revenue funds and federal funds were received to cover these expenditures.
- Budgeted amounts for support services expenditures in the General Fund were decreased during the fiscal year. The District took a conservative approach to spending and some expenditures originally budgeted were not incurred.
- The original budget for the General Fund was revised to reflect proceeds from the issuance of a shortfall note and a capital lease.

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

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2011, the District's total capital assets were \$30,093,139, including land, school buildings, building improvements, improvements other than buildings, buses, other school vehicles, furniture and equipment and leased property under capital leases. This amount represents an increase of \$57,768 from 2010. Total accumulated depreciation as of June 30, 2011, was \$11,918,366, and total depreciation expense for the year was \$669,792, resulting in total net capital assets of \$18,174,773.

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

**Table 4**  
**Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	\$ 189,828	189,828	0%
Buildings	16,917,754	17,364,054	(3)%
Building improvements	123,624	130,492	(5)%
Improvements other than buildings	137,114	145,800	(6)%
Mobile equipment	615,575	720,444	(15)%
Furniture and equipment	146,933	194,107	(24)%
Leased property under capital leases	43,945	12,417	254%
<b>Total</b>	<b>\$ <u>18,174,773</u></b>	<b><u>18,757,142</u></b>	<b><u>(3)%</u></b>

Additional information on the District's capital assets can be found in Note 5 included in this report.

**Debt Administration.** At June 30, 2011, the District had \$7,683,086 in outstanding long-term debt, of which \$686,600 is due within one year. During the fiscal year, the District received proceeds from the issuance of shortfall note in the amount of \$244,691 and entered into a capital lease in the amount of \$51,184. The District made principal payments in the amount of \$577,306 on existing long-term debt. The liability for compensated absences decreased \$6,944 from the prior year.

**Table 5**  
**Outstanding Long-Term Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Limited obligation bonds payable	\$ 2,585,000	2,865,000	(10)%
Certificates of participation payable	388,270	506,349	(23)%
Three mill notes payable	1,855,000	1,980,000	(6)%
Shortfall notes payable	340,450	141,410	141%
Obligations under capital leases	46,275	3,667	1162%
Qualified school construction bonds payable	2,360,000	2,360,000	0%
Compensated absences payable	108,091	115,035	(6)%
<b>Total</b>	<b>\$ <u>7,683,086</u></b>	<b><u>7,971,461</u></b>	<b><u>(4)%</u></b>

Additional information on the District's long-term debt can be found in Note 6 included in this report.

**Forrest County School District**  
Management's Discussion and Analysis  
For the Year Ended June 30, 2011

**CURRENT ISSUES**

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

The District has committed itself to financial excellence for many years. The District's system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

The District actively pursues grant funding to supplement the local, state and federal revenues.

Enrollment for the 2010- 2011 year decreased by 2% to 2,409 students.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

## FINANCIAL STATEMENTS

**FORREST COUNTY SCHOOL DISTRICT**

**Statement of Net Assets**  
**June 30, 2011**

**Exhibit A**

		Governmental Activities
<b>Assets</b>		
Cash and cash equivalents	\$	9,732,874
Due from other governments		1,030,706
Inventories		31,093
Deferred debt issuance costs		78,673
Restricted assets		1,215,229
Capital assets, non-depreciable:		
Land		189,828
Capital assets, net of accumulated depreciation:		
Buildings		16,917,754
Building improvements		123,624
Improvements other than buildings		137,114
Mobile equipment		615,575
Furniture and equipment		146,933
Leased property under capital leases		43,945
Total Assets		30,263,348
<b>Liabilities</b>		
Accounts payable and accrued liabilities		128,064
Due to other governments		365
Unearned revenue		10,795
Interest payable on long-term liabilities		76,812
Deferred charges on refunding debt		(55,980)
Deferred bond premiums		7,823
Long-term liabilities, due within one year:		
Capital related liabilities		554,826
Non-capital related liabilities		131,774
Long-term liabilities, due beyond one year:		
Capital related liabilities		4,319,719
Non-capital related liabilities		2,676,767
Total Liabilities		7,850,965
<b>Net Assets</b>		
Invested in capital assets, net of related debt		13,561,984
Restricted for:		
Expendable:		
School-based activities		791,258
Debt service		1,345,788
Forestry improvements		101,752
Unemployment benefits		53,636
Non-expendable:		
Sixteenth section		731,101
Unrestricted		5,826,864
Total Net Assets	\$	22,412,383

**FORREST COUNTY SCHOOL DISTRICT**

**Statement of Activities  
For the Year Ended June 30, 2011**

**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	Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 11,736,472	\$ 279,708	\$ 2,392,345	-	\$ (9,064,419)
Support services	9,282,930	-	1,272,159	-	(8,010,771)
Non-instructional	1,193,154	259,636	1,045,728	-	112,210
Sixteenth section	65,449	38,052	-	-	(27,397)
Interest on long-term liabilities	231,357	-	-	-	(231,357)
<b>Total Governmental Activities</b>	<b>\$ 22,509,362</b>	<b>\$ 577,396</b>	<b>\$ 4,710,232</b>	<b>-</b>	<b>\$ (17,221,734)</b>

**General Revenues:**

**Taxes:**

General purpose levies	6,439,907
Debt purpose levies	436,041

**Unrestricted grants and contributions:**

State	10,414,731
Federal	1,022,976
Unrestricted investment earnings	247,689
Sixteenth section sources	459,775
Other	61,915
<b>Total General Revenues</b>	<b>19,083,034</b>

