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FORREST COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2013

FORREST COUNTY SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Superintendent and School Board
Forrest County School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forrest County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Forrest County School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Forrest County School District, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-16 and 48-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forrest County School District's financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133), the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds, and the other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying Schedule of Expenditures of Federal Awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations (Circular A-133) and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2014, on our consideration of the Forrest County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Forrest County School District's internal control over financial reporting and compliance.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
January 31, 2014

FORREST COUNTY SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION
AND ANALYSIS**

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

The following discussion and analysis of Forrest County School District's financial performance provides an overview of the School District's financial activities for the year ended June 30, 2013. The intent of this discussion and analysis is to look at the School District's performance as a whole. Readers are encouraged to review the financial statements and the notes to the financial statements to enhance their understanding of the School District's financial performance.

FINANCIAL HIGHLIGHTS

- Total net position for 2013 increased \$528,729, including a prior period adjustment of \$5,675, which represents a 2% increase from fiscal year 2012. Total net position for 2012 increased \$1,002,975, which represents a 4% increase from fiscal year 2011.
- General revenues amounted to \$18,021,491 and \$18,596,172, or 81% and 81% of all revenues for fiscal years 2013 and 2012, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$4,308,146, or 19% of total revenues for 2013, and \$4,473,577, or 19% of total revenues for 2012.
- The District had \$21,806,583 and \$22,066,774 in expenses for fiscal years 2013 and 2012; only \$4,308,146 for 2013 and \$4,473,577 for 2012 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$18,021,491 for 2013 and \$18,596,172 for 2012 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,083,532 in revenues and \$17,004,891 in expenditures for 2013, and \$17,553,518 in revenues and \$17,150,502 in expenditures in 2012. The General Fund's fund balance decreased by \$731,814 from 2012 to 2013, and increased by \$264,543 from 2011 to 2012.
- Capital assets, net of accumulated depreciation, increased by \$1,179,586 for 2013 and decreased by \$104,238 for 2012. The increase for 2013 was due primarily to the completion of the cafeteria at South Forrest Attendance Center and the purchase of various items of mobile equipment and furniture and equipment.
- Long-term debt decreased by \$543,290 for 2013 and decreased by \$605,291 for 2012. The decrease for 2013 was due primarily to principal payments on outstanding long-term debt. The liability for compensated absences decreased by \$1,255 for 2013 and increased by \$703 for 2012.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds – Most of the District's' general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Position, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined and presented in these reports as other governmental funds.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

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

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

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

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

Notes to the financial statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplementary information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

Supplementary Information

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

Other Information

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

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position

Net position may serve over time as a useful indicator of the District's financial position. Assets exceeded liabilities by \$23,944,087 as of June 30, 2013.

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

Table 1 presents a summary of the District's net position at June 30, 2013 and June 30, 2012.

**Table 1
Condensed Statement of Net Position**

	June 30, 2013	June 30, 2012	Percentage Change
Current assets	\$ 10,505,428	\$ 11,920,567	-11.87%
Restricted assets	1,162,692	1,142,644	1.75%
Capital assets, net	19,250,121	18,070,535	6.53%
Total assets	30,918,241	31,133,746	-0.69%
Current liabilities	502,814	640,593	-21.51%
Long-term debt outstanding	6,471,340	7,077,795	-8.57%
Total liabilities	6,974,154	7,718,388	-9.64%
Net position:			
Net investment in capital assets	13,170,146	13,747,805	-4.20%
Restricted	3,697,202	3,507,497	5.41%
Unrestricted	7,076,739	6,160,056	14.88%
Total net position	\$ 23,944,087	\$ 23,415,358	2.26%

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

- Increase in net capital assets in the amount of \$1,179,586.
- The principal retirement of \$742,035 of long-term debt.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Changes in net position

The District's total revenues for the fiscal years ended June 30, 2013 and June 30, 2012 were \$22,329,637 and \$23,069,749, respectively. The total cost of all programs and services was \$21,806,583 for 2013 and \$22,066,774 for 2012.

Table 2 presents a summary of the changes in net position for the fiscal years ended June 30, 2013 and June 30, 2012.

**Table 2
Changes in Net Position**

	<u>Year Ended June 30, 2013</u>	<u>Year Ended June 30, 2012</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 556,066	\$ 592,923	(6.22) %
Operating grants and contributions	3,752,080	3,880,654	(3.31) %
General revenues:			
Property taxes	6,647,517	6,828,838	(2.66) %
Grants and contributions not restricted	10,865,847	11,098,066	(2.09) %
Investment earnings	12,079	153,648	(92.14) %
Sixteenth section sources	349,808	407,292	(14.11) %
Other	146,240	108,328	35.00 %
Total revenues	<u>22,329,637</u>	<u>23,069,749</u>	(3.21) %
Expenses:			
Instruction	12,016,393	12,318,783	(2.45) %
Support services	8,158,970	8,121,436	0.46 %
Non-instructional	1,390,602	1,283,763	8.32 %
Sixteenth section	73,378	161,917	(54.68) %
Interest on long-term liabilities	167,240	180,875	(7.54) %
Total expenses	<u>21,806,583</u>	<u>22,066,774</u>	(1.18) %
Increase (Decrease) in net position	<u>523,054</u>	<u>1,002,975</u>	(47.85) %
Net Position, July 1, as previously reported	<u>23,415,358</u>	<u>22,412,383</u>	4.48 %
Prior Period Adjustment	<u>5,675</u>	-	N/A %
Net Position, July 1, as restated	<u>23,421,033</u>	<u>22,412,383</u>	4.50 %
Net Position, June 30	<u><u>\$ 23,944,087</u></u>	<u><u>\$ 23,415,358</u></u>	2.26 %

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Governmental activities

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

**Table 3
Net Cost of Governmental Activities**

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ 12,016,393	\$ 12,318,783	(2.45) %
Support services	8,158,970	8,121,436	0.46 %
Non-instructional	1,390,602	1,283,763	8.32 %
Sixteenth section	73,378	161,917	(54.68) %
Interest on long-term liabilities	167,240	180,875	(7.54) %
Total expenses	\$ 21,806,583	\$ 22,066,774	(1.18) %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2013</u>	<u>2012</u>	
Instruction	\$ (10,128,125)	\$ (10,323,099)	(1.89) %
Support services	(7,166,570)	(7,039,194)	1.81 %
Non-instructional	12,180	79,076	(84.60) %
Sixteenth section	(48,682)	(129,105)	(62.29) %
Interest on long-term liabilities	(167,240)	(180,875)	(7.54) %
Total net (expense) revenue	\$ (17,498,437)	\$ (17,593,197)	(0.54) %

- Net cost of governmental activities (\$17,498,437 for 2013 and \$17,593,197 for 2012) was financed by general revenue, which is primarily made up of property taxes (\$6,647,517 for 2013 and \$6,828,838 for 2012) and state and federal revenues (\$10,865,847 for 2013 and \$11,098,066 for 2012). In addition, there was \$349,808 and \$407,292 in Sixteenth Section sources for 2013 and 2012, respectively.
- Investment earnings amounted to \$12,079 for 2013 and \$153,648 for 2012.

