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FORREST COUNTY, MISSISSIPPI

**FINANCIAL STATEMENTS
AND SPECIAL REPORTS**

Year Ended September 30, 2008

FORREST COUNTY, MISSISSIPPI

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FORREST COUNTY, MISSISSIPPI

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

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the basic financial statements of the County's primary government as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1(I) to the financial statements, management has not adequately maintained subsidiary records documenting the existence, completeness, and valuation of capital assets, and, accordingly, has not recorded the appropriate depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that adequate subsidiary records be maintained and adequate depreciation be calculated. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

Members of the Board of Supervisors
Forrest County, Mississippi

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

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Forrest County, Mississippi, as of September 30, 2008, or the changes in financial position thereof for the year then ended.

In our opinion, except for the effects of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities for the primary government of Forrest County, Mississippi, as of September 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information for the primary government of Forrest County, Mississippi, as of September 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2009, on our consideration of Forrest County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board of Supervisors
Forrest County, Mississippi

The Management's Discussion and Analysis and the Budgetary Comparison Schedules and corresponding notes are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Forrest County, Mississippi's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management & Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "J. L. Company, LLC". The signature is written in a cursive, flowing style.

Hattiesburg, Mississippi
June 22, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Discussion and Analysis of Forrest County's financial performance provides an overview of the County's financial activities of the fiscal year ended September 30, 2008. The intent of this discussion and analysis is to look at the County's financial performance as a whole. Readers should also review the County's financial statements in conjunction with the transmittal letter in order to enhance their understanding of the County's financial performance.

Forrest County is a diverse trade and service county along with having regional healthcare facilities. There are two large healthcare facilities in the county, including Forrest County General Hospital, the area's second largest employer with 2,889 employees. Another large employer, Camp Shelby, has 3,132 employees and serves as a National Guard training facility. The University of Southern Mississippi is also located within the County and, with an enrollment of approximately 13,000, is the second largest university in the state. The presence of the university and other institutional facilities provides a large degree of economic stability. Forrest County is located in the southern portion of the State of Mississippi approximately 85 miles south of Jackson, Mississippi, the State Capital. The population, according to the 2006 census, is 76,372.

The per capita income, as reported by the Bureau of Economic Analysis: Regional Economic Accounts at website: www.bea.gov, 2002-2006; May 2009, for Forrest County is \$26,125 as compared to \$27,028 for the State of Mississippi. Retail sales, as reported by the Mississippi State Tax Commission annual report, 2009, for the Forrest County area rose from \$1,165,150,693 in 2005 to \$1,663,852,913 in 2008. Although Forrest County Board of Supervisors received none of this income directly, (this is received though the City of Hattiesburg), the rise in the figures give an indication of the sound and aggressive growth of the area.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2008 were as follows:

- Total net assets for 2008 decreased \$4,326,201, or 4.5% from 2007.
- Total assets of governmental activities decreased \$4,393,334, or 3.2% from 2007.
- Total liabilities decreased \$67,133, or a decrease of .2% from 2007.
- In total, equity in cash and cash equivalents increased \$986,104 or 2.8% from 2007.
- Overall, the book value of capital assets decreased by \$5,806,452 or 7.5% from fiscal year 2007.
- Total assessed valuation for 2008 increased \$30,118,457 from the 2007 year.

Using this Annual Financial Report:

This annual report consists of a series of financial statements and notes to those statements that are organized so that the reader can understand Forrest County as a financial whole or as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial conditions.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole county, presenting both an aggregate view of the County's finances and a longer-term view of those assets. Major fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what dollars remain for future spending. The fund financial statements also look at the County's most significant funds with all other non-major funds presented in total in one column.

Reporting Forrest County as a Whole:

Statement of Net Assets and Statement of Activities

While this document contains information about the funds used by the County to provide services to our citizens, the view of the County as a whole looks at all financial transactions and asks the question, "How did we do financially during 2008?" The Statement of Net Assets and the Statement of Activities answer this question.

These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by the private sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid. These two statements report the County's net assets and the change in those assets. This change in assets is important because it tells the reader whether, for the County as a whole, the financial position of the County has improved or diminished. However, in evaluating the overall position of the County, non-financial information such as changes in the County's tax base and the condition of the County's capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, all of the County's activities are reported as Governmental Activities, which include all of the County's services such as sheriff, volunteer fire, administration, public services, judicial systems and all other departments.

Reporting on Forrest County's Most Significant Funds:

Fund Financial Statements

The analysis of the County's major funds is shown in Exhibit 3 and Exhibit 4. Fund financial reports provide detailed information about the County's major funds. Based on restrictions on the use of monies, the County has established many funds, which account for the multitude of services provided to the County's residents. However, these fund financial statements focus on the County's most significant funds. In the case of Forrest County, the County's major funds are the General Fund and Road and Bridge Fund.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government'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-wide financial statements. By doing so, readers may better understand the long-term impact of government's near-term financing decisions. Both the governmental fund balances and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Fiduciary Funds:

Forrest County maintains one type of fiduciary fund, a fund that is used to account for various taxes, deposits, and other monies collected or held by the County, acting in the capacity of an agent, for distribution to other government units. The County uses this fiduciary fund accounting in order to account for the Multi-Purpose Center operations and Metro Evidence Holding operations.

Forrest County as a Whole:

Recall that the Statement of Net Assets looks at the County as a whole. Table 1 below provides a summary of the County's net assets for 2008.

**Table 1
Net Assets**

	Governmental Activities	
	2008	2007
ASSETS		
Current and other assets	\$ 60,864,103	\$ 59,450,985
Capital assets, net	71,983,933	77,790,385
Total assets	132,848,036	137,241,370
LIABILITIES AND DEFERRED REVENUE		
Long-term liabilities, outstanding:		
Due within one year	1,916,216	1,774,560
Payable after one year	13,545,317	16,463,298
Deferred revenues	22,821,073	20,644,577
Other liabilities	2,080,871	1,548,175
Total liabilities and deferred revenue	40,363,477	40,430,610
NET ASSETS		
Invested in capital asset, net of related debt	58,666,819	64,026,538
Restricted	14,637,166	13,656,463
Unrestricted	19,180,574	19,127,759
Total net assets	\$ 92,484,559	\$ 96,810,760

Table 2 shows the Changes in Net Assets for the year ended September 30, 2008.

Table 2
Changes in Net Assets

	Governmental Activities	
	2008	2007
REVENUES		
Program revenues:		
Charges for services	\$ 3,709,407	\$ 3,263,899
Operating grants and contributions	2,620,209	5,399,654
Capital grants and contributions	563,176	850,311
<i>Total program revenues</i>	<u>6,892,792</u>	<u>9,513,864</u>
General revenues:		
Property taxes	20,152,225	19,868,747
Other taxes	731,636	729,694
Grants and contributions not restricted to specific programs	1,244,277	1,472,233
Other general revenues	3,644,731	2,275,852
<i>Total general revenues</i>	<u>25,772,869</u>	<u>24,346,526</u>
<i>Total revenues</i>	<u>32,665,661</u>	<u>33,860,390</u>
PROGRAM EXPENSES		
General government	15,290,636	10,824,285
Public safety	6,827,457	7,148,579
Public services	11,013,832	11,156,623
Health/Welfare/Education	128,546	943,628
Economic development	299,572	144,090
Culture and recreation	2,720,474	2,095,530
Conservation natural resources	206,330	186,550
Interest and fiscal charges	575,160	743,668
<i>Total program expenses</i>	<u>37,062,007</u>	<u>33,242,953</u>
Decrease in net assets before inclusion of transfers	<u>(4,396,346)</u>	<u>617,437</u>
Transfers	<u>-</u>	<u>-</u>
Decrease in net assets after inclusion of transfers	<u>(4,396,346)</u>	<u>617,437</u>
Net Assets - Beginning	96,810,760	88,645,988
Prior period adjustment	70,145	7,547,335
Net Assets - Beginning, as restated	<u>96,880,905</u>	<u>96,193,323</u>
Net Assets - Ending	<u>\$ 92,484,559</u>	<u>\$ 96,810,760</u>

The County's Funds:

Information about the County's major governmental funds begins on page 14. These funds are accounted for using the modified accrual basis of accounting. All Governmental Funds had total revenues of \$31,102,766 and net other financing sources (uses) of \$1,255,756 and expenditures of \$34,114,727.