Change in Net Assets	1,861,300
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Net Assets - Beginning	20,551,083
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Net Assets - Ending	\$ 22,412,383
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**FORREST COUNTY SCHOOL DISTRICT**

**Governmental Funds**

**Balance Sheet**  
**June 30, 2011**

**Exhibit C**

	Major Funds						Total Governmental Funds
	General Fund	School Food Service Fund	Title I-A Basic Fund	Sixteenth Section Interest Fund	Other Governmental Funds		
<b>Assets</b>							
Cash and cash equivalents	\$ 6,703,063	\$ 566,614	\$ -	\$ 620,777	\$ 2,779,354	\$ -	10,669,808
Cash with fiscal agents	-	-	-	-	278,295	-	278,295
Due from other governments	575,605	-	91,998	14,868	342,470	-	1,024,941
Due from other funds	623,486	-	-	-	-	-	623,486
Inventories	-	31,093	-	-	-	-	31,093
Total assets	<u>\$ 7,902,154</u>	<u>\$ 597,707</u>	<u>\$ 91,998</u>	<u>\$ 635,645</u>	<u>\$ 3,400,119</u>	<u>\$ -</u>	<u>12,627,623</u>
<b>Liabilities and Fund Balances</b>							
<b>Liabilities:</b>							
Accounts payable and accrued liabilities	\$ 58,920	\$ 3,387	\$ 15,293	\$ -	\$ 50,464	\$ -	128,064
Due to other funds	-	77,645	76,705	374,824	88,912	-	618,086
Unearned revenue	-	-	-	-	10,795	-	10,795
Total Liabilities	<u>58,920</u>	<u>81,032</u>	<u>91,998</u>	<u>374,824</u>	<u>150,171</u>	<u>-</u>	<u>756,945</u>
<b>Fund Balances:</b>							
<b>Nonspendable:</b>							
Inventory	-	31,093	-	-	-	-	31,093
Permanent fund principal	-	-	-	-	731,101	-	731,101
<b>Restricted:</b>							
Debt service	-	-	-	-	1,422,600	-	1,422,600
Non-capital improvements	-	-	-	-	213,599	-	213,599
Forestry improvement purposes	-	-	-	-	101,752	-	101,752
Unemployment benefits	-	-	-	-	53,636	-	53,636
Food service	-	485,582	-	-	13,762	-	499,344
Sixteenth section interest	-	-	-	260,821	-	-	260,821
<b>Assigned:</b>							
Capital improvements	-	-	-	-	713,498	-	713,498
Activity funds	150,970	-	-	-	-	-	150,970
Alternative school	7,506	-	-	-	-	-	7,506
District maintenance fund	921,838	-	-	-	-	-	921,838
At risk	10,926	-	-	-	-	-	10,926
Special education	2,330	-	-	-	-	-	2,330
Other purposes	119,599	-	-	-	-	-	119,599
<b>Unassigned</b>	<u>6,630,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,630,065</u>
Total Fund Balances	<u>7,843,234</u>	<u>516,675</u>	<u>-</u>	<u>260,821</u>	<u>3,249,948</u>	<u>-</u>	<u>11,870,678</u>
Total Liabilities and Fund Balances	<u>\$ 7,902,154</u>	<u>\$ 597,707</u>	<u>\$ 91,998</u>	<u>\$ 635,645</u>	<u>\$ 3,400,119</u>	<u>\$ -</u>	<u>12,627,623</u>

**FORREST COUNTY SCHOOL DISTRICT**

**Governmental Funds**

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets  
June 30, 2011**

**Exhibit C-1**

**Total fund balances for governmental funds** \$ 11,870,678

Amounts reported for governmental activities in the statement of net assets are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$ 189,828	
Buildings	22,933,051	
Building improvements	171,700	
Improvements other than buildings	217,163	
Mobile equipment	2,351,970	
Furniture and equipment	4,178,243	
Leased property under capital leases	51,184	
Accumulated depreciation	<u>(11,918,366)</u>	18,174,773

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

Limited obligation bonds	(2,585,000)	
Other bonds payable	(2,360,000)	
Notes payable	(2,195,450)	
Certificates of participation	(388,270)	
Capital lease obligations	(46,275)	
Compensated absences	(108,091)	
Unamortized charges	134,653	
Unamortized premiums	(7,823)	
Accrued interest payable	<u>(76,812)</u>	(7,633,068)