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$11,123,490, a decrease of \$1,176,243, which includes an increase in inventory of \$10,426. \$6,298,382, or 57%, of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$4,825,108, or 43%, is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$731,814. The fund balance of Other Governmental Funds showed an increase in the amount of \$15,451. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>		<u>Increase (Decrease)</u>
School Food Service Fund	\$	24,459
Title I-A Basic Fund		no increase or decrease
Sixteenth Section Interest Fund	\$	145,158
Building Project Fund	\$	(629,497)

BUDGETARY HIGHLIGHTS

During the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District. Budget revisions during the fiscal year were routine in nature and were insignificant when compared with total revenues and expenditures of the District.

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

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2013, the District's total capital assets were \$32,166,411, including land, construction in progress, school buildings, building improvements and other improvements, buses, other school vehicles, furniture and equipment, and leased property under capital leases. This amount represents a gross increase of \$1,614,966 from 2012 due primarily to the completion of the cafeteria at South Forrest Attendance Center and the purchase of various items of mobile equipment and furniture and equipment. The District also disposed of various items of mobile equipment and furniture and equipment during the fiscal year. Total accumulated depreciation as of June 30, 2013, was \$12,916,290, and total depreciation expense for the year was \$687,017, resulting in total net capital assets of \$19,250,121.

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

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
Land	\$ 194,027	\$ 189,828	2.21 %
Construction in Progress	33,294	94,306	(64.70) %
Buildings	17,696,820	16,473,048	7.43 %
Building improvements	109,888	116,756	(5.88) %
Improvements other than buildings	119,740	128,427	(6.76) %
Mobile equipment	811,493	908,774	(10.70) %
Furniture and equipment	255,391	122,690	108.16 %
Leased property under capital leases	29,468	36,706	(19.72) %
Total	<u>\$ 19,250,121</u>	<u>\$ 18,070,535</u>	6.53 %

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

**FORREST COUNTY SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

Debt Administration. At June 30, 2013, the District had \$6,534,505 in outstanding long-term debt, of which \$771,782 is due within one year. During the fiscal year, the District received proceeds from the issuance of a shortfall note in the amount of \$200,000. The District made principal payments in the amount of \$742,035 on outstanding long-term debt. The liability for compensated absences decreased \$1,255 from the prior year.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>Percentage Change</u>
General obligation refunding bonds payable	\$ 1,635,000	\$ 1,795,000	(8.91) %
Limited obligation bonds payable	1,990,000	2,300,000	(13.48) %
Certificates of participation payable	131,959	263,600	(49.94) %
Shortfall notes payable	283,826	214,081	32.58 %
Obligations under capital leases	26,181	36,320	(27.92) %
Qualified school construction bonds payable	2,360,000	2,360,000	0.00 %
Compensated absences payable	107,539	108,794	(1.15) %
Total	<u>\$ 6,534,505</u>	<u>\$ 7,077,795</u>	(7.68) %

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

CURRENT ISSUES

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have any questions about this report or need additional financial information, contact the Superintendent's Office of the Forrest County School District, 400 Forrest Street, Hattiesburg, MS 39401.

FORREST COUNTY SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

FORREST COUNTY SCHOOL DISTRICT

**Statement of Net Position
June 30, 2013**

Exhibit A

		<u>Governmental Activities</u>
Assets		
Cash and cash equivalents	\$	9,347,344
Due from other governments		1,023,989
Inventories		41,954
Deferred debt issuance costs		92,141
Restricted assets		1,162,692
Capital assets, not being depreciated		
Land		194,027
Construction in progress		33,294
Capital assets, net of accumulated depreciation		
Buildings		17,696,820
Building improvements		109,888
Improvements other than buildings		119,740
Mobile equipment		811,493
Furniture and equipment		255,391
Leased property under capital leases		29,468
Total Assets	\$	<u>30,918,241</u>
Liabilities		
Accounts payable and accrued liabilities	\$	428,272
Unearned revenue		24,217
Interest payable on long-term liabilities		50,325
Deferred charges on refunding debt		(72,542)
Deferred bond premiums		9,377
Long-term liabilities (due within one year)		
Capital-related liabilities		617,287
Non-capital related liabilities		154,495
Long-term liabilities (due beyond one year)		
Capital-related liabilities		5,525,853
Non-capital related liabilities		236,870
Total Liabilities		<u>6,974,154</u>
Net Position		
Net investment in capital assets		13,170,146
Restricted for:		
Expendable:		
School-based activities		1,168,505
Debt service		1,473,487
Forestry improvements		130,559
Unemployment benefits		58,563
Non-expendable:		
Sixteenth section		866,088
Unrestricted		7,076,739
Total Net Position	\$	<u>23,944,087</u>

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

FORREST COUNTY SCHOOL DISTRICT

**Statement of Activities
For the Year Ended June 30, 2013**

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental Activities:					
Instruction	\$ 12,016,393	\$ 257,672	\$ 1,630,596	\$ -	\$ (10,128,125)
Support services	8,158,970	-	992,400	-	(7,166,570)
Non-instructional services	1,390,602	273,698	1,129,084	-	12,180
Sixteenth section	73,378	24,696	-	-	(48,682)
Interest and other charges related to long-term liabilities	167,240	-	-	-	(167,240)
Total Governmental Activities	\$ 21,806,583	\$ 556,066	\$ 3,752,080	\$ -	(17,498,437)
General Revenues:					
Taxes:					
General purpose levies					6,328,510
Debt purpose levies					319,007
Unrestricted grants and contributions:					
State					10,519,445
Federal					346,402
Unrestricted investment earnings					12,079
Sixteenth section sources					349,808
Other					146,240
Total General Revenues					18,021,491
Change in Net Position					523,054
Net Position - Beginning, as previously reported					23,415,358
Prior period adjustment					5,675
Net Position - Beginning, as restated					23,421,033
Net Position - Ending					\$ 23,944,087