General Fund Budgetary Highlights

The County's budget is prepared according to Mississippi Law and is based on accounting for certain transactions of cash receipts, disbursements, and encumbrances. The most significant budgeted fund is the General Fund. From a budgetary accounting point of view, Fiscal Year 2008 brought to Forrest County a relief in that the county was near the end of the recovery process from Hurricane Katrina and at a point where we better knew what monies were truly going to reimburse the County through federal and state sources in the recovery process. The year then brought the County Hurricane Gustav. Damages from this hurricane were not as great and extensive but yet were costly. Our budgeting process builds in the possibility of these events to a certain extent so that the County does not totally deplete the funds when these unforeseen events of nature do occur, as is seemingly a frequent occurrence near the Mississippi Coast.

Forrest County's sound financial condition prior to hurricanes and the sound management efforts afterward allowed this impact to occur within the General Fund of the County's operations without significantly depleting the operating funds. Sound financial management and conservative budgeting have continued a trend of well managed financial operations. Property tax revenue is the County's primary revenue source. The fund balance has increased in recent years to contribute to the opening of a new jail facility that will be constructed from proceeds from a bond issue. Since fiscal year 2004, annual surpluses have increased the total General Fund balance from \$11 million to \$20 million in fiscal year 2008. This increase occurred with the County absorbing over \$3 million in costs for mold remediation due to water damage caused by Hurricane Katrina, while not being reimbursed by federal funds for the storm. As the new jail nears completion in an estimated two years, officials intend to use approximately \$3 million to \$4 million of the General Fund reserve to purchase equipment and other supplies necessary to begin operations.

The management practices and decisions made during that time of emergency operations provided the County with a stable environment for recovery. While receiving heavy damage to buildings, roads and the general public's personal tragedies and losses, Forrest County was still able to accommodate the refugees from the New Orleans area as well as our own coastal areas of Hancock and Harrison Counties. As a significant indication of sound management practices, Forrest County was able to come through this time of the Hurricane in 2005 and yet not increase a tax burden on our citizens of the County in the rebuilding process. Forrest County's sound financial condition prior to the Hurricane and the sound management efforts afterward allowed this impact to occur within the General Fund of the County's operations.

Moody's assigned the County an A2 rating for the series 2009 \$24,085,000 general obligation public improvement bonds, including a statement that it believed the fund balance would remain solid, despite planned draw downs, given historically conservative budgeting and no plans to substantially reduce the fund balance to a narrow level.

Negotiations with state and federal officials on reimbursement for hurricane-related repair costs continued throughout fiscal year 2008, and revenue estimates were revised as various projects were closed out.

The County has experienced modest growth over the last five years with the full valuation increasing annually. Fiscal year 2009 will see a significant increase in assessment as this is a reappraisal year for the County. It is believed that the County will continue to experience modest tax base growth although the rate of growth will likely be slower than historical levels given the National trend at the present time.

From a budgetary accounting point of view, the County's original General Fund budget for Fiscal Year 2008 totaled \$19,534,209 (exclusive of projected beginning cash at October 1, 2007 of \$20,400,000). The final revenue budget totaled to \$19,534,209 with actual revenue collections totaling \$21,723,242. The primary additions to the total General Fund Revenue were largely intergovernmental revenues not anticipated at the initial budget process.

The original FY 2008 General Fund total budget for expenditures was \$26,262,876 and the final amended total was \$29,809,538. Actual expenditures totaled \$25,259,234. These figures represent management's foresight to hold down costs and eliminate everything but essential projects in anticipation of the upcoming FY 2009 expenditures of the new jail facility that are planned to be absorbed in the General Fund. Some project grants that were approved during the year did not complete until fiscal year 2009.

The original budgets for other governmental funds were amended in order to adjust projected beginning fund balances (that are typically conservatively stated) to actual balances on hand at the beginning of the fiscal year.

Most of the other amendments to the expenditure budgets were either routine in nature or adjustments directly tied to grant programs. Budgets are typically amended during the year with the members of the Board of Supervisors being provided with appropriate supporting documentation pertaining to the proposed amended budgets. All recommendations for budget amendments are compiled by the County's Financial Officer, reviewed by the Chancery Clerk and County Administrator prior to submission to the Board of Supervisors. The total revised budget is published in the newspaper for public information.

Capital Assets and General Long-Term Obligations

Table 3
Capital Assets (Net of Depreciation)

	<u>2008</u>	<u>2007</u>
Land and construction in progress	\$ 2,103,678	\$ 2,092,924
Buildings and improvements	27,040,196	27,659,021
Infrastructure	38,577,996	43,865,928
Machinery and equipment	4,262,063	4,172,512
Total	<u>\$ 71,983,933</u>	<u>\$ 77,790,385</u>

As an explanation of noted discrepancies in capital assets as it pertains mainly to the larger items of construction in progress and infrastructure, the County has within fiscal year 2007 employed staff and secured training in this area to better qualify and control inventory analysis and accounting. This was not done until the final months of fiscal year 2007, therefore, total incorporation of values relating construction in progress and infrastructure were not complete at the end of the fiscal year 2007. These areas have been identified and are currently in the process of completion of the required data to capture the total capital assets of Forrest County. As noted in previous analysis, Forrest County is in a major construction in progress project, and several infrastructure projects with the State Department of Transportation are ongoing.

General Long-Term Debt Obligations

At September 30, 2008, Forrest County had \$13,167,000 in outstanding General Obligation Bonds and \$700,000 Limited Obligation Bonds subject to the County's overall general obligation debt limitations. The County's outstanding debt, as of September 30, 2008, was equal to 2.42% of the latest property assessments. The County is well within the realm of the 15% allowed by state statute. Table 4 summarizes the total outstanding long-term debt obligations of the County.

Table 4
Outstanding Bonds, Notes and Long-Term Obligations at Year End

	<u>2008</u>	<u>2007</u>
General obligation bonds	\$ 13,167,000	\$ 14,263,000
Limited obligation bonds	700,000	1,035,000
Capital leases	76,592	90,432
Other loans	1,133,745	2,464,122
Compensated absences	<u>384,196</u>	<u>385,304</u>
<i>Total bonded debt and compensated absences</i>	<u>\$ 15,461,533</u>	<u>\$ 18,237,858</u>

No general obligation debt was issued in FY 2008.

The compensated absences liability identified above refers to the current balance of what has been earned as a termination benefit that will be paid over time as people leave or retire.

The County's debt burdens are manageable at 1.2% on a direct basis and 2.4% overall as stated by Moody's Investors Services. Debt is scheduled for rapid repayment with 62.2% of principal repaid in ten years. Within the 2009 fiscal year, Forrest County uses the statement of Moody's Investors Services, the County's debt burdens will decrease over time given anticipated additional tax base growth and the fast level of debt repayment.

Current Financial Related Activities:

Forrest County officials have always conducted the business of the County with a determination to make sound decisions in regard to the use of the public funds and with a commitment to safeguard the public's interest in the accountability of those funds. The County has gone forward past Hurricane Katrina with a renewed energy, having learned many lessons from the hardships endured by its citizens and those of our neighboring coastal counties and cities. The County is diligent in its efforts to continue practices of looking to the future, while holding strong to the current needs of the community.

The County in fiscal year 2008 completed the now nearly \$3.4 million renovated circuit courthouse project and returned those offices displaced during the construction phase to the building. Major new facilities are already in the "ground moving" phases of construction. A new regional jail facility (\$24.5 million) is underway with an anticipated completion date of about two and one-half years. A County shelter is in the bid process through FEMA (Federal Emergency Management Agency) funds of \$3,000,000. A project to add space to the Highway Patrol station is on the drawing board (\$35,000). Forrest County's progressive nature to make plans for the future and initiate them with sound financial management and conservative budgeting is seen through these such projects.

Showing Forrest County's progressive nature to make plans for the future and initiate them, Forrest County in fiscal year 2008 has declared intent to issue General Obligation Public Improvement Bonds in the principal amount not to exceed \$35,000,000 (now anticipating a \$25,000,000 to \$28,000,000 figure). These funds would be used to construct a new regional jail complex, compete with furnishing and fixtures, as well as renovate as deemed necessary the old regional jail facility. Forrest County's regional jail facility houses surrounding counties and cities inmates as well as state and federal inmates. Federal officials have issued a mandate that requires upgrading the current facilities to meet their guidelines.

The State Department of Transportation is currently working with Forrest County officials relative to several State Aid Road projects. This is a continuing process to keep the infrastructure projects of the County within its projected year's commitments to safety and progress.

Forrest County works directly with the Industrial Park Commission always seeking new and innovative industries to the County. The County uses the TIF plans and allows tax-exempt status to those industries qualifying for extra incentives to come to the HUB area of the State of Mississippi.