**Net assets of governmental activities** \$ 22,412,383

## FORREST COUNTY SCHOOL DISTRICT

## Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended June 30, 2011

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	School Food Service Fund	Title I-A Basic Fund	Sixteenth Section Interest Fund	Other Governmental Funds	
<b>Revenues:</b>						
Local sources	\$ 6,950,112	\$ 252,363	\$ 405	\$ -	\$ 485,595	\$ 7,688,475
State sources	9,914,126	13,069	-	-	956,480	10,883,675
Federal sources	314,134	1,133,284	1,181,658	65,158	2,570,030	5,264,264
Sixteenth section sources	-	-	-	382,851	149,595	532,446
<b>Total Revenues</b>	<b>17,178,372</b>	<b>1,398,716</b>	<b>1,182,063</b>	<b>448,009</b>	<b>4,161,700</b>	<b>24,368,860</b>
<b>Expenditures:</b>						
Instruction	8,123,225	-	828,399	-	2,420,115	11,371,739
Support services	6,041,307	143,726	295,505	-	2,673,419	9,153,957
Noninstructional services	72,430	998,994	26,101	-	15,525	1,113,050
Sixteenth section	-	-	-	47,385	18,064	65,449
Debt service:						
Principal	8,576	-	-	-	568,730	577,306
Interest	543	-	-	-	219,292	219,835
Other	-	-	-	-	7,136	7,136
<b>Total Expenditures</b>	<b>14,246,081</b>	<b>1,142,720</b>	<b>1,150,005</b>	<b>47,385</b>	<b>5,922,281</b>	<b>22,508,472</b>
Excess (Deficiency) of Revenues over (under) Expenditures	2,932,291	255,996	32,058	400,624	(1,760,581)	1,860,388
<b>Other Financing Sources (Uses):</b>						
Notes issued	244,691	-	-	-	-	244,691
Capital leases issued	51,184	-	-	-	-	51,184
Payments held by escrow agent	-	-	-	-	50,000	50,000
Payment to QSCB debt escrow agent	-	-	-	-	(50,000)	(50,000)
Sale of other property	2,000	-	-	-	-	2,000
Operating transfers in	494,370	-	-	18,822	401,683	914,875
Operating transfers out	(401,683)	(77,645)	(32,058)	(354,298)	(49,191)	(914,875)
<b>Total Other Financing Sources (Uses)</b>	<b>390,562</b>	<b>(77,645)</b>	<b>(32,058)</b>	<b>(335,476)</b>	<b>352,492</b>	<b>297,875</b>
<b>Net Change in Fund Balances</b>	<b>3,322,853</b>	<b>178,351</b>	<b>-</b>	<b>65,148</b>	<b>(1,408,089)</b>	<b>2,158,263</b>
<b>Fund Balances:</b>						
July 1, 2010, as originally reported	4,520,381	327,073	-	195,673	4,658,037	9,701,164
Increase (Decrease) in reserve for inventory	-	11,251	-	-	-	11,251
<b>June 30, 2011</b>	<b>\$ 7,843,234</b>	<b>\$ 516,675</b>	<b>\$ -</b>	<b>\$ 260,821</b>	<b>\$ 3,249,948</b>	<b>\$ 11,870,678</b>

**FORREST COUNTY SCHOOL DISTRICT**

**Governmental Funds**

**Reconciliation of the Governmental Funds Statement of Revenues,  
Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Year Ended June 30, 2011**

**Exhibit D-1**

**Net change in fund balances - total governmental funds** \$ 2,158,263

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 87,723	
Depreciation expense	<u>(669,792)</u>	(582,069)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold. (300)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Notes issued	(244,691)	
Capital leases issued	(51,184)	
Payments of debt principal	577,306	
Accrued interest payable	<u>1,633</u>	283,064

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	6,944	
Change in inventory reserve	11,251	
Amortization of deferred charges, premiums and discounts	<u>(15,853)</u>	2,342

<b>Change in net assets of governmental activities</b>		<u><u>\$ 1,861,300</u></u>
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FORREST COUNTY SCHOOL DISTRICT

**Fiduciary Funds**

**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2011**

**Exhibit E**

	<u>Agency Funds</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 653,364
Due from other funds	365
Total Assets	<u>\$ 653,729</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 647,708
Due to other funds	5,765
Due to student clubs	256
Total Liabilities	<u>\$ 653,729</u>

**Forrest County School District**

Notes to the Financial Statements  
June 30, 2011

## Forrest County School District

Notes to the Financial Statements  
For the Year Ended June 30, 2011

### Note 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. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

#### B. 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 is 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.

## **Forrest County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2011

The Foundation is governed by a five member board which is 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, fund balances, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (See Note 10).

### **C. Government-wide and Fund Financial Statements**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund 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 non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of 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, are 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 taxes and other items not included among program revenues are reported instead as general revenues.

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

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

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

School Food Service Fund - This is a special revenue fund that accounts for the recording of transactions related to the child nutrition program.

Title I - A Basic Fund - This is a special revenue fund that accounts for the federal revenue received and expenditures incurred related to the Title I grants to local educational agencies program.

Sixteenth 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.

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

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.

ET Scholarship Fund - This agency fund is used to report resources held by the District for students at East Travillion Attendance Center.

Additionally, the school district reports the following fund types:

## Forrest County School District

Notes to the Financial Statements  
For the Year Ended June 30, 2011

### GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

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

### FIDUCIARY FUNDS

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

#### **D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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.

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. 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

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

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 taxes, 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 the 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 inter-fund activity has been eliminated from the government-wide statements.

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, 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.

## Forrest County School District

Notes to the Financial Statements  
For the Year Ended June 30, 2011

### **E. Encumbrances**

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

### **F. Assets, liabilities, and net assets/fund balances**

#### 1. Cash, Cash equivalents and Investments

##### Cash and cash equivalents

The district's 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 Sections 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 are reported at fair market value.

#### 2. Receivables and payables

Activities 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

3. Due from Other Governments

Due from other governments represents 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.

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets 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 16<sup>th</sup> Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets 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 cost. 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 table below.

# Forrest County School District

## Notes to the Financial Statements For the Year Ended June 30, 2011

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 the capitalization 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 and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required to do so by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability 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 liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

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

In the government-wide 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 Balances

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

*Nonspendable fund balance* includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

*Restricted fund balance* includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

*Committed fund balance* includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. Currently there is no committed fund balance for this school district.