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

FORREST COUNTY SCHOOL DISTRICT
Governmental Funds

Exhibit C

Balance Sheet
June 30, 2013

	Major Funds					Building Project Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	Title I - A Basic Fund	Sixteenth Section Interest Fund	-			
Assets								
Cash and cash equivalents	\$ 6,576,747	\$ 759,126	\$ -	\$ 647,106	\$ 124,165		\$ 2,099,338	\$ 10,206,482
Cash with fiscal agent	-	-	-	-	-		303,554	303,554
Due from other governments	537,507	-	162,035	3,691	-		320,451	1,023,684
Due from other funds	504,811	-	-	-	-		-	504,811
Inventories	-	41,954	-	-	-		-	41,954
Total Assets	\$ 7,619,065	\$ 801,080	\$ 162,035	\$ 650,797	\$ 124,165		\$ 2,723,343	\$ 12,080,485
Liabilities and Fund Balances								
Liabilities:								
Accounts payable and accrued liabilities	\$ 243,102	\$ 3,122	\$ 35,514	\$ -	\$ 124,165		\$ 22,369	\$ 428,272
Due to other funds	-	100,589	126,521	179,661	-		97,735	504,506
Unearned Revenue	-	-	-	-	-		24,217	24,217
Total Liabilities	243,102	103,711	162,035	179,661	124,165		144,321	956,995
Fund balances:								
Nonspendable:								
Inventory	-	41,954	-	-	-		-	41,954
Permanent fund principal	-	-	-	-	-		866,088	866,088
Restricted:								
Debt service	-	-	-	-	-		1,523,812	1,523,812
Forestry improvement purposes	-	-	-	-	-		130,559	130,559
Unemployment benefits	-	-	-	-	-		58,563	58,563
Food Service	-	655,415	-	-	-		-	655,415
Sixteenth section interest	-	-	-	471,136	-		-	471,136
Assigned:								
Activity funds	159,570	-	-	-	-		-	159,570
District maintenance fund	783,353	-	-	-	-		-	783,353
Special Education	2,314	-	-	-	-		-	2,314
Other purposes	132,344	-	-	-	-		-	132,344
Unassigned	6,298,382	-	-	-	-		-	6,298,382
Total Fund Balances	7,375,963	697,369	-	471,136	-		2,579,022	11,123,490
Total Liabilities & Fund Balances	\$ 7,619,065	\$ 801,080	\$ 162,035	\$ 650,797	\$ 124,165		\$ 2,723,343	\$ 12,080,485

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

FORREST COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2013**

Exhibit C-1

Total fund balances for governmental funds \$ 11,123,490

Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Land	\$ 194,027	
Construction in progress	33,294	
Buildings	24,635,580	
Building improvements	171,700	
Improvements othe than buildings	217,163	
Mobile equipment	2,605,207	
Furniture and equipment	4,258,256	
Leased property under capital leases	51,184	
Accumulated Depreciation	<u>(12,916,290)</u>	19,250,121

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

General obligation refunding bonds	(1,635,000)	
Limited obligation bonds	(1,990,000)	
Other bonds payable	(2,360,000)	
Notes payable	(283,826)	
Certificates of participation	(131,959)	
Capital lease obligations	(26,181)	
Compensated absences	(107,539)	
Unamortized charges	164,683	
Unamortized premiums	(9,377)	
Accrued interest payable	<u>(50,325)</u>	(6,429,524)

Net position of governmental activities \$ 23,944,087

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

FORREST COUNTY SCHOOL DISTRICT
Governmental Funds

Exhibit D

Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2013

	Major Funds					Building Project Fund	Other Governmental Funds	Total Governmental Funds
	General Fund	School Food Service Fund	Title I - A Basic Fund	Sixteenth Section Interest Fund				
Revenues:								
Local sources	\$ 6,736,785	\$ 278,482	\$ -	\$ -	\$ 173	\$ 320,149	\$ 7,335,589	
State sources	10,077,001	13,180	-	-	-	884,734	10,974,915	
Federal sources	269,746	1,216,142	1,149,086	65,158	-	942,881	3,643,013	
Sixteenth section sources	-	-	-	287,161	-	88,959	376,120	
Total Revenues	17,083,532	1,507,804	1,149,086	352,319	173	2,236,723	22,329,637	
Expenditures:								
Instruction	9,781,972	-	826,162	-	-	1,006,864	11,614,998	
Support services	7,132,629	151,621	285,450	-	-	559,813	8,129,513	
Non-instructional services	79,567	1,241,561	31,963	-	-	-	1,353,091	
Sixteenth section	-	-	-	54,084	-	19,294	73,378	
Facilities acquisition and construction	-	-	-	-	1,641,517	-	1,641,517	
Debt Service:								
Principal	10,139	-	-	-	-	731,896	742,035	
Interest	584	-	-	-	-	153,209	153,793	
Other	-	-	-	-	-	9,059	9,059	
Total Expenditures	17,004,891	1,393,182	1,143,575	54,084	1,641,517	2,480,135	23,717,384	
Excess (Deficiency) of Revenues over (under) Expenditures	78,641	114,622	5,511	298,235	(1,641,344)	(243,412)	(1,387,747)	
Other Financing Sources (Uses):								
Bonds and notes issued	200,000	-	-	-	-	-	200,000	
Payments held by escrow agent	-	-	-	-	-	49,462	49,462	
Payments to QSCB debt escrow agent	-	-	-	-	-	(49,462)	(49,462)	
Sale of transportation equipment	5,775	-	-	-	-	-	5,775	
Operating transfers in	383,081	-	-	909	1,011,847	387,464	1,783,301	
Operating transfers out	(1,399,311)	(100,589)	(5,511)	(153,986)	-	(123,904)	(1,783,301)	
Other financing uses	-	-	-	-	-	(4,697)	(4,697)	
Total Other Financing Sources (Uses)	(810,455)	(100,589)	(5,511)	(153,077)	1,011,847	258,863	201,078	
Net change in fund balances	(731,814)	14,033	-	145,158	(629,497)	15,451	(1,186,669)	
Fund Balances:								
July 1, 2012	8,107,777	672,910	-	325,978	629,497	2,563,571	12,299,733	
Increase (Decrease) in reserve for inventory	-	10,426	-	-	-	-	10,426	
June 30, 2013	\$ 7,375,963	\$ 697,369	\$ -	\$ 471,136	\$ -	\$ 2,579,022	\$ 11,123,490	

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

FORREST COUNTY SCHOOL DISTRICT

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures and Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2013**