Forrest County officials have always worked with what we have and made it work, while keeping a sharp eye to the future for development and growth. Forrest County has proven itself to be financially stable, even in the aftermath of a major disaster. The County has always had an aggressive plan of financial excellence for many years past by using sound financial planning, budgeting, and strong internal controls. Forrest County continues to be committed to maintaining strong fiscal management to meet the challenges of the future.

Contacting the Chancery Clerk:

This financial report is designed to provide our citizens, taxpayers, creditors, and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. Copies of this report will be on file at the Forrest County Chancery Clerk's office and the Hattiesburg Library. If you have any questions about this report or need additional financial information, contact Jimmy C. Havard, Chancery Clerk at 601-545-6013.

BASIC FINANCIAL STATEMENTS

EXHIBIT 1

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 36,637,375
Property tax receivable	22,821,073
Fines receivable, net of allowance for uncollectibles of \$2,964,296	1,005,050
Intergovernmental receivables	373,904
Other receivables	26,701
Capital assets, net	71,983,933
Total assets	\$ 132,848,036
LIABILITIES	
Claims payable	\$ 984,394
Intergovernmental payables	627,191
Accrued interest payable	108,239
Deferred revenue	22,821,073
Other payables	361,047
Long-term liabilities:	
Due within one year:	
Capital debt	1,446,796
Non-capital debt	469,420
Due in more than one year:	
Capital debt	11,870,318
Non-capital debt	1,674,999
Total liabilities	40,363,477
NET ASSETS	
Invested in capital assets, net of related debt	58,666,819
Restricted:	
Expendable:	
General government	377,851
Debt service	2,375,702
Public safety	1,651,261
Public works	8,672,956
Culture and recreation	280,187
Conservation of natural resources	157,319
Unemployment compensation	109,825
Capital projects	1,012,065
Unrestricted	19,180,574
Total net assets	\$ 92,484,559

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

EXHIBIT 2

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008**

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
Primary Government:					
Governmental activities:					
General government	\$ 15,290,636	\$ 1,726,747	\$ 505,543	\$ -	\$ (13,058,346)
Public safety	6,827,457	1,982,660	1,752,395	318,322	(2,774,080)
Public works	11,013,832	-	212,676	-	(10,801,156)
Health and welfare	118,046	-	-	-	(118,046)
Culture and recreation	2,720,474	-	149,595	234,854	(2,336,025)
Education	10,500	-	-	-	(10,500)
Conservation of natural resources	206,330	-	-	-	(206,330)
Economic development and assistance	299,572	-	-	10,000	(289,572)
Interest on long-term debt	575,160	-	-	-	(575,160)
Total governmental activities	<u>37,062,007</u>	<u>3,709,407</u>	<u>2,620,209</u>	<u>563,176</u>	<u>(30,169,215)</u>
Total primary government	<u>\$ 37,062,007</u>	<u>\$ 3,709,407</u>	<u>\$ 2,620,209</u>	<u>\$ 563,176</u>	<u>(30,169,215)</u>
General revenues:					
Taxes:					
Property taxes					20,152,225
Road and bridge privilege taxes					731,636
Grants and contributions not restricted to specific programs					1,244,277
Unrestricted investment income					1,285,431
Gain (loss) on sale of capital assets					(47,440)
Miscellaneous					2,406,740
Total general revenues					<u>25,772,869</u>
CHANGES IN NET ASSETS					<u>(4,396,346)</u>
NET ASSETS - BEGINNING					96,810,760
Prior period adjustment					<u>70,145</u>
NET ASSETS - BEGINNING, AS RESTATED					<u>96,880,905</u>
NET ASSETS - ENDING					<u>\$ 92,484,559</u>

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

EXHIBIT 3

FORREST COUNTY, MISSISSIPPI

**BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008**

	<u>Major Funds</u>		<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Road and Bridge Maintenance Fund</u>		
ASSETS				
Cash and cash equivalents	\$ 21,582,364	\$ 5,707,746	\$ 9,347,265	\$ 36,637,375
Property tax receivable	15,273,049	2,573,405	4,974,619	22,821,073
Fines receivable (net of allowance for uncollectibles of \$2,964,296)	1,005,050	-	-	1,005,050
Intergovernmental receivables	365,700	-	8,204	373,904
Other receivables	26,701	-	-	26,701
Due from other funds	-	88,087	40,645	128,732
Total assets	<u>\$ 38,252,864</u>	<u>\$ 8,369,238</u>	<u>\$ 14,370,733</u>	<u>\$ 60,992,835</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Claims payable	\$ 537,852	\$ 362,023	\$ 84,519	\$ 984,394
Intergovernmental payables	615,323	-	-	615,323
Due to other funds	140,600	-	-	140,600
Deferred revenue	16,278,099	2,573,405	4,974,619	23,826,123
Other payables	361,047	-	-	361,047
Total liabilities	<u>17,932,921</u>	<u>2,935,428</u>	<u>5,059,138</u>	<u>25,927,487</u>
FUND BALANCES				
Reserved for:				
Debt service	-	-	2,483,941	2,483,941
Unemployment compensation	-	-	109,825	109,825
Unreserved, reported in:				
General fund	20,319,943	-	-	20,319,943
Special revenue funds	-	5,433,810	5,705,764	11,139,574
Capital project funds	-	-	1,012,065	1,012,065
Total fund balances	<u>20,319,943</u>	<u>5,433,810</u>	<u>9,311,595</u>	<u>35,065,348</u>
Total liabilities and fund balances	<u>\$ 38,252,864</u>	<u>\$ 8,369,238</u>	<u>\$ 14,370,733</u>	<u>\$ 60,992,835</u>

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

EXHIBIT 3-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 35,065,348
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$49,102,807.	71,983,933
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,005,050
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(15,461,533)
Accrued interest payable is not due and payable in the current period and, therefore, is not reported in the funds.	<u>(108,239)</u>
Total net assets - governmental activities (Exhibit 1)	<u>\$ 92,484,559</u>

EXHIBIT 4

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2008**

	Major Funds		Other Governmental Funds	Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund		
REVENUES				
Property taxes	\$ 14,830,184	\$ 2,318,680	\$ 3,003,361	\$ 20,152,225
Road and bridge privilege taxes	-	731,636	-	731,636
Licenses, commissions and other revenue	1,267,343	-	22,226	1,289,569
Fines and forfeitures	540,877	-	216,126	757,003
Intergovernmental revenues	2,611,338	1,127,903	688,887	4,428,128
Charges for services	1,167,684	-	31	1,167,715
Interest income	841,197	165,029	279,205	1,285,431
Miscellaneous revenues	389,869	1,800	899,391	1,291,060
Total revenues	<u>21,648,492</u>	<u>4,345,048</u>	<u>5,109,227</u>	<u>31,102,767</u>
EXPENDITURES				
Current:				
General government	14,113,002	-	635,726	14,748,728
Public safety	6,600,041	-	527,970	7,128,011
Public works	268,852	4,291,718	884,559	5,445,129
Health and welfare	154,642	-	-	154,642
Culture and recreation	1,511,715	-	1,180,289	2,692,004
Education	10,500	-	-	10,500
Conservation of natural resources	138,553	-	46,902	185,455
Economic development and assistance	299,572	-	-	299,572
Debt Service:				
Principal	1,479,243	13,840	1,282,134	2,775,217
Interest	128,418	2,297	544,754	675,469
Total expenditures	<u>24,704,538</u>	<u>4,307,855</u>	<u>5,102,334</u>	<u>34,114,727</u>
Excess of revenues over (under) expenditures	<u>(3,056,046)</u>	<u>37,193</u>	<u>6,893</u>	<u>(3,011,960)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	3,600	113	1,529	5,242
Compensation for loss of capital assets	1,215,840	34,673	-	1,250,513
Transfers in	470,338	-	800,000	1,270,338
Transfers out	(1,270,338)	-	-	(1,270,338)
Total other financing sources (uses)	<u>419,440</u>	<u>34,786</u>	<u>801,529</u>	<u>1,255,755</u>
Net changes in fund balances	(2,636,606)	71,979	808,422	(1,756,205)
FUND BALANCES - BEGINNING	<u>22,956,549</u>	<u>5,361,831</u>	<u>8,503,173</u>	<u>36,821,553</u>
FUND BALANCES - ENDING	<u>\$ 20,319,943</u>	<u>\$ 5,433,810</u>	<u>\$ 9,311,595</u>	<u>\$ 35,065,348</u>