*Assigned fund balance* includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed.

## Forrest County School District

Notes to the Financial Statements  
For the Year Ended June 30, 2011

Assignments of fund balance are created by the Superintendent and Business Manager pursuant to authorization established by the policy adopted by the school district.

*Unassigned fund balance* is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

### **Note 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 districts' 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 \$10,669,808 and \$653,364, respectively. The carrying amount of deposits reported in government-wide statements was: cash and cash equivalents \$9,732,874 and restricted assets of \$936,934. The bank balance was \$13,188,514.

**Forrest County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2011

*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, 2011, none of the district’s bank balance of \$13,188,514 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 \$278,295. This amount is also shown as restricted assets on Exhibit A.

**Note 3 - Inter-fund Receivables, Payables and Transfers**

The following is a summary of inter-fund transactions and balances:

**A. Due From/To Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	School Food Service Fund	\$ 77,645
	Title I - A Basic Fund	76,705
	Sixteenth Section Interest Fund	374,824
	Other Governmental Funds	88,547
	Fiduciary Funds	5,765
Fiduciary Funds	Other Governmental Funds	<u>365</u>
Total		<u>\$ 623,851</u>

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

**B. Inter-fund Transfers**

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General Fund	School Food Service Fund	\$ 77,645
	Title I - A Basic Fund	32,058
	Sixteenth Section Interest Fund	354,298
	Other Governmental Funds	30,369
Sixteenth Section Interest Fund	Other Governmental Funds	18,822
Other Governmental Funds	General Fund	<u>401,683</u>
Total		<u>\$ 914,875</u>

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

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

#### Note 4 - Restricted Assets

The restricted assets represent the cash balance, totaling \$717,408, 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 the cash with fiscal agent balance, totaling \$228,293, of the MAEP Limited Obligation Bond/Note Fund, the cash balance, totaling \$219,526, of the Qualified Bond Project Fund, and the cash with fiscal agent balance, totaling \$50,002 of the QSCB Bond Retirement Fund.

#### Note 5- Capital Assets

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

	Balance 7-1-2010	Additions	Retirements	Adjustments	Balance 6-30-2011
<u>Non-depreciable capital assets:</u>					
Land	\$ 189,828				189,828
Total non-depreciable capital assets	189,828	0	0	0	189,828
<u>Depreciable capital assets:</u>					
Buildings	22,933,051				22,933,051
Building improvements	171,700				171,700
Improvements other than buildings	217,163				217,163
Mobile equipment	2,351,970				2,351,970
Furniture and equipment	4,129,259	36,539	29,955	42,400	4,178,243
Leased property under capital leases	42,400	51,184		(42,400)	51,184
Total depreciable capital assets	29,845,543	87,723	29,955	0	29,903,311
<u>Less accumulated depreciation for:</u>					
Buildings	5,568,997	446,300			6,015,297
Building improvements	41,208	6,868			48,076
Improvements other than buildings	71,363	8,686			80,049
Mobile equipment	1,631,526	104,869			1,736,395
Furniture and equipment	3,935,152	95,830	29,655	29,983	4,031,310
Leased property under capital leases	29,983	7,239		(29,983)	7,239
Total accumulated depreciation	11,278,229	669,792	29,655	0	11,918,366
Total depreciable capital assets, net	18,567,314	(582,069)	300	0	17,984,945
Governmental activities capital assets, net	\$ 18,757,142	(582,069)	300	0	18,174,773

Adjustments were made to capital assets to record a new copier purchased in the current fiscal year. A copier under capital lease was paid off in the current year and an adjustment was needed to correctly present it in furniture and equipment category.

**Forrest County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2011

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 453,150
Support services	123,197
Non-instructional	93,445
Total depreciation expense	<u>\$ 669,792</u>

**Note 6 - Long-term liabilities**

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

	Balance 7-1-2010	Additions	Reductions	Balance 6-30-2011	Amounts due within one year
A. Limited obligation bonds payable	\$ 2,865,000		280,000	2,585,000	285,000
B. Certificates of participation payable	506,349		118,079	388,270	124,871
C. Three mill notes payable	1,980,000		125,000	1,855,000	135,000
D. Shortfall notes payable	141,410	244,691	45,651	340,450	126,369
E. Obligation under capital leases	3,667	51,184	8,576	46,275	9,955
F. Qualified school construction bonds payable	2,360,000			2,360,000	
G. Compensated absences payable	115,035		6,944	108,091	5,405
Total	<u>\$ 7,971,461</u>	<u>295,875</u>	<u>584,250</u>	<u>7,683,086</u>	<u>686,600</u>

**A. Limited Obligation Bonds Payable**

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bond 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>
State aid capital improvement bonds, Series 2009	3.0-3.375%	08-01-09	08-01-18	\$ 2,865,000	2,585,000
Total				<u>\$ 2,865,000</u>	<u>2,585,000</u>

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

**Forrest County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2011

Year Ending June 30		Principal	Interest	Total
2012	\$	285,000	76,788	361,788
2013		310,000	67,863	377,863
2014		310,000	58,563	368,563
2015		315,000	49,188	364,188
2016		325,000	39,588	364,588
2017 - 2019		1,040,000	54,197	1,094,197
Total	\$	<u>2,585,000</u>	<u>346,187</u>	<u>2,931,187</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.