Exhibit D-1

Net change in fund balances - total governmental funds \$ (1,186,669)

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

1.	Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	\$	(1,186,669)
	Capital outlay	1,881,743	
	Depreciation Expense	(687,017)	1,194,726
2.	In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.		(20,815)
3.	The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:		
	Bonds and notes issued	(200,000)	
	Payments of debt principal	742,035	
	Accrued interest payable	4,637	546,672
4.	Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:		
	Change in compensated absences	1,255	
	Change in inventory reserve	10,426	
	Amortization of deferred charges, premiums and discounts	(22,541)	(10,860)
	Change in net position of governmental activities	\$	523,054

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

FORREST COUNTY SCHOOL DISTRICT

Fiduciary Funds

Statement of Fiduciary Assets and Liabilities
June 30, 2013

Exhibit E

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 625,824
Total Assets	<u>\$ 625,824</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 625,519
Due to other funds	305
Total Liabilities	<u>\$ 625,824</u>

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

FORREST COUNTY SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five member board to which each member was elected by the citizens of each defined county district.

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

Blended component unit

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

The Foundation is governed by a five member board which is appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Foundation's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 11).

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements - The Statement of Net Position and Statement of Activities report information on all of the non-fiduciary activities of the District.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Position presents the District's non-fiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

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

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

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

The school district reports the following major governmental funds:

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

School Food Service Fund – This is a special revenue fund that accounts for the local and federal revenue received and expenditures incurred related to the school food service program.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Title 1 – A Basic Fund – This is a special revenue fund that accounts for the federal revenue received and expenditures incurred related to the Title 1 grants to local education agencies program.

Sixteenth Section Interest Fund - This is a special revenue fund that accounts for the school district's earnings and expenditures from sixteenth section property and investments. These funds may be used for purposes that support the school district.

Building Project Fund – This is a capital project fund that accounts for financial resources to be used for the acquisition or construction of major capital facilities.

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

The District's fiduciary funds include the following:

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

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

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

FIDUCIARY FUNDS

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Position and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

Ad valorem property taxes are levied by the governing authority of the county on behalf of the school district based upon an order adopted by the school board of the

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

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

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

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

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

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing and Financial Reporting*, issued in 2012 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

D. Encumbrances

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

E. Assets, Liabilities, and net position/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The districts' cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Investments

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

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

Investments for the district are reported at fair market value.

2. Receivables and payables

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

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

3. Due from Other Governments

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

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Position because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets.

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details those thresholds.

	Capitalization Policy	Estimated Useful Life
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

7. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as a long-term liability in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the liability for Compensated absences from expandable available financial resources only if the payable has matured, for example, an employee retires.

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

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

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

9. Fund Balances

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

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

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

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

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and Business Manager pursuant to authorization established by the policy adopted by the school district.

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

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

It is the goal of the District to achieve and maintain an unassigned fund balance in the general fund at fiscal year end of not less than 5% of revenues. If the unassigned fund balance at fiscal year end falls below the goal, the District shall develop a restoration plan to achieve and maintain the minimum fund balance.

Note 2 - Cash and Cash Equivalents and Cash with Fiscal Agents

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

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann (1972). The collateral pledged for the school districts' deposits in financial institutions is held in the name of the

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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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 the institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$10,206,482 and \$625,824 respectively.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2013, none of the district's bank balance of \$11,670,027 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$303,554. This amount is also shown as restricted assets on Exhibit A.

Note 3 - Inter-fund Receivables, Payables and Transfers

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

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General Fund	School Food Service Fund	\$ 100,589
	Title I-A Basic Fund	126,521
	16th Section Interest Funds	179,661
	Fiduciary Funds	305
	Other Governmental Funds	<u>97,735</u>
Total		<u>\$ 504,811</u>

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

B. Inter-fund Transfers:

Transfer Out	Transfer In	Amount
General Fund	Building Project Fund	\$ 1,011,847
	Other Governmental Funds	387,464
School Food Service Fund	General Fund	100,589
Title I-A Basic Fund	General Fund	5,511
Sixteenth Section Interest Fund	General Fund	153,986
Other Governmental Funds	General Fund	122,995
	Sixteenth Section Interest Fund	<u>909</u>
Total		<u>\$ 1,783,301</u>

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

Note 4 - Restricted Assets

The restricted assets represent the cash balance totaling \$859,138 of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. In addition, the restricted assets represent cash with fiscal agent totaling \$161,033 of the MAEP Limited Obligation Bond/Note Fund and cash with fiscal agent totaling \$142,521 of the QSCB Bond Retirement Fund.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 5 - Capital Assets

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

	Balance 7/1/2012	Additions	Retirements	Completed Construction	Adjustments	Balance 6/30/2013
<u>Non-depreciable capital assets:</u>						
Land	\$ 189,828	\$ 4,199	\$ -	\$ -	\$ -	\$ 194,027
Construction in progress	94,306	1,641,517	-	(1,702,529)	-	33,294
Total non-depreciable capital assets	<u>\$ 284,134</u>	<u>\$ 1,645,716</u>	<u>\$ -</u>	<u>\$ (1,702,529)</u>	<u>\$ -</u>	<u>\$ 227,321</u>
<u>Depreciable capital assets:</u>						
Buildings	\$ 22,933,051	\$ -	\$ -	\$ 1,702,529	\$ -	\$ 24,635,580
Building improvements	171,700	-	-	-	-	171,700
Improvements other than buildings	217,163	-	-	-	-	217,163
Mobile equipment	2,720,463	44,792	160,048	-	-	2,605,207
Furniture and equipment	4,173,750	191,235	113,339	-	6,610	4,258,256
Leased property under capital leases	51,184	-	-	-	-	51,184
Total depreciable capital assets	<u>\$ 30,267,311</u>	<u>\$ 236,027</u>	<u>\$ 273,387</u>	<u>\$ 1,702,529</u>	<u>\$ 6,610</u>	<u>\$ 31,939,090</u>
<u>Less accumulated depreciation:</u>						
Buildings	\$ 6,460,003	\$ 478,757	\$ -	\$ -	\$ -	\$ 6,938,760
Building improvements	54,944	6,868	-	-	-	61,812
Improvements other than buildings	88,736	8,687	-	-	-	97,423
Mobile equipment	1,811,689	122,391	140,366	-	-	1,793,714
Furniture and equipment	4,051,060	63,076	112,206	-	935	4,002,865
Leased property under capital leases	14,478	7,238	-	-	-	21,716
Total accumulated depreciation	<u>\$ 12,480,910</u>	<u>\$ 687,017</u>	<u>\$ 252,572</u>	<u>\$ -</u>	<u>\$ 935</u>	<u>\$ 12,916,290</u>
Total depreciable capital assets, net	<u>\$ 17,786,401</u>	<u>\$ (450,990)</u>	<u>\$ 20,815</u>	<u>\$ 1,702,529</u>	<u>\$ 5,675</u>	<u>\$ 19,022,800</u>
Governmental activities capital assets, net	<u>\$ 18,070,535</u>	<u>\$ 1,194,726</u>	<u>\$ 20,815</u>	<u>\$ -</u>	<u>\$ 5,675</u>	<u>\$ 19,250,121</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 405,526
Support Services	147,899
Non-instructional	133,592
	<u>\$ 687,017</u>

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

The adjustment included in the above table is for a piece of equipment that purchased in 2012, but was not included on the depreciation schedule until 2013.