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

EXHIBIT 4-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Amount</u>
Net changes in fund balances - governmental funds (Exhibit 4)	\$ (1,756,205)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation (\$6,966,074) exceeded capital outlays (\$1,142,159) in the current period.	(5,823,915)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss (\$47,440) and the proceeds from the sale of \$5,242.	(52,682)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	359,822
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$2,775,217 exceeded debt proceeds of \$-0-.	2,775,217

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Amount</u>
Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by the amount of the net decrease in accrued interest payable (\$100,309) and decrease in compensated absences (\$1,108).	<u>\$ 101,417</u>
Change in net assets of governmental activities (Exhibit 2)	<u><u>\$ (4,396,346)</u></u>

EXHIBIT 5

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2008**

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 1,579,374
Due from other funds	11,868
	<hr/>
Total assets	\$ 1,591,242
	<hr/> <hr/>
LIABILITIES	
Amounts held in custody for others	\$ 1,363,196
Other liabilities	216,074
Intergovernmental payables	11,972
	<hr/>
Total liabilities	\$ 1,591,242
	<hr/> <hr/>

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

NOTES TO FINANCIAL STATEMENTS

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Reporting Entity - Forrest County is a political subdivision of the State of Mississippi. The County is governed by an elected five-member Board of Supervisors. Accounting principles generally accepted in the United States of America require Forrest County to present these financial statements on the primary government and its component units which have significant operational or financial relationships with the County.

Management has chosen to omit from these financial statements the following component units which have significant operational or financial relationships with the County. Accordingly, the financial statements do not include the data of all of the County's component units necessary for reporting in conformity with accounting principles generally accepted in the United States of America:

- Forrest General Hospital
- Rawls Springs Volunteer Fire Department
- Macedonia Fire Protection District
- North Forrest Fire Protection District
- Forrest County Agricultural High School

State law pertaining to county government provides for the independent election of county officials. The following elected and appointed officials are all part of the County legal entity and, therefore, are reported as part of the primary government financial statements:

- Board of Supervisors
- Chancery Clerk
- Circuit Clerk
- Justice Court Clerk
- Purchase Clerk
- Tax Assessor
- Tax Collector
- Sheriff

B. Individual Component Unit Disclosure:

Blended Component Unit

Certain component units, although legally separate from the primary government, are nevertheless so intertwined with the primary government that they are, in substance, the same as the primary government. Therefore, these component units are reported as if they are part of the primary government. The following component units balances and transactions are blended with the balances and transactions of the primary government:

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Forrest County Public Improvement Corporation was incorporated as a nonprofit under Section 31-8-3, Miss. Code Ann. (1972), which allows counties to enter into lease agreements with any corporation. The corporation's three-member board of directors is appointed by the Board of Supervisors. Although legally separate from the primary government, the corporation is so intertwined with the primary government that it is, in substance, the same as the primary government. Therefore, the corporation's balances and transactions are blended with the balances and transactions of the primary government. The corporation produces a financial benefit through its ability to finance the construction, acquisition and renovation of capital facilities for the primary government and imposes a financial burden on the primary government by obligating funds to repay the debt pursuant to a lease agreement. See Note 11 for further disclosure concerning the issuance of certificates of participation (COPs) and related capital facilities construction, acquisition and renovation.

C. *Basis of Presentation* - The County's basic financial statements consist of government-wide statements, including a Statement of Net Assets and a Statement of Activities and fund financial statements, which provide a detailed level of financial information.

Government-wide Financial Statements

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

The Statement of Net Assets presents the financial condition of the governmental activities of the County at year-end. The Government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the County's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other revenues not classified as program revenues are presented as general revenues of the County, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the County.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Fund Financial Statements

Fund financial statements of the County are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into governmental and fiduciary. Major individual Governmental Funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

D. Measurement Focus and Basis of Accounting - The Government-wide and Fiduciary Funds financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flows take place. Property taxes are recognized as revenue in the year for which they are levied. Shared revenues are recognized when the provider government recognizes the liability to the County. Grants are recognized as revenues as soon as all eligibility requirements have been satisfied. Agency funds have no measurement focus, but use the accrual basis of accounting.

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

The County reports the following major Governmental Funds:

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

Road and Bridge Maintenance Fund - This fund is used to account for monies from specific revenue sources that are restricted for road and bridge maintenance.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUND TYPES

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

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

F. Deposits and Investments - State law authorizes the County to invest in interest bearing time certificates of deposit for periods of fourteen (14) days to one (1) year with depositories and in obligations of the U.S. Treasury, State of Mississippi, or any county, municipality or school district of this state. Further, the County may invest in certain repurchase agreements.

Cash includes cash on hand, demand deposits, all certificates of deposit and cash equivalents, which are short-term highly liquid investments that are readily convertible to cash (generally three (3) months or less). Investments in governmental securities are stated at fair value. However, the County did not invest in any governmental securities during the fiscal year.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

G. Receivables - Receivables are reported net of allowances for uncollectible accounts, where applicable.

H. Interfund Transactions and Balances - Transactions between funds that are representative of short-term lending/borrowing arrangements and transactions that have not resulted in the actual transfer of cash at the end of the fiscal year are referred to as "due to/from other funds." Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets.

I. Capital Assets - Capital acquisition and construction are reflected as expenditures in Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements. However, the capital assets amount reported on the accompanying Statement of Net Assets is not fairly presented because the County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. Capital assets include significant amounts of infrastructure which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition. The extent to which capital assets, other than infrastructure, costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Current year general infrastructure assets are required to be reported. General infrastructure assets acquired after September 30, 1980, are reported on the government-wide financial statements. Current year general infrastructure assets are reported on the government-wide financial statements. General infrastructure assets include all roads and bridges and other infrastructure assets.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives are used to report capital assets in the government-wide statements. Depreciation is calculated on the straight-line basis for all assets, except land. A full year's depreciation expense is taken for all purchases and sales of capital assets during the year. The following schedule details those thresholds and estimated useful lives:

	<u>Capitalization Thresholds</u>	<u>Estimated Useful Life</u>
Land	\$ -	n/a
Infrastructure	-	20-50 years
Buildings	50,000	40 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

* Leased property capitalization policy and estimated useful life will correspond with the amounts for the asset classification, as listed above.

J. Long-term liabilities - Long-term liabilities are the unmatured principal of bonds, loans, notes or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities, Statement of Net Assets.

K. Equity Classifications

Government-wide Financial Statements:

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

Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, construction or improvements of those assets.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

Fund Financial Statements:

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

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

L. Property Tax Revenues - Numerous statutes exist under which the Board of Supervisors may levy property taxes. The selection of authorities is made based on the objectives and responsibilities of the County. Restrictions associated with property tax levies vary with the statutory authority. The amount of increase in certain property taxes is limited by state law. Generally, this restriction provides that these tax levies shall produce no more than 110% of the amount which resulted from the assessments of the previous year.

The Board of Supervisors, each year at a meeting in September, levies property taxes for the ensuing fiscal year which begins on October 1. Real property taxes become a lien on January 1 of the current year, and personal property taxes become a lien on March 1 of the current year. Taxes on both real and personal property, however, are due on or before February 1 of the next succeeding year. Taxes on motor vehicles and mobile homes become a lien and are due in the month that coincides with the month of original purchase.

Accounting principles generally accepted in the United States of America require property taxes to be recognized at the levy date if measurable and available. All property taxes are recognized as revenue in the year for which they are levied. Motor vehicle and mobile home taxes do not meet the measurability and collectability criteria for property tax recognition because the lien and due date can not be established until the date of original purchase occurs.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

M. Intergovernmental Revenues in Governmental Funds - Intergovernmental revenues, consisting of grants, entitlements, and shared revenues, are usually recorded in Governmental Funds when measurable and available. However, the "available" criterion applies for certain federal grants and shared revenues when the expenditure is made because expenditure is the prime factor for determining eligibility. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

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

NOTE 2 - PRIOR PERIOD ADJUSTMENT

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Capital assets	\$ 70,145
<i>Total prior period adjustment</i>	<u><u>\$ 70,145</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 3 - DEPOSITS AND INVESTMENTS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2008, was \$38,196,024, and the bank balance was \$38,438,167. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC).

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of the failure of a financial institution, the County will not be able to recover deposits or collateral securities that are in the possession of an outside party. The County does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the County. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the County.