**B. 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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation, June 1999	5.45%	06-30-99	06-30-14	\$ 1,459,469	388,270
Total				<u>\$ 1,459,469</u>	<u>388,270</u>

Details of the district's June 30, 2011 certificates of participation are as follows:

Year Ending June 30		Principal	Interest	Total
2012	\$	124,871	17,800	142,671
2013		131,849	10,822	142,671
2014		131,550	3,457	135,007
Total	\$	<u>388,270</u>	<u>32,079</u>	<u>420,349</u>

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

**Forrest County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2011

**C. 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%	02-01-02	02-01-22	\$ 2,800,000	1,855,000
Total				<u>\$ 2,800,000</u>	<u>1,855,000</u>

Details of the district's June 30, 2010 three mill notes payable is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 135,000	81,009	216,009
2013	140,000	74,934	214,934
2014	145,000	69,054	214,054
2015	150,000	62,819	212,819
2016	160,000	56,219	216,219
2017 - 2021	915,000	169,752	1,084,752
2022	<u>210,000</u>	<u>9,187</u>	<u>219,187</u>
Total	\$ <u>1,855,000</u>	<u>522,974</u>	<u>2,377,974</u>

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

**D. Shortfall 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>
Shortfall notes payable	3.49%	06-30-09	07-01-12	\$ 141,410	95,759
Shortfall notes payable	2.80%	07-12-10	07-01-13	244,691	244,691
Total				<u>\$ 386,101</u>	<u>340,450</u>

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

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

#### 1. Shortfall notes payable issue of 2009:

Year Ending June 30		Principal	Interest	Total
2012	\$	47,047	3,388	50,435
2013		48,712	1,723	50,435
Total	\$	<u>95,759</u>	<u>5,111</u>	<u>100,870</u>

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

#### 2. Shortfall notes payable issue of 2010:

Year Ending June 30		Principal	Interest	Total
2012	\$	79,322	6,851	86,173
2013		81,543	4,630	86,173
2014		83,826	2,347	86,173
Total	\$	<u>244,691</u>	<u>13,828</u>	<u>258,519</u>

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

Total shortfall notes payable payments for all issues:

Year Ending June 30		Principal	Interest	Total
2012	\$	126,369	10,239	136,608
2013		130,255	6,353	136,608
2014		83,826	2,347	86,173
Total	\$	<u>340,450</u>	<u>18,939</u>	<u>359,389</u>

#### **E. Obligations under capital leases**

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

1. Eight copy machines at a cost of \$51,184. The district will take possession at the expiration of the lease.

## Forrest County School District

### Notes to the Financial Statements For the Year Ended June 30, 2011

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Copiers	1.84%	11-08-10	01-01-16	\$ 51,184	46,275
Total				\$ <u>51,184</u>	<u>46,275</u>

Year Ending June 30	Principal	Interest	Total
2012	\$ 9,955	784	10,739
2013	10,124	599	10,723
2014	10,312	411	10,723
2015	10,504	220	10,724
2016	5,380	38	5,418
Total	\$ <u>46,275</u>	<u>2,052</u>	<u>48,327</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 the effective interest method and the straight-line method is not considered material.

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

#### F. Qualified school construction bond payable

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bond payable	0%	12-23-09	09-15-24	\$ 2,360,000	2,360,000
Total				\$ <u>2,360,000</u>	<u>2,360,000</u>

#### G. 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.

### Note 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

## **Forrest County School District**

### Notes to the Financial Statements For the Year Ended June 30, 2011

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 9.00% 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, 2011 was 12.00% of the 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, 2011, 2010 and 2009 were \$1,362,434, \$1,471,099, and \$1,467,286, respectively, which equaled the required contributions for each year.

#### **Note 8 - Risk Management**

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

#### **Note 9 - 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.

## Forrest County School District

Notes to the Financial Statements  
For the Year Ended June 30, 2011

Year Ending June 30		Amount
2012	\$	101,609
2013		98,095
2014		77,313
2015		75,402
2016		69,341
2017 - 2021		290,855
2022 - 2026		229,691
2027 - 2031		164,689
2032 - 2036		77,619
2037 - 2041		688
Total	\$	<u>1,185,302</u>

### Note 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

## Forrest County School District

Notes to the Financial Statements  
For the Year Ended June 30, 2011

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.

### Note 11 - Qualified School Construction Bonds

Section 1521 of the American Recovery and Reinvestment Act (ARRA) of 2009 provides for a source of capital at no or at nominal interest rates for costs incurred by certain public schools in connection with the construction, rehabilitation or repair of a public school facility or for the acquisition of land where a school will be built. Investors receive Federal income tax credits at prescribed tax credit rates in lieu of interest, which essentially allows state and local governments to borrow without incurring interest costs.

The school district makes annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2011 was \$50,002. The amount accumulated in the sinking fund at the end of the seventeen-year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30		Amount
2012	\$	47,000
2013		48,000
2014		49,000
2015		50,000
2016		132,000
2017 - 2021		658,000
2022 - 2025		1,176,000
Total	\$	<u>2,160,000</u>

## **Forrest County School District**

Notes to the Financial Statements  
For the Year Ended June 30, 2011

### **Note 12 - Prior Year Defeasance of Debt**

In prior years, the Forrest County School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2011, \$2,585,000 of bonds are defeased.