Construction in progress is composed of:

	<u>Spent to June 30, 2013</u>	<u>Remaining Commitment</u>
Governmental Activities:		
Field House - North Forrest High	\$ 33,294	\$ 580,106
	<u>\$ 33,294</u>	<u>\$ 580,106</u>

Note 6 - Long-term liabilities

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

	<u>Balance 7/1/2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance 6/30/2013</u>	<u>Amount Due Within One Year</u>
A. General obligation refunding bonds payable	\$ 1,795,000	\$ -	\$ 160,000	1,635,000	\$ 165,000
B. Limited obligation bonds payable	2,300,000	-	310,000	1,990,000	310,000
C. Certificates of participation payable	263,600	-	131,641	131,959	131,959
D. Shortfall notes payable	214,081	200,000	130,255	283,826	149,118
E. Obligations under capital lease	36,320	-	10,139	26,181	10,328
F. Qualified school construction bonds payable	2,360,000	-	-	2,360,000	-
G. Compensated absences payable	108,794	-	1,255	107,539	5,377
Total long-term debt	<u>\$ 7,077,795</u>	<u>\$ 200,000</u>	<u>\$ 743,290</u>	<u>\$ 6,534,505</u>	<u>\$ 771,782</u>

A. General obligation refunding bonds payable

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2012	2.0-3.125%	2/1/2012	2/1/2022	<u>\$ 1,795,000</u>	<u>\$ 1,635,000</u>

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

Year Ending June 30	Principal	Interest	Total
2014	\$ 165,000	\$ 42,556	\$ 207,556
2015	165,000	39,256	204,256
2016	170,000	35,956	205,956
2017	175,000	32,556	207,556
2018	180,000	29,056	209,056
2019-2022	<u>780,000</u>	<u>60,274</u>	<u>840,274</u>
	<u>\$ 1,635,000</u>	<u>\$ 239,654</u>	<u>\$ 1,874,654</u>

This debt will be retired from the Debt Service Fund.

The amount of bond indebtedness that can be incurred by the school district is limited by Section 37-59-5 and 37-59-7, Miss. Code Ann. (1972). Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2013, the amount of outstanding bonded indebtedness was equal to 1% of property assessments as of October 1, 2012.

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement, Series 2009	3.0-3.75%	8/1/2009	8/1/2018	<u>\$ 2,865,000</u>	<u>\$ 1,990,000</u>

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Year Ending June 30	Principal	Interest	Total
2014	310,000	58,562	368,562
2015	315,000	49,187	364,187
2016	325,000	39,587	364,587
2017	335,000	29,478	364,478
2018	345,000	18,422	363,422
2019	360,000	6,300	366,300
	<u>\$ 1,990,000</u>	<u>\$ 201,536</u>	<u>\$ 2,191,536</u>

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

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

C. Certificates of participation payable

As more fully explained in Note 11, certificates of participation have been issued by the school district. Certificates of participation currently outstanding are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Certificates of participation, June 1999	5.45%	6/30/1999	6/30/2014	<u>\$ 1,459,469</u>	<u>\$ 131,959</u>

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

Year Ending June 30	Principal	Interest	Total
2014	131,959	3,457	135,416
	<u>\$ 131,959</u>	<u>\$ 3,457</u>	<u>\$ 135,416</u>

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

D. Shortfall notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Shortfall notes payable	2.80%	7/12/2010	7/1/2013	\$ 244,691	\$ 83,826
Shortfall notes payable	2.25%	7/16/2012	7/1/2015	200,000	200,000
Total				<u>\$ 444,691</u>	<u>\$ 283,826</u>

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

1. Shortfall notes payable issue of 2010:

Year Ending June 30	Principal	Interest	Total
2014	\$ 83,826	\$ 2,347	\$ 86,173

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

2. Shortfall notes payable issue of 2012:

Year Ending June 30	Principal	Interest	Total
2014	65,292	4,375	69,667
2015	66,594	3,073	69,667
2016	68,114	1,554	69,668
	<u>\$ 200,000</u>	<u>\$ 9,002</u>	<u>\$ 209,002</u>

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

Total shortfall notes payable payments for all issues:

Year Ending June 30	Principal	Interest	Total
2014	149,118	6,722	155,840
2015	66,594	3,073	69,667
2016	68,114	1,554	69,668
	<u>\$ 283,826</u>	<u>\$ 11,349</u>	<u>\$ 295,175</u>

E. Obligations under capital leases

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Copiers	1.84%	11/8/2010	1/1/2016	\$ 51,184	\$ 26,181

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

Year Ending June 30	Principal	Interest	Total
2014	10,328	411	10,739
2015	10,504	220	10,724
2016	5,349	38	5,387
	<u>\$ 26,181</u>	<u>\$ 669</u>	<u>\$ 26,850</u>

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

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

F. Qualified school construction bond payable

As more fully explained in Note 12, debt has been issued by the school district that qualifies as Qualified School Construction bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Qualified school construction bond payable	0.00%	12/23/2009	9/15/2024	\$ 2,360,000	\$ 2,360,000

G. Compensated absences payable

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 7 – Defined Benefit Pension Plan

Plan Description. The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy. PERS members are required to contribute 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2013 was 14.26% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2013, 2012 and 2011 were \$1,754,853, \$1,539,156 and \$1,362,434 respectively, which equaled the required contributions for each year.