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2008:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Maintenance	General Fund	\$ 88,087
Other Governmental Funds	General Fund	40,645
Agency Funds	General Fund	11,868
Total		\$ 140,600

Amounts listed are the tax revenue collected but not settled until October 2008. All interfund balances are expected to be repaid within one (1) year from the date of the financial statements.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES (Cont.)

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 470,338
Other Governmental Funds	General Fund	<u>800,000</u>
Total		<u><u>\$ 1,270,338</u></u>

The principal purpose of interfund transfers was to provide funds for capital outlay, debt service and the operation and maintenance of the multi-purpose center. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2008 consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 278,062
Alcohol Counter Measures Grant Program	60,715
Byrne Formula Grant	26,923
S.T.O.P. Violence Against Women Grant	<u>8,204</u>
Total Governmental Activites	<u><u>\$ 373,904</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

NOTE 6 - OTHER RECEIVABLES

Other receivables at September 30, 2008 consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
General Fund:	
Tax Collector bad checks	\$ 26,701
Total General Fund	<u>26,701</u>
<i>Total all Governmental Activites</i>	<u>\$ 26,701</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

NOTE 7 - CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2008:

	Balance Oct. 1, 2007	Additions	Deletions	Oct. 1, 2007 Adjustments *	Balance Sep. 30, 2008
Non-depreciable capital assets:					
Land	\$ 1,358,569	\$ 9,000	\$ -	\$ 1,754	\$ 1,369,323
Construction in progress	734,355	-	-	-	734,355
Total non-depreciable capital assets	<u>2,092,924</u>	<u>9,000</u>	<u>-</u>	<u>1,754</u>	<u>2,103,678</u>
Depreciable capital assets:					
Buildings	35,567,990	-	-	64,117	35,632,107
Improvements other than buildings	1,301,817	37,453	-	-	1,339,270
Mobile equipment	9,375,972	1,011,941	287,197	52,461	10,153,177
Furniture and equipment	1,283,977	67,540	7,700	(1,754)	1,342,063
Leased property under capital leases	254,588	16,225	15,171	-	255,642
Roads	62,177,169	-	-	-	62,177,169
Bridges	8,083,634	-	-	-	8,083,634
Total depreciable capital assets	<u>118,045,147</u>	<u>1,133,159</u>	<u>310,068</u>	<u>114,824</u>	<u>118,983,062</u>
Less accumulated depreciation for:					
Buildings	8,893,401	660,574	-	6,240	9,560,215
Improvements other than buildings	317,385	53,581	-	-	370,966
Mobile equipment	5,696,927	794,656	238,349	40,193	6,293,427
Furniture and equipment	872,967	120,597	6,415	-	987,149
Leased property under capital leases	172,131	48,734	12,622	-	208,243
Roads	25,603,124	5,126,254	-	-	30,729,378
Bridges	791,751	161,678	-	-	953,429
Total accumulated depreciation	<u>42,347,686</u>	<u>6,966,074</u>	<u>257,386</u>	<u>46,433</u>	<u>49,102,807</u>
Total depreciable capital assets, net	<u>75,697,461</u>	<u>(5,832,915)</u>	<u>52,682</u>	<u>68,391</u>	<u>69,880,255</u>
Governmental activities capital assets, net	<u>\$ 77,790,385</u>	<u>\$ (5,823,915)</u>	<u>\$ 52,682</u>	<u>\$ 70,145</u>	<u>\$ 71,983,933</u>

* Adjustments were required to record prior period adjustments to capital assets

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 7 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	Amount
General government	\$ 784,645
Public safety	443,038
Public works	5,614,396
Courts	15,384
Health and welfare	19,209
Culture and recreation	68,527
Conservation of natural resources	20,875
Total governmental activities depreciation expense	\$ 6,966,074

NOTE 8 - CLAIMS AND JUDGMENTS

Risk Financing - The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2008 to January 1, 2009. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

NOTE 9 - CAPITAL LEASES

As Lessee, the County is obligated for the following capital assets acquired through capital leases as of September 30, 2008:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment, net	\$ 47,399
<i>Leased property under capital leases</i>	<u>\$ 47,399</u>

The following is a schedule by years of the total payments due as of September 30, 2008:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 76,592	\$ 1,296
<i>Total</i>	<u>\$ 76,592</u>	<u>\$ 1,296</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2008

NOTE 10 - LONG-TERM DEBT

Debt outstanding as of September 30, 2008, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General obligation bonds:			
School bonds - series 1994	\$ 67,000	6.25 - 6.63 %	12/2009
Multi-purpose center project refinancing - series 1994	4,950,000	1.00 - 3.45 %	12/2017
School bonds - series 1998	625,000	4.90 %	03/2013
Public buildings - series 1999	4,130,000	4.00 - 4.25 %	02/2019
Public improvements - series 2005	<u>3,395,000</u>	3.70 - 4.50 %	03/2020
Total general obligation bonds	<u>\$ 13,167,000</u>		
B. Limited obligation bonds:			
Youth Detention Facility project refinancing - series 2003	\$ 315,000	3.48%	01/2010
Human Service Building project refinancing - series 2003	<u>385,000</u>	3.46%	05/2010
Total limited obligation bonds	<u>\$ 700,000</u>		
C. Capital leases:			
Excavator	<u>\$ 76,592</u>	4.44%	06/2009
Total capital leases	<u>\$ 76,592</u>		

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 10 - LONG-TERM DEBT (Cont.)

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
D. Other loans:			
* City of Hattiesburg	\$ 348,500	Variable	04/2010
MS Development Authority revolving loan	358,404	4.00%	04/2013
MS Development Authority revolving loan	361,319	4.00%	04/2013
Carnes Volunteer Fire Department	28,562	4.19%	01/2012
North Forrest Volunteer Fire Department	21,816	7.75%	01/2012
McLaurin Volunteer Fire Department	<u>15,144</u>	3.49%	07/2010
Total other loans	<u>\$ 1,133,745</u>		

* Under the authority of Chapter 956, House Bill 1865, of the Local and Private Laws of 1994, the City of Hattiesburg issued \$4,400,000 in general obligation bonds. These bonds are related to the Forrest County Industrial Park Commission joint venture. Through an interlocal agreement, Forrest County agreed to pay 34% of the bond issue. Under the same authority, Forrest County levies the Industrial Park Bond Interest and Sinking levy, which is included in the Debt Service Funds, to pay its share of the bond issue.

Annual debt service requirements to maturity for the following debt reported in the Statement of Net Assets are as follows:

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,153,000	\$ 460,632
2010	1,189,000	416,558
2011	1,195,000	373,240
2012	1,245,000	330,712
2013	1,295,000	285,644
2014 - 2018	5,920,000	747,680
2019 - 2023	<u>1,170,000</u>	<u>35,844</u>
Total	<u>\$ 13,167,000</u>	<u>\$ 2,650,310</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVENTEEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 10 - LONG-TERM DEBT (Cont.)

<u>Year Ending September 30,</u>	<u>Limited Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 345,000	\$ 21,579
2010	355,000	9,527
Total	\$ 700,000	\$ 31,106

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2009	\$ 341,624	\$ 45,441
2010	353,848	28,203
2011	176,513	15,463
2012	178,522	8,096
2013	83,238	1,359
Total	\$ 1,133,745	\$ 98,562

Certificates of Participation (COPs) designated as “qualified tax exempt obligations” for purposes of Section 265 of the Internal Revenue Code of 1986, as amended, were issued during the fiscal year ended September 30, 1995, for the purpose of financing the construction of a youth detention facility and for the acquisition and renovations of a shopping center to be used for a welfare building. The COPs are not general obligations of the County and, therefore, are not secured by the County’s full faith and credit. However, the County, as lessee, is obligated as the sole source of payment pursuant to a 15-year lease purchase agreement for the youth detention facility and a 20-year lease purchase agreement for the public facilities project with the lessor, Forrest County Public Improvements Corporation, a blended component unit of Forrest County. Because the County’s obligation to make lease payments is also the sole source of payment for the COPs, the lease obligation is not recorded. Instead the COPs are considered, in substance, limited debt obligations of the County, and accordingly, are reflected in the Statement of Net Assets. The COPs are being retired by General Fund revenues, and title to the property will transfer to the County upon satisfactory performance of the lease terms.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHTEEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 10 - LONG-TERM DEBT (Cont.)

Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2008, the amount of outstanding debt was equal to 2.42% of the latest property assessments.

Prior Year Defeasance of Debt

In prior years, the County defeased certain limited obligation and general obligation 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 the liability for the defeased bonds are not included in the County's financial statements. On September 30, 2008, \$5,332,179 bonds outstanding were considered defeased.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2008:

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINETEEN

YEAR ENDED SEPTEMBER 30, 2008

NOTE 10 - LONG-TERM DEBT (Cont.)