REQUIRED SUPPLEMENTAL INFORMATION

**FORREST COUNTY SCHOOL DISTRICT**

**Required Supplemental Information**

**Budgetary Comparison Schedule  
General Fund  
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 6,955,546	\$ 6,950,112	\$ 6,950,112	\$ (5,434)	\$ -
State sources	8,626,503	9,914,126	9,914,126	1,287,623	-
Federal sources	188,277	314,134	314,134	125,857	-
Total Revenues	15,770,326	17,178,372	17,178,372	1,408,046	-
<b>Expenditures:</b>					
Instruction	9,374,498	8,123,225	8,123,225	1,251,273	-
Support services	6,648,117	6,041,307	6,041,307	606,810	-
Noninstructional services	78,500	72,430	72,430	6,070	-
Debt service:					
Principal	4,561	8,576	8,576	(4,015)	-
Interest	136	543	543	(407)	-
Total Expenditures	16,105,812	14,246,081	14,246,081	1,859,731	-
Excess (Deficiency) of Revenues over (under) Expenditures	(335,486)	2,932,291	2,932,291	3,267,777	-
<b>Other Financing Sources (Uses):</b>					
Notes issued	-	244,691	244,691	244,691	-
Capital leases issued	-	51,184	51,184	51,184	-
Sale of other property	-	2,000	2,000	2,000	-
Operating transfers in	1,164,097	1,275,566	494,370	111,469	(781,196)
Operating transfers out	(988,989)	(1,182,879)	(401,683)	(193,890)	781,196
Total Other Financing Sources (Uses)	175,108	390,562	390,562	215,454	-
Net Change in Fund Balances	(160,378)	3,322,853	3,322,853	3,483,231	-
Fund Balances:					
July 1, 2010	4,520,381	4,520,381	4,520,381	-	-
June 30, 2011	\$ 4,360,003	\$ 7,843,234	\$ 7,843,234	\$ 3,483,231	\$ -

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

**FORREST COUNTY SCHOOL DISTRICT**

**Required Supplemental Information**

**Budgetary Comparison Schedule  
School Food Service Fund  
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 298,000	\$ 252,363	\$ 252,363	\$ (45,637)	-
State sources	12,000	13,069	13,069	1,069	-
Federal sources	998,177	1,133,284	1,133,284	135,107	-
Total Revenues	1,308,177	1,398,716	1,398,716	90,539	-
<b>Expenditures:</b>					
Support services	156,806	143,726	143,726	13,080	-
Noninstructional services	1,052,426	998,994	998,994	53,432	-
Total Expenditures	1,209,232	1,142,720	1,142,720	66,512	-
Excess (Deficiency) of Revenues over (under) Expenditures	98,945	255,996	255,996	157,051	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(98,148)	(77,645)	(77,645)	20,503	-
Total Other Financing Sources (Uses)	(98,148)	(77,645)	(77,645)	20,503	-
Net Change in Fund Balances	797	178,351	178,351	177,554	-
Fund Balances:					
July 1, 2010	327,073	327,073	327,073	-	-
Increase (Decrease) in reserve for inventory	11,251	11,251	11,251	-	-
June 30, 2011	\$ 339,121	\$ 516,675	\$ 516,675	\$ 177,554	-

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

**FORREST COUNTY SCHOOL DISTRICT**

**Required Supplemental Information**

**Budgetary Comparison Schedule**

**Title I-A Basic Fund**

**For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ -	\$ 405	\$ 405	\$ 405	\$ -
Federal sources	1,188,020	1,181,658	1,181,658	(6,362)	-
Total Revenues	1,188,020	1,182,063	1,182,063	(5,957)	-
<b>Expenditures:</b>					
Instruction	889,544	828,399	828,399	61,145	-
Support services	267,476	295,505	295,505	(28,029)	-
Noninstructional services	16,000	26,101	26,101	(10,101)	-
Total Expenditures	1,173,020	1,150,005	1,150,005	23,015	-
Excess (Deficiency) of Revenues over (under) Expenditures	15,000	32,058	32,058	17,058	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(15,000)	(32,058)	(32,058)	(17,058)	-
Total Other Financing Sources (Uses)	(15,000)	(32,058)	(32,058)	(17,058)	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2010	-	-	-	-	-
June 30, 2011	\$ -	\$ -	\$ -	\$ -	\$ -

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

**FORREST COUNTY SCHOOL DISTRICT**

**Required Supplemental Information**

**Budgetary Comparison Schedule  
Sixteenth Section Interest Fund  
For the Year Ended June 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 65,158	\$ 65,158	\$ 65,158	\$ -	\$ -
Sixteenth section sources	293,058	382,851	382,851	89,793	-
Total Revenues	358,216	448,009	448,009	89,793	-
<b>Expenditures:</b>					
Sixteenth section	35,365	47,385	47,385	(12,020)	-
Total Expenditures	35,365	47,385	47,385	(12,020)	-
Excess (Deficiency) of Revenues over (under) Expenditures	322,851	400,624	400,624	77,773	-
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	13,000	18,822	18,822	5,822	-
Operating transfers out	(335,851)	(354,298)	(354,298)	(18,447)	-
Total Other Financing Sources (Uses)	(322,851)	(335,476)	(335,476)	(12,625)	-
Net Change in Fund Balances	-	65,148	65,148	65,148	-
Fund Balances:					
July 1, 2010	195,673	195,673	195,673	-	-
June 30, 2011	\$ 195,673	\$ 260,821	\$ 260,821	\$ 65,148	\$ -

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

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION

## **Forrest County School District**

Notes to the Required Supplemental Information  
For the Year Ended June 30, 2011

### Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget Amendments and Revisions

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before 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.