Note 8 - Sixteenth Section Lands

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Year Ending June 30	Amount
2014	119,132
2015	110,095
2016	108,354
2017	97,833
2018	85,958
2019-2023	389,735
2024-2028	309,628
2029-2033	268,524
2034-2038	67,350
2039-2043	7,028
Total	\$ 1,563,637

Note 9 – Prior Period Adjustments

A summary of significant Net Position adjustments is as follows:

Exhibit B – Statement of Activities

Explanation	Amount
Adding fixed asset purchased in prior year not included in prior year financials	\$ 5,675

Note 10 - Risk Management

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

The school is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 90 school districts and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers Compensation Commission Act. If total claims

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

Note 11 - Trust Certificates

Trust agreements dated August 1, 1994, and July 26, 1995.

A deed of trust dated August 1, 1994, was executed by and between the Forrest County School District Foundation and Union Planters Bank. Simultaneously, a sale-lease back was executed by and between the Forrest County School District and Forrest County School District Foundation. The deed of trust agreement authorized the issuance of \$1,700,000 in debt to the Foundation secured by several facilities purchased by the Foundation from the Forrest County School District and future sixteenth section lease revenue of the Forrest County School District. The debt was reissued on June 30, 1999, at a lower interest rate.

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

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

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

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

**FORREST COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

Note 12 – Qualified School Construction Bonds

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

The school district makes annual payments into a sinking fund which is used to payoff the bonds at termination. The current maturity limit of tax credit bonds is 17 years, per the U.S. Treasury Department. Under this program, ten percent of the proceeds must be subject to a binding commitment to be spent within six months of issuance and 100% must be spent within three years. Up to two percent of bond proceeds can be used to pay costs of issuance. The amount on deposit at June 30, 2013 was \$142,521. The amount accumulated in the sinking fund at the end of the seventeen year period will be sufficient to retire the debt. The following schedule reports the annual deposits to be made to the sinking fund by the school district.

Year Ending June 30	Principal
2014	\$ 49,000
2015	50,000
2016	132,000
2017	134,000
2018	132,000
2019-2023	870,000
2024-2025	698,000
	\$ 2,065,000

Note 13 – Subsequent Events

Events that occur after the Statement of Net Position date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Position date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Position date require disclosure in the accompanying notes. Management of the Forrest County School District evaluated the activity of the district through January 31, 2014, and determined that no subsequent events have occurred requiring disclosure in the notes to the financial statements.

FORREST COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

FORREST COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Original to Final</u>	<u>Final to Actual</u>
	<u>Original</u>	<u>Final</u>			
REVENUES					
Local sources	\$ 7,138,656	\$ 6,736,785	\$ 6,736,785	\$ (401,871)	\$ -
State sources	10,066,204	10,077,001	10,077,001	10,797	-
Federal sources	<u>202,100</u>	<u>269,746</u>	<u>269,746</u>	<u>67,646</u>	<u>-</u>
Total Revenues	<u>17,406,960</u>	<u>17,083,532</u>	<u>17,083,532</u>	<u>(323,428)</u>	<u>-</u>
EXPENDITURES					
Instruction	10,714,797	9,781,972	9,781,972	932,825	-
Support services	7,572,749	7,132,629	7,132,629	440,120	-
Non-instructional services	93,700	79,567	79,567	14,133	-
Debt Service:					
Principal	10,200	10,139	10,139	61	-
Interest	<u>600</u>	<u>584</u>	<u>584</u>	<u>16</u>	<u>-</u>
Total Expenditures	<u>18,392,046</u>	<u>17,004,891</u>	<u>17,004,891</u>	<u>1,387,155</u>	<u>-</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>(985,086)</u>	<u>78,641</u>	<u>78,641</u>	<u>1,063,727</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Proceeds of loans	-	200,000	200,000	200,000	-
Sale of transportation equipment	-	5,775	5,775	5,775	-
Transfers in	1,193,917	942,306	383,081	(251,611)	(559,225)
Transfers out	<u>(2,036,778)</u>	<u>(1,958,536)</u>	<u>(1,399,311)</u>	<u>78,242</u>	<u>559,225</u>
Total Other Financing Sources (Uses)	<u>(842,861)</u>	<u>(810,455)</u>	<u>(810,455)</u>	<u>32,406</u>	<u>-</u>
Net change in fund balances	<u>(1,827,947)</u>	<u>(731,814)</u>	<u>(731,814)</u>	<u>1,096,133</u>	<u>-</u>
Fund Balances:					
July 1, 2012	<u>8,107,777</u>	<u>8,107,777</u>	<u>8,107,777</u>	<u>-</u>	<u>-</u>
June 30, 2013	<u>\$ 6,279,830</u>	<u>\$ 7,375,963</u>	<u>\$ 7,375,963</u>	<u>\$ 1,096,133</u>	<u>\$ -</u>

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

FORREST COUNTY SCHOOL DISTRICT
Required Supplementary Information

Budgetary Comparison Schedule
School Food Service Fund
For the Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Original to Final</u>	<u>Final to Actual</u>
	<u>Original</u>	<u>Final</u>			
REVENUES					
Local sources	\$ 384,215	\$ 278,482	\$ 278,482	\$ (105,733)	\$ -
State sources	14,000	13,180	13,180	(820)	-
Federal sources	<u>1,183,752</u>	<u>1,216,142</u>	<u>1,216,142</u>	<u>32,390</u>	<u>-</u>
Total Revenues	<u>1,581,967</u>	<u>1,507,804</u>	<u>1,507,804</u>	<u>(74,163)</u>	<u>-</u>
EXPENDITURES					
Support services	166,133	151,621	151,621	14,512	-
Noninstructional services	<u>1,258,168</u>	<u>1,241,561</u>	<u>1,241,561</u>	<u>16,607</u>	<u>-</u>
Total Expenditures	<u>1,424,301</u>	<u>1,393,182</u>	<u>1,393,182</u>	<u>31,119</u>	<u>-</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>157,666</u>	<u>114,622</u>	<u>114,622</u>	<u>(43,044)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(118,874)</u>	<u>(100,589)</u>	<u>(100,589)</u>	<u>18,285</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(118,874)</u>	<u>(100,589)</u>	<u>(100,589)</u>	<u>18,285</u>	<u>-</u>
Net change in fund balances	<u>38,792</u>	<u>14,033</u>	<u>14,033</u>	<u>(24,759)</u>	<u>-</u>
Fund Balances:					
July 1, 2012	<u>672,910</u>	<u>672,910</u>	<u>672,910</u>	<u>-</u>	<u>-</u>
Increase(Decrease) in reserve for inventory	<u>10,426</u>	<u>10,426</u>	<u>10,426</u>	<u>-</u>	<u>-</u>
June 30, 2013	<u>\$ 722,128</u>	<u>\$ 697,369</u>	<u>\$ 697,369</u>	<u>\$ (24,759)</u>	<u>\$ -</u>