	<u>Balance Oct. 1, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance Sep. 30, 2008</u>	<u>Amount Due Within One Year</u>
Governmental Activities:					
Compensated absences	\$ 385,304	\$ -	\$ (1,108)	\$ 384,196	\$ -
General obligation bonds	14,263,000	-	(1,096,000)	13,167,000	1,153,000
Limited obligation bonds	1,035,000	-	(335,000)	700,000	345,000
Capital leases	90,432	-	(13,840)	76,592	76,592
Other loans	2,464,122	-	(1,330,377)	1,133,745	341,624
	<u>2,464,122</u>	<u>-</u>	<u>(1,330,377)</u>	<u>1,133,745</u>	<u>341,624</u>
Total governmental activities	<u>\$ 18,237,858</u>	<u>\$ -</u>	<u>\$ (2,776,325)</u>	<u>\$ 15,461,533</u>	<u>\$ 1,916,216</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2008

NOTE 11 - CONTINGENCIES

Federal Grants - The County has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a grantor audit may become a liability of the County. No provision for any liability that may result has been recognized in the County's financial statements.

Litigation - The County is party to legal proceedings, many of which occur in the normal course of governmental operations. It is not possible at the present time to estimate ultimate outcome or liability, if any, of the County with respect to the various proceedings. However, the County's legal counsel believes that ultimate liability resulting from these lawsuits will not have a material adverse effect on the financial condition of the County.

Hospital Revenue Bond Contingencies - The County issued revenue bonds to provide funds for constructing and improving capital facilities of the Forrest General Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the County remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the County is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2008, is \$3,790,000.

NOTE 12 - NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

No commitment debt is repaid only by the entities for whom the debt was issued and includes debt that either bears the County's name or for which a moral responsibility may exist that is not an enforceable promise to pay. No commitment debt explicitly states the absence of obligation by the County other than possibly an agreement to assist creditors in exercising their rights in the event of default. Because a default may adversely affect the County's own ability to borrow, the principal amount of such debt outstanding at year end is disclosed as follows:

<u>Description</u>	<u>Balance at Sept. 30, 2008</u>
Industrial revenue bonds	<u>\$ 680,000</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-ONE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 13 - JOINT VENTURES

The County participates in the following joint ventures:

Forrest County is a participant with the City of Hattiesburg in a joint venture, authorized by Chapter 956, House Bill 1865, of the Local and Private Laws of 1994, to operate the Forrest County Industrial Park Commission. The joint venture was created to develop and operate an industrial park complex for the citizens of Forrest County and the City of Hattiesburg. The Forrest County Board of Supervisors appoints five (5) of ten (10) members of the board. By contractual agreement, the County's appropriation to the joint venture was \$60,000 in fiscal year 2008. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from Post Office Box 1898, Hattiesburg, Mississippi 39403.

Forrest County is a participant with Jones County, the Cities of Hattiesburg and Laurel, and the State of Mississippi in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1971), to operate the Hattiesburg-Laurel Regional Airport Authority. The joint venture was created to develop and maintain the airport for the members of the authority. The Forrest County Board of Supervisors appoints one (1) of the five (5) members of the board of commissioners. By contractual agreement, the County's appropriation to the joint venture was \$230,931 in fiscal year 2008. Complete financial statements for the Hattiesburg-Laurel Regional Airport Authority can be obtained from 1002 Terminal Drive, Moselle, Mississippi 39459.

Forrest County is a participant with the Cities of Hattiesburg and Petal in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Library of Hattiesburg, Petal and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The Forrest County Board of Supervisors appoints six (6) of the fifteen (15) members of the board of directors. By contractual agreement, the County's appropriation to the joint venture was \$1,021,600 in fiscal year 2008. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS

The County participates in the following jointly governed organizations:

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-TWO

YEAR ENDED SEPTEMBER 30, 2008

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Forrest County Board of Supervisors appoints two (2) of the sixteen (16) members of the college board of trustees. The County appropriated \$1,141,964 for maintenance and support of the college in fiscal year 2008.

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Forrest County Board of Supervisors appoints one (1) of the nine (9) members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The County contributed \$265,879 for support of the district in fiscal year 2008.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone, and Wayne. The Forrest County Board of Supervisors appoints one (1) of the twenty-seven (27) members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$38,151 to the agency in fiscal year 2008.

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River, and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Forrest County Board of Supervisors appoints one (1) of the twenty-four (24) members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. \$8,500 was contributed in fiscal year 2008.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Forrest County Board of Supervisors appoints one (1) of the nine (9) members of the board of commissioners. The County appropriated \$219,218 for support of the agency in fiscal year 2008.

Mississippi Regional Housing Authority VIII operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jones, Lamar, Marion, Pearl River, Perry, Stone and Wayne. The governing body is a fifteen (15) member board of commissioners, one (1) appointed by the Board of Supervisors of each of the member counties and one (1) appointed at large. The counties generally provide no financial support to the organization.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-THREE

YEAR ENDED SEPTEMBER 30, 2008

NOTE 14 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Pearl and Leaf Rivers Rails-to-Trails Recreational District operates in a district composed of the Counties of Forrest, Jefferson Davis and Lamar and the Cities of Bassfield, Hattiesburg, Prentiss and Sumrall. The Forrest County Board of Supervisors appoints one (1) of seven (7) members of the board of directors. The County appropriated \$116,277 for the support of the district in fiscal year 2008.

The City of Hattiesburg - Forrest County Emergency Management District operates in a district composed of Forrest County and the City of Hattiesburg. The Forrest County Board of Supervisors appoints three (3) of the six (6) members of the council. Operating funds are provided by state grants, E-911 charges and direct contributions.

NOTE 15 - DEFINED BENEFIT PENSION PLAN

Plan Description - Forrest County, Mississippi contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing, multiple-employer, defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employees' Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling 1-800-444-PERS.

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the County is required to contribute at an actuarially determined rate. The employer's contribution rate at September 30, 2008 was 11.85% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ended September 30, 2008, 2007, and 2006 were \$1,053,257, \$998,685, and \$833,010, respectively, equal to the required contributions for each year.

FORREST COUNTY, MISSISSIPPI

**NOTES TO FINANCIAL STATEMENTS
PAGE TWENTY-FOUR
YEAR ENDED SEPTEMBER 30, 2008**

NOTE 16 - SUBSEQUENT EVENTS

Subsequent to September 30, 2008, Forrest County issued its Mississippi Development Bank Special Obligation Bonds, Series 2009 (Forrest County, Mississippi General Obligation Public Improvement Bonds, Series 2009) for the construction and equipping of a new regional jail complex. Construction on the new facility began in spring, 2009. The County also issued three (3) negotiable notes totaling \$189,335 for the purchase of fire apparatus for the Rawls Springs, and Macedonia Volunteer Fire Departments. Additionally, the County initiated the process for the refunding of the County's Series 1999 General Obligation Bonds and the Forrest General Hospital Series 1997 Bonds, with the Series 2009 Refunding Bonds. These bonds were issued in the amount of \$7,015,000 and were dated June 18, 2009.

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
03/01/09	4.50%	\$ 24,085,000	Special Obligation Bonds, Series 2009 (General Obligation Public Improvement Bond Project)	Mississippi Development Bank
03/19/09	2.99%	59,855	Five (5) Year Negotiable Note - Macedonia Volunteer Fire Dept.	Hancock Bank
05/21/09	2.95%	7,015,000	Series 2009 General Obligation Refunding Bonds	Negotiated Refunding Bond Offering
03/19/09	2.99%	63,000	Five (5) Year Negotiable Note - Sunrise Volunteer Fire Dept.	Hancock Bank
03/19/09	2.99%	66,480	Five (5) Year Negotiable Note - Rawls Springs Volunteer Fire Dept.	Hancock Bank

Additionally, on June 22, 2009, the County awarded a contract for the construction of a shelter facility with a projected cost of \$2,252,000 subject to approval by FEMA, the funding agency for the project.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2008**