## SUPPLEMENTAL INFORMATION

**Forrest County School District**  
Schedule of Expenditures of Federal Awards  
For the Year Ended June 30, 2011

**Schedule 1**

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b><u>U. S. Department of Agriculture</u></b>		
Passed-through Farm Service Agency:		
Emergency Conservative Program	10.054	\$ 76,656
Total passed-through Farm Service Agency		<u>76,656</u>
Passed-through the Mississippi Department of Education:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	303,218
National School Lunch Program	10.555	830,066
Total child nutrition cluster		<u>1,133,284</u>
Fresh Fruit and Vegetable Program	10.582	15,095
Total passed -through the Mississippi Department of Education		<u>1,148,379</u>
Passed-through Forrest County		
Schools and Roads - Grants to States	10.665	134,916
Total passed-through Forrest County		<u>134,916</u>
<b>Total U. S. Department of Agriculture</b>		<u>1,359,951</u>
<b><u>Federal Communications Commission</u></b>		
Administered through Universal Service Administrative Company:		
The School and Libraries Program of the Universal Service Fund	32.xxx	106,919
<b>Total Federal Communications Commission</b>		<u>106,919</u>
<b><u>U. S. Department of Education</u></b>		
Passed-through the Mississippi Department of Education:		
Title I Cluster:		
Title I Grants to Local Educational Agencies	84.010	1,182,063
ARRA - Title I Grants to Local Educational Agencies, Recovery Act	84.389	188,858
Total Title I cluster		<u>1,370,921</u>
Career and Technical Education - Basic Grants to States	84.048	34,990
Safe and Drug Free Schools and Communities - State Grants	84.186	3,285
Education Technology State Grants	84.318	10,545
Special Education - State Personnel Development Grant	84.323	15,978
Rural Education	84.358	48,205
Improving Teacher Quality - State Grants	84.367	200,621
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	84.394	632,186
Education Jobs Fund	84.410	467,445
Subtotal		<u>1,413,255</u>
Special Education Cluster:		
Special Education - Grants to States	84.027	557,579
Special Education - Preschool Grants	84.173	17,679
ARRA - Special Education Grants to States, Recovery Act	84.391	361,066
ARRA - Special Education Preschool Grants - Education State Grants, Recovery Act	84.392	21,019
Total special education cluster		<u>957,343</u>
Total passed-through the Mississippi Department of Education		<u>3,741,519</u>
<b>Total U. S. Department of Education</b>		<u>3,741,519</u>
<b><u>U.S. Department of Health and Human Services</u></b>		
Passed through the Mississippi Division of Medicaid:		
Medical Assistance Program	93.778	56,321
<b>Total U.S. Department of Health and Human Services</b>		<u>56,321</u>
TOTAL FOR ALL FEDERAL AWARDS	\$	<u>5,264,710</u>

Notes to Schedule

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

**Forrest County School District**

Schedule 2

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2011

<b>Expenditures</b>	<b>Total</b>	<b>Instruction and Other Student Instructional Expenditures</b>	<b>General Administration</b>	<b>School Administration</b>	<b>Other</b>
Salaries and fringe benefits	\$ 15,580,783	11,852,717	839,317	1,048,997	1,839,752
Other	6,927,689	1,801,928	403,794	42,068	4,679,899
Total	\$ <u>22,508,472</u>	<u>13,654,645</u>	<u>1,243,111</u>	<u>1,091,065</u>	<u>6,519,651</u>
Total number of students *	2,409				
Cost per student	\$ 9,343	5,668	516	453	2,706

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.

General Administration - includes expenditures for the following functions: Support Services - General Administration; Support Services - Business

School Administration - includes expenditures for the following functions: Support Services - School Administration

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

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

OTHER SUPPLEMENTAL INFORMATION

**FORREST COUNTY SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in Fund Balances  
 General Fund  
 Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
<b>Revenues:</b>				
Local sources	\$ 6,950,112	6,676,522	5,773,390	6,052,469
State sources	9,914,126	9,884,948	10,633,979	11,342,449
Federal sources	314,134	234,366	274,738	325,567
Total Revenues	<u>17,178,372</u>	<u>16,795,836</u>	<u>16,682,107</u>	<u>17,720,485</u>
<b>Expenditures:</b>				
Instruction	8,123,225	9,019,267	10,177,302	10,759,170
Support services	6,041,307	6,288,925	6,153,345	6,867,019
Noninstructional services	72,430	59,821	64,567	94,845
Debt Service:				
Principal	8,576	10,174	14,895	19,472
Interest	543	1,096	2,278	3,603
Total Expenditures	<u>14,246,081</u>	<u>15,379,283</u>	<u>16,412,387</u>	<u>17,744,109</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>2,932,291</u>	<u>1,416,553</u>	<u>269,720</u>	<u>(23,624)</u>
<b>Other Financing Sources (Uses):</b>				
Notes issued	244,691			
Capital leases issued	51,184			
Proceeds of loans			141,410	
Insurance loss recoveries			4,913	
Sale of transportation equipment				2,003
Sale of other property	2,000			247
Operating transfers in	494,370	496,682	1,423,790	426,745
Other financing sources			2,736	
Operating transfers out	(401,683)	(329,281)	(331,491)	(323,809)
Other financing uses			(6,471)	(373)
Total Other Financing Sources (Uses)	<u>390,562</u>	<u>167,401</u>	<u>1,234,887</u>	<u>104,813</u>
Net Change in Fund Balances	<u>3,322,853</u>	<u>1,583,954</u>	<u>1,504,607</u>	<u>81,189</u>
<b>Fund Balances:</b>				
July 1,	4,520,381	2,936,427	1,431,820	1,350,631
June 30,	<u>\$ 7,843,234</u>	<u>4,520,381</u>	<u>2,936,427</u>	<u>1,431,820</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