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

FORREST COUNTY SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
Title I-A Basic Fund
For the Year Ended June 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual (GAAP Basis)</u>	<u>Original to Final</u>	<u>Final to Actual</u>
	<u>Original</u>	<u>Final</u>			
REVENUES					
Federal sources	\$ 1,002,122	\$ 1,149,086	\$ 1,149,086	\$ 146,964	\$ -
Total Revenues	<u>1,002,122</u>	<u>1,149,086</u>	<u>1,149,086</u>	<u>146,964</u>	<u>-</u>
EXPENDITURES					
Instruction	702,464	826,162	826,162	(123,698)	-
Support services	229,629	285,450	285,450	(55,821)	-
Noninstructional services	<u>45,001</u>	<u>31,963</u>	<u>31,963</u>	<u>13,038</u>	<u>-</u>
Total Expenditures	<u>977,094</u>	<u>1,143,575</u>	<u>1,143,575</u>	<u>(166,481)</u>	<u>-</u>
Excess (deficiency) of Revenues over (under) Expenditures	<u>25,028</u>	<u>5,511</u>	<u>5,511</u>	<u>(19,517)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers out	<u>(25,028)</u>	<u>(5,511)</u>	<u>(5,511)</u>	<u>19,517</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(25,028)</u>	<u>(5,511)</u>	<u>(5,511)</u>	<u>19,517</u>	<u>-</u>
Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:					
July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
June 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

FORREST COUNTY SCHOOL DISTRICT

Required Supplementary Information

**Budgetary Comparison Schedule
Sixteenth Section Interest Fund
For the Year Ended June 30, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Original to Final	Final to Actual
	Original	Final			
REVENUES					
Federal sources	\$ 65,158	\$ 65,158	\$ 65,158	\$ -	\$ -
Sixteenth section sources	132,280	287,161	287,161	154,881	-
Total Revenues	197,438	352,319	352,319	154,881	-
EXPENDITURES					
Sixteenth section	36,365	54,084	54,084	(17,719)	-
Total Expenditures	36,365	54,084	54,084	(17,719)	-
Excess (deficiency) of Revenues over (under) Expenditures	161,073	298,235	298,235	137,162	-
OTHER FINANCING SOURCES (USES)					
Transfers in	5,000	909	909	(4,091)	-
Transfers out	(100,915)	(153,986)	(153,986)	(53,071)	-
Total Other Financing Sources (Uses)	(95,915)	(153,077)	(153,077)	(57,162)	-
Net change in fund balances	65,158	145,158	145,158	80,000	-
Fund Balances:					
July 1, 2012	325,978	325,978	325,978	-	-
June 30, 2013	\$ 391,136	\$ 471,136	\$ 471,136	\$ 80,000	\$ -

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

FORREST COUNTY SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2013

Budgetary Comparison Schedules

(1) Basis of Presentation

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

(2) Budget amendments and revision

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

FORREST COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

FORREST COUNTY SCHOOL DISTRICT
Supplemental Information

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog of Federal Domestic Assistance Number</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Agriculture</u>		
Passed-through Farm Service Agency:		
Emergency conservation program	10.054	21,745
Total passed through Farm Service Agency		<u>21,745</u>
Passed-through Mississippi Department of Education:		
Child nutrition cluster		
School breakfast program	10.553	792,042
National school lunch program	10.555	423,901
Summer food service program for children	10.559	199
Total child nutrition cluster		<u>1,216,142</u>
Schools and roads - grants to states	10.665	<u>108,326</u>
Total U.S. Department of Agriculture		<u>1,346,213</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The Schools and Libraries Program of the universal service fund	32.XXX	<u>127,587</u>
Total Federal Communications Commission		<u>127,587</u>
<u>U. S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	1,149,086
Career and technical education - basic grants to states	84.048	60,557
Improving teacher quality - state grants	84.367	155,141
Total		<u>1,364,784</u>
Special education cluster:		
Special education - grants to states	84.027	754,702
Special education - preschool grants	84.173	36,085
Total		<u>790,787</u>
Total passed-through Mississippi Department of Education		<u>2,155,571</u>
Total U.S. Department of Education		<u>2,155,571</u>
<u>U. S. Department of Health and Human Services</u>		
Passed-through the Mississippi Department of Education:		
Medical assistance program	93.778	18,833
Total U.S. Department of Health and Human Services		<u>18,833</u>
Total for All Federal Awards		<u>\$ 3,648,204</u>

Notes to Schedule

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

FORREST COUNTY SCHOOL DISTRICT

Supplemental Information

Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2013

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 16,753,201	\$ 12,343,333	\$ 1,158,193	\$ 1,164,037	\$ 2,087,638
Other	<u>6,964,183</u>	<u>1,304,383</u>	<u>461,497</u>	<u>46,948</u>	<u>5,151,355</u>
Total	<u>\$ 23,717,384</u>	<u>\$ 13,647,716</u>	<u>\$ 1,619,690</u>	<u>\$ 1,210,985</u>	<u>\$ 7,238,993</u>
Total number of students *	2,215				
Cost per student	\$ 10,708	\$ 6,161	\$ 731	\$ 547	\$ 3,268

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

Instruction and Other Student Instructional Expenditures - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type (all the 1000, 2100, & 2200 functional codes)