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ 15,245,493
Licenses, commissions and other revenue	748,200
Fines and forfeitures	336,000
Intergovernmental revenues	1,779,016
Charges for services	830,500
Interest income	505,000
Miscellaneous revenues	90,000
Total revenues	<u>19,534,209</u>
EXPENDITURES	
Current:	
General government	15,263,343
Public safety	6,764,235
Public works	325,931
Health and welfare	1,244,525
Culture and recreation	1,855,654
Education	10,500
Conservation of natural resources	136,048
Economic development and assistance	218,151
Debt service:	
Principal	444,489
Total expenditures	<u>26,262,876</u>
Excess of revenues over (under) expenditures	<u>(6,728,667)</u>
OTHER FINANCING SOURCES (USES)	
Transfers out	(653,000)
Other sources	455,000
Other uses	(10,000)
Total other financing sources and uses	<u>(208,000)</u>
NET CHANGE IN FUND BALANCES	(6,936,667)
Fund balances - beginning	<u>20,400,000</u>
Fund balances - ending	<u>\$ 13,463,333</u>

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

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
\$ 15,248,493	\$ 14,824,359	\$ (424,134)
748,200	1,268,426	520,226
336,000	534,000	198,000
1,776,016	2,886,776	1,110,760
830,500	1,167,684	337,184
505,000	845,520	340,520
90,000	196,477	106,477
<u>19,534,209</u>	<u>21,723,242</u>	<u>2,189,033</u>
16,658,913	14,118,978	2,539,935
7,409,505	6,471,495	938,010
405,431	259,236	146,195
1,241,803	973,167	268,636
2,126,187	1,500,512	625,675
10,500	10,500	-
142,086	136,115	5,971
308,151	282,269	25,882
<u>1,506,962</u>	<u>1,506,962</u>	<u>-</u>
<u>29,809,538</u>	<u>25,259,234</u>	<u>4,550,304</u>
<u>(10,275,329)</u>	<u>(3,535,992)</u>	<u>6,739,337</u>
(653,000)	(470,338)	182,662
751,850	1,689,778	937,928
(10,000)	-	10,000
<u>88,850</u>	<u>1,219,440</u>	<u>1,130,590</u>
(10,186,479)	(2,316,552)	7,869,927
<u>20,292,915</u>	<u>20,292,915</u>	<u>-</u>
<u>\$ 10,106,436</u>	<u>\$ 17,976,363</u>	<u>\$ 7,869,927</u>

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2008**

	Original Budget
REVENUES	
Property taxes	\$ 2,311,161
Road and bridge privilege taxes	450,000
Intergovernmental revenues	430,000
Interest income	125,000
Miscellaneous revenues	-
Total revenues	<u>3,316,161</u>
EXPENDITURES	
Current:	
Public works	5,620,094
Debt service:	
Principal	-
Total expenditures	<u>5,620,094</u>
Excess of revenues over (under) expenditures	<u>(2,303,933)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	-
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(2,303,933)
Fund balances - beginning	<u>5,000,000</u>
Fund balances - ending	<u>\$ 2,696,067</u>

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

Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
\$ 2,311,161	\$ 2,315,118	\$ 3,957
450,000	731,636	281,636
430,000	1,127,903	697,903
125,000	165,029	40,029
-	1,799	1,799
3,316,161	4,341,485	1,025,324
6,945,514	4,192,829	2,752,685
-	-	-
6,945,514	4,192,829	2,752,685
(3,629,353)	148,656	3,778,009
-	34,786	34,786
-	34,786	34,786
(3,629,353)	183,442	3,812,795
5,750,288	5,750,288	-
\$ 2,120,935	\$ 5,933,730	\$ 3,812,795

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2008

NOTE 1 - BUDGETARY INFORMATION

Statutory requirements dictate how and when the County's budget is to be prepared. Generally, in the month of August, prior to the ensuing fiscal year beginning each October 1, the Board of Supervisors of the County, using historical and anticipated fiscal data and proposed budgets submitted by the Sheriff, the Tax Assessor and the Tax Collector for his or her respective department, prepares an original budget for each of the Governmental Funds for said fiscal year. The completed budget for the fiscal year includes for each fund every source of revenue, each general item of expenditure, and the unencumbered cash and investment balances. When during the fiscal year it appears to the Board of Supervisors that budgetary estimates will not be met, it may make revisions to the budget.

The County's budget is prepared principally on the cash basis of accounting. All appropriations lapse at year end, and there are no encumbrances to budget because state law does not require that funds be available when goods or services are ordered, only when payment is made.

NOTE 2 - BASIS OF PRESENTATION

The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) presents the original legally adopted budget, the final legally adopted budget, actual amounts on a budgetary (non-GAAP) basis and variances between the final budget and the actual amounts. The schedule is presented for the General Fund and each major Special Revenue Fund. The Budgetary Comparison Schedule - Budget and Actual (Non-GAAP Basis) is a part of required supplemental information.

NOTE 3 - BUDGET/GAAP RECONCILIATION

The major differences between the budgetary basis and the GAAP basis are:

1. Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2008

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

The following schedule reconciles the budgetary basis schedules to the GAAP basis financial statements for the General Fund and each major special revenue fund:

	<u>Governmental Fund Types</u>	
	<u>General Fund</u>	<u>Road and Bridge Maintenance Fund</u>
Budget (cash basis)	\$ (2,316,552)	\$ 183,442
Increase (decrease):		
Net adjustments for revenue accruals	(74,754)	3,561
Net adjustments for expenditure accruals	<u>(245,300)</u>	<u>(115,024)</u>
GAAP Basis	<u>\$ (2,636,606)</u>	<u>\$ 71,979</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
<i>U.S. Department of Housing and Urban Development</i>				
Passed-through the Mississippi Development Authority American Dream Down Payment Grant	14.239	M05-SG-280-ADDI-134	\$ 10,000	
<i>U.S. Department of Justice - Office of Justice Programs</i>				
Passed-through the Mississippi Department of Public Safety Juvenile Accountability Grant Program	16.540	04-JB-118-1	11,137	
Edward Byrne Memorial Formula Grant Program	16.579	2007-DJ-BX-0103	185,518	\$ 80,523
S.T.O.P. Violence Against Women Grant Program	16.588	05SP1181	59,665	
Violence Against Women Grant Program	16.590	WEAX0131	31,342	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	WEAX0131	124,824	
Total U.S. Department of Justice			<u>412,486</u>	
<i>U.S. Department of Transportation</i>				
Passed-through the Mississippi Department of Public Safety Occupant Protection Grant	20.600	08-OP-118-1	6,914	
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	08-TA-118-1	87,344	
Total U.S. Department of Transportation			<u>94,258</u>	

SCHEDULE 3
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>	<u>Amounts Provided to Subrecipients</u>
<i>U.S. Department of Homeland Security</i>				
Passed-through the Mississippi Department of Public Safety				
State Domestic Preparedness Equipment Support Program	97.004	355SGEX-001	\$ 10,750	
State Domestic Preparedness Equipment Support Program	97.004	06LE018	15,596	
State Domestic Preparedness Equipment Support Program	97.004	07LE018	791	
State Domestic Preparedness Equipment Support Program	97.004	07HS018	10,576	
State Domestic Preparedness Equipment Support Program	97.004	ENW2006FG01845	12,295	
			<u>50,008</u>	
Federal Disaster Assistance Program	97.036	FEMA-1604-DR-MS	<u>65,622</u>	
Total U.S. Department of Homeland Security			<u>115,630</u>	
<i>Total Federal Financial Assistance</i>			<u><u>\$ 632,374</u></u>	

FORREST COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2008**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards is prepared on the modified accrual basis of accounting.

NOTE 2 - EDWARD BYRNE MEMORIAL FORMULA GRANT PROGRAM

Of the federal expenditures presented in the schedule, the County provided federal awards totaling \$225,000 to subrecipients during the year ended September 30, 2008.

NOTE 3 - SPECIAL COMMUNITY DISASTER LOAN

During fiscal year 2008, the County's outstanding \$1,000,000 loan balance pertaining to the Special Community Disaster Loan executed in fiscal year 2006 was repaid along with the cumulative interest due on the Loan in the amount of \$62,473.

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

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2008, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 22, 2009. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the reporting entity that include the financial data for its component units. The report is qualified on the governmental activities because the County has not adequately maintained subsidiary records documenting the existence, completeness, and valuation of capital assets, and, accordingly, has not recorded the appropriate depreciation expense on those assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Forrest County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

Members of the Board of Supervisors
Forrest County, Mississippi

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies of material weaknesses.

In planning and performing our audit, we considered Forrest County, Mississippi's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the county's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 08-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we considered the deficiency described above as item 08-1 to be a material weakness.