**FORREST COUNTY SCHOOL DISTRICT**

Statement of Revenues, Expenditures and Changes in Fund Balances  
 All Governmental Funds  
 Last Four Years

"UNAUDITED"

	2011	2010*	2009*	2008*
<b>Revenues:</b>				
Local sources	\$ 7,688,475	7,376,826	6,539,255	6,900,177
State sources	10,883,675	10,908,115	12,028,683	12,769,878
Federal sources	5,264,264	5,015,987	3,523,731	3,143,353
Sixteenth section sources	532,446	697,700	447,359	143,807
Total Revenues	<u>24,368,860</u>	<u>23,998,628</u>	<u>22,539,028</u>	<u>22,957,215</u>
<b>Expenditures:</b>				
Instruction	11,371,739	12,043,755	12,868,070	13,380,975
Support services	9,153,957	8,171,525	7,028,266	8,059,920
Noninstructional services	1,113,050	1,153,349	1,167,655	1,233,629
Sixteenth section	65,449	145,594	63,917	39,227
Facilities acquisition and construction			172,503	3,466,389
Debt service:				
Principal	577,306	270,349	492,565	670,047
Interest	219,835	174,290	289,938	316,652
Other	7,136	100,830	3,196	3,382
Total Expenditures	<u>22,508,472</u>	<u>22,059,692</u>	<u>22,086,110</u>	<u>27,170,221</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>1,860,388</u>	<u>1,938,936</u>	<u>452,918</u>	<u>(4,213,006)</u>
<b>Other Financing Sources (Uses):</b>				
Bonds and notes issued	244,691	2,865,000		
Capital leases issued	51,184			
Proceeds of loans		2,360,000	141,410	
Premium on debt issuance		9,779		
Insurance loss recoveries			38,877	661,912
Sale of transportation equipment				2,003
Sale of other property	2,000			922
Payment held by escrow agent	50,000			
Operating transfers in	914,875	840,558	1,833,366	769,619
Other financing sources			2,736	
Operating transfers out	(914,875)	(840,558)	(1,833,366)	(769,619)
Payment to QSCB debt escrow agent	(50,000)	(3,079,975)		
Other financing uses			(10,006)	(373)
Total Other Financing Sources (Uses)	<u>297,875</u>	<u>2,154,804</u>	<u>173,017</u>	<u>664,464</u>
Net Change in Fund Balances	<u>2,158,263</u>	<u>4,093,740</u>	<u>625,935</u>	<u>(3,548,542)</u>
<b>Fund Balances:</b>				
July 1,	9,701,164	5,609,769	4,989,851	8,550,927
Increase (Decrease) in reserve for inventory	11,251	(2,345)	(6,017)	(12,534)
June 30,	<u>\$ 11,870,678</u>	<u>9,701,164</u>	<u>5,609,769</u>	<u>4,989,851</u>

\*SOURCE - PRIOR YEAR AUDIT REPORTS

## REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

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

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, 2011, which collectively comprise the Forrest County School District's basic financial statements and have issued our report thereon dated November 21, 2011. 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**

Management of the Forrest County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the school district's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

*A deficiency in internal control* 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 and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Forrest County 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*.

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.

Fortenberry & Ballard, PC

Fortenberry & Ballard, PC  
November 21, 2011

Certified Public Accountants

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133

Superintendent and School Board  
Forrest County School District

**Compliance**

We have audited Forrest County School District with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. The Forrest County School District's major federal programs are identified in the summary of the 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, the Forrest County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

**Internal Control Over Compliance**

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 Forrest County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and

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to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
November 21, 2011

Certified Public Accountants

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

FORTENBERRY & BALLARD, PC  
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, 2011, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated November 21, 2011. 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 ensure 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 \$9,138 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 ensure 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 our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements 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.

*FORTENBERRY & BALLARD, PC*

Fortenberry & Ballard, PC  
November 21, 2011

Certified Public Accountants

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**Forrest County School District**

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2011

Financial Statements:

1. Type of auditor’s report issued: Unqualified.
2. Internal control over financial reporting:
  - a. Material weakness(es) identified? No.
  - b. Significant deficiency(ies) identified? None reported.
3. Noncompliance material to financial statements noted? No.

Federal Awards:

4. Internal control over major programs:
  - a. Material weakness(es) identified? No.
  - b. Significant deficiency(ies) identified? None reported.
5. Type of auditor’s report issued on compliance for major programs: Unqualified.
6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? No.
7. Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.010 & 84.389	Title I Cluster
84.027, 84.173, 84.391 & 84.392	Special Education Cluster
84.410	Education Jobs Fund
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants, Recovery Act

8. Dollar threshold used to distinguish between type A and type B programs: \$300,000.
9. Auditee qualified as low-risk auditee? No.

## Section II: Financial Statement Findings

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

## Section III: Federal Award Findings and Questioned Costs

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