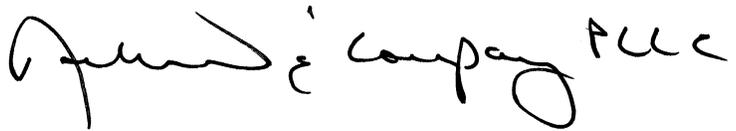
Members of the Board of Supervisors
Forrest County, Mississippi

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Forrest County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain instance of noncompliance that we have reported to the management of Forrest County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System, and Purchase Clerk Schedules and the Limited Internal Control and Compliance Review Management Report dated June 22, 2009, included in this document.

Forrest County's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned costs. We did not audit Forrest County's response, and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink, appearing to read "James E. Compton, LLC". The signature is written in a cursive style with a large, looped initial "J".

Hattiesburg, Mississippi
June 22, 2009

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

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi

Compliance

We have audited the compliance of Forrest County, Mississippi, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. Forrest County, Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Finding and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs are the responsibility of Forrest County, Mississippi's management. Our responsibility is to express an opinion on Forrest County, Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Forrest County, Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Forrest County, Mississippi's compliance with those requirements.

Members of the Board of Supervisors
Forrest County, Mississippi

In our opinion, Forrest County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

Internal Control Over Compliance

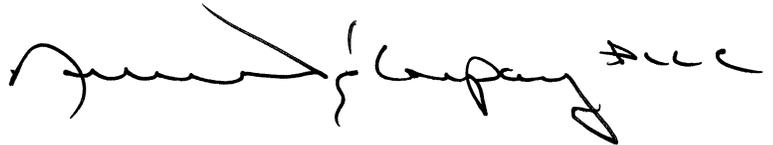
The management of Forrest County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Forrest County, Mississippi's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

A control deficiency in a County's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the County's ability to administer a federal program such that there is more than a remote likelihood that noncompliance will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

A handwritten signature in black ink, appearing to read "James L. ...", is written over the bottom right portion of the page.

Hattiesburg, Mississippi
June 22, 2009

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**INDEPENDENT AUDITOR'S REPORT ON
CENTRAL PURCHASING SYSTEM,
INVENTORY CONTROL SYSTEM,
AND PURCHASE CLERK SCHEDULES
(REQUIRED BY SECTION 31-7-115,
MISSISSIPPI CODE ANNOTATED [1972])**

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi

We have made a study and evaluation of the central purchasing system and inventory control system of Forrest County, Mississippi, as of and for the year ended September 30, 2008. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

The Board of Supervisors of Forrest County, Mississippi, is responsible for establishing and maintaining a central purchasing system and inventory control system in accordance with Sections 31-7-101 through 31-7-127, Miss. Code Ann. (1972). In addition, the Board of Supervisors is responsible for purchasing in accordance with the bid requirements of Section 31-7-13, Miss. Code Ann. (1972). The Board of Supervisors of Forrest County, Mississippi, has established centralized purchasing for all funds of the County and has established an inventory control system. The objective of the central purchasing system is to provide reasonable, but not absolute, assurance that purchases are executed in accordance with state law.

The County did not maintain adequate subsidiary records documenting the existence, completeness and valuation of capital assets.

Because of inherent limitations in any central purchasing system and inventory control system, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Members of the Board of Supervisors
Forrest County, Mississippi

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

Inventory Control Clerk

Finding

The County has not adequately maintained subsidiary records documenting the existence, completeness, and valuation of capital assets, and, accordingly, has not recorded the appropriate depreciation expense on those assets. This lack of documentation resulted in a qualified opinion on the governmental activities in the Independent Auditor's Report.

Recommendation

The Inventory Control Clerk should implement policies and procedures to maintain accurate inventory records documenting the existence, completeness and valuation of fixed assets, including infrastructure.

Inventory Control Clerk's Response

The County has employed new staff and provided for training in order to improve its fixed asset accounting function and will further implement procedures to accurately record infrastructure additions and deletions.

In our opinion, except as explained in the third paragraph and except for the noncompliance referred to in the preceding paragraph, Forrest County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory, and bid requirements.

The accompanying schedules of (1) purchases not made from the lowest bidder; (2) emergency purchases; and (3) purchases made noncompetitively from a sole source are presented in accordance with Section 31-7-115, Miss. Code Ann. (1972). The information contained on these schedules has been subjected to procedures performed in connection with our aforementioned study and evaluation of the purchasing system and, in our opinion, is fairly presented when considered in relation to that study and evaluation.

Members of the Board of Supervisors
Forrest County, Mississippi

This report is intended for use in evaluating the central purchasing system and inventory control system of Forrest County, Mississippi, and is not intended to be and should not be relied upon for any other purpose. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink, appearing to read "James E. Campbell". The signature is written in a cursive style with a large initial "J" and a long horizontal stroke.

Hattiesburg, Mississippi
June 22, 2009

SCHEDULE 4

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2008**

Our test results did not identify any purchases not made from the lowest bidder.

SCHEDULE 5

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2008**

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
12/03/07	Repair of Jail Elevator	\$ 1,500	Kone Incorporated	Emergency repairs needed at jail
08/21/08	Meat Slicer	1,625	Hotel Resturant & Supply	Purchase of meat slicer for preparing food for prisoners
08/31/08	Six (6) Generators	5,001	Home Depot	Hurricane Gustav - emergency generators
08/31/08	Two (2) Utility Vehicles	9,478	Southern Tractor	Hurricane Gustav - use at multi-purpose center
09/09/08	Asphalt Coated Culverts	5,146	Hanson	Hurricane Gustav - Repair damages from storm
09/09/08	Flashlight, batteries, water	1,421	Lewis Printing & Office Supplies	Hurricane Gustav - Road Crews Supplies
09/09/08	Flashlight, batteries, water	173	Lewis Printing & Office Supplies	Hurricane Gustav - Road Crews Supplies

SCHEDULE 6

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2008**

Our test results did not identify any purchases made noncompetitively from a sole source.

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OF CERTIFIED PUBLIC
ACCOUNTANTS

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**LIMITED INTERNAL CONTROL AND
COMPLIANCE REVIEW MANAGEMENT REPORT**

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi

In planning and performing our audit of the financial statements of Forrest County, Mississippi, for the year ended September 30, 2008, we considered Forrest County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Forrest County, Mississippi's financial reporting we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated June 22, 2009, on the financial statements of Forrest County, Mississippi.

Although no findings came to our attention as a result of these review procedures and compliance tests, these procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Members of the Board of Supervisors
Forrest County, Mississippi

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

A handwritten signature in black ink, appearing to read "Amanda Long". The signature is written in a cursive style with a large initial 'A' and a long horizontal stroke.

Hattiesburg, Mississippi
June 22, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2008**

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | General Fund | Unqualified |
| | Road and Bridge Maintenance Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | A. Material weakness identified? | Yes |
| | B. Significant deficiency identified that is not considered to be a material weakness? | No |
| 3. | Noncompliance material to the financial statements? | No |

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Internal control over major programs: | |
| | A. Material weakness identified? | No |
| | B. Significant deficiency identified that is not considered to be a material weakness? | No |
| 5. | Type of auditor's report issued on compliance for major funds programs: | Unqualified |
| 6. | Any audit findings reported as required by Section_.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | Department of Justice: | |
| | Edward Byrne Memorial Formula Grant Program, CFDA #16.579 | |
| | Department of Justice: | |
| | Edward Byrne Memorial Justice Assistance Grant Program, CFDA # 16.738 | |
| | Department of Transportation | |
| | Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons, CFDA # 20.605 | |

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2008

SECTION 1: SUMMARY OF AUDITOR'S RESULTS (Cont.)

Federal Awards Continued:

- | | | |
|-----|---|-----------|
| 8. | The dollar threshold used to distinguish between type A and type B programs? | \$300,000 |
| 9. | Auditee qualified as a low-risk auditee? | No |
| 10. | Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule or prior audit findings as discussed in Section_.315(b) of OMB Circular A-133? | No |

SECTION 2: FINANCIAL STATEMENT FINDINGS

Inventory Control Clerk

Material Weakness

08-1. Finding

The County has not adequately maintained subsidiary records documenting the existence, completeness, and valuation of capital assets, and, accordingly, has not recorded the appropriate depreciation expense on those assets. This lack of documentation resulted in a qualified opinion on the governmental activities in the Independent Auditor's Report.

Recommendation

The Inventory Control Clerk should implement policies and procedures to maintain accurate inventory records documenting the existence, completeness, and valuation of capital assets, including infrastructure.

Inventory Clerk's Response

The County has employed new staff and provided for training in order to improve its fixed asset accounting function and will further implement procedures to accurately record infrastructure additions and deletions.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2008

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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