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

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

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

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

FORREST COUNTY SCHOOL DISTRICT

OTHER INFORMATION

FORREST COUNTY SCHOOL DISTRICT

Other Information

Statement of Revenues, Expenditures and Changes in Fund Balances

General Fund

Last Four Years

UNAUDITED

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 6,736,785	7,016,434	6,950,112	6,676,522
State sources	10,077,001	10,133,211	9,914,126	9,884,948
Federal sources	269,746	403,873	314,134	234,366
Total Revenues	<u>17,083,532</u>	<u>17,553,518</u>	<u>17,178,372</u>	<u>16,795,836</u>
Expenditures:				
Instruction	9,781,972	9,960,013	8,123,225	9,019,267
Support services	7,132,629	7,086,981	6,041,307	6,288,925
Noninstructional services	79,567	92,784	72,430	59,821
Debt service:				
Principal	10,139	9,955	8,576	10,174
Interest	584	769	543	1,096
Total Expenditures	<u>17,004,891</u>	<u>17,150,502</u>	<u>14,246,081</u>	<u>15,379,283</u>
Excess (Deficiency) of Revenues over Expenditures	<u>78,641</u>	<u>403,016</u>	<u>2,932,291</u>	<u>1,416,553</u>
Other Financing Sources (Uses):				
Bonds and notes issued	200,000	-	244,691	-
Capital leases issued	-	-	51,184	-
Sale of transportation equipment	5,775	9,250	-	-
Sale of other property	-	-	2,000	-
Operating transfers in	383,081	424,664	494,370	496,682
Other financing sources	-	3,485	-	-
Operating transfers out	<u>(1,399,311)</u>	<u>(575,872)</u>	<u>(401,683)</u>	<u>(329,281)</u>
Total Other Financing Sources (Uses)	<u>(810,455)</u>	<u>(138,473)</u>	<u>390,562</u>	<u>167,401</u>
Net Change in Fund Balances	<u>(731,814)</u>	<u>264,543</u>	<u>3,322,853</u>	<u>1,583,954</u>
Fund Balances:				
Beginning of period	<u>8,107,777</u>	<u>7,843,234</u>	<u>4,520,381</u>	<u>2,936,427</u>
End of Period	<u>\$ 7,375,963</u>	<u>8,107,777</u>	<u>7,843,234</u>	<u>4,520,381</u>

*SOURCE - PRIOR YEAR AUDIT REPORTS

FORREST COUNTY SCHOOL DISTRICT

Other Information

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

	2013	2012*	2011*	2010*
Revenues:				
Local sources	\$ 7,335,589	7,624,897	7,688,475	7,376,826
State sources	10,974,915	11,046,685	10,883,675	10,908,115
Federal sources	3,643,013	3,932,034	5,264,264	5,015,987
Sixteenth section sources	376,120	458,793	532,446	697,700
Total Revenues	22,329,637	23,062,409	24,368,860	23,998,628
Expenditures:				
Instruction	11,614,998	11,899,220	11,371,739	12,043,755
Support services	8,129,513	8,410,068	9,153,957	8,171,525
Noninstructional services	1,353,091	1,209,699	1,113,050	1,153,349
Sixteenth section	73,378	161,917	65,449	145,594
Facilities acquisition and construction	1,641,517	94,306	-	-
Debt service:				
Principal	742,035	680,994	577,306	270,349
Interest	153,793	186,901	219,835	174,290
Debt issuance costs	-	40,500	-	-
Other	9,059	6,799	7,136	100,830
Total Expenditures	23,717,384	22,690,404	22,508,472	22,059,692
Excess (Deficiency) of Revenues over Expenditures	(1,387,747)	372,005	1,860,388	1,938,936
Other Financing Sources (Uses):				
Bonds and notes issued	200,000	1,795,000	244,691	2,865,000
Capital leases issued	-	-	51,184	-
Proceeds from loan	-	-	-	2,360,000
Premium on refunding bonds issued	-	4,290	-	9,779
Payments to refunded bond escrow agent	-	(1,757,348)	-	-
Payments held by escrow agent	49,462	47,747	50,000	-
Payment to QSCB debt escrow agent	(49,462)	(47,747)	(50,000)	(3,079,975)
Sale of transportation equipment	5,775	9,250	-	-
Sale of other property	-	1,938	2,000	-
Operating transfers in	1,783,301	1,013,495	914,875	840,558
Other financing sources	-	3,485	-	-
Operating transfers out	(1,783,301)	(1,013,495)	(914,875)	(840,558)
Other financing uses	(4,697)	-	-	-
Total Other Financing Sources (Uses)	201,078	56,615	297,875	2,154,804
Net Change in Fund Balances	(1,186,669)	428,620	2,158,263	4,093,740
Fund Balances:				
Beginning of period	12,299,733	11,870,678	9,701,164	5,609,769
Increase (Decrease) in reserve for inventory	10,426	435	11,251	(2,345)
End of Period	\$ 11,123,490	12,299,733	11,870,678	9,701,164

*SOURCE - PRIOR YEAR AUDIT REPORTS

FORREST COUNTY SCHOOL DISTRICT

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

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

Superintendent and School Board
Forrest County School District

We have audited, 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, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Forrest County School District as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Forrest County School District's basic financial statements and have issued our report thereon dated January 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the school district's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency (2013-01).

School District's Response to Findings

The school district's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The district's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
January 31, 2014

FORREST COUNTY SCHOOL DISTRICT

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133**

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Superintendent and School Board
Forrest County School District

Report on Compliance for Each Major Federal Program

We have audited Forrest County School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Forrest County School District's major federal programs for the year ended June 30, 2013. Forrest County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Forrest County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the school district's compliance.

Opinion on Each Major Federal Program

In our opinion, Forrest County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

Management of Forrest County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the school district's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A *deficiency* in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
January 31, 2014

FORREST COUNTY SCHOOL DISTRICT

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

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Forrest County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Forrest County School District as of and for the year ended June 30, 2013, which collectively comprise Forrest County School District's basic financial statements and have issued our report thereon dated January 31, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3) (a) (iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported **\$2,373** of classroom supply funds carried over from previous years.

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

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

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

Page 2

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

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies the Office of the State Auditor and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

King CPA, PLLC

KING CPA, PLLC
Petal, Mississippi
January 31, 2014

**FORREST COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2013**

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

4. Type of auditor's report issued on compliance for major federal programs: UNQUALIFIED
5. Internal control over major programs:
 - a. Material weakness (es) identified? NO
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? NONE REPORTED
6. Any audit finding(s) reported as required by section __.510(a) of OMB Circular A-133? NO
7. Federal programs identified as major programs:

Child Nutrition Cluster	
School Breakfast Program	CFDA # <u>10.553</u>
National School Lunch Program	CFDA # <u>10.555</u>
Summer Food Service Program for Children	CFDA# <u>10.559</u>
8. The dollar threshold used to distinguish between Type A and Type B programs: \$300,000
9. Auditee qualified as a low-risk auditee? YES

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

10. Prior fiscal year audit finding(s) and questioned cost reactive to federal awards which would require the auditee to prepare a summary schedule of prior audits findings as discussed in Section __.315(b) of OMB Circular A-133?

NO

Section 2: Financial Statement Findings

Significant Deficiency

2013-01 Unauthorized Bank Account

Condition: During our test of cash we noted that there was an unauthorized bank account which was not included in the District's financial records.

Criteria: Adequate controls should be in place to ensure that only authorized bank accounts are opened in the District's federal identification number.

Cause: There were no policies, procedures, or communications to Parent Teacher Associations (PTA) to ensure only authorized bank accounts were opened.

Effect: A Parent Teacher Association opened a bank account using the district's federal identification number which could cause material misstatement or noncompliance with laws and regulations.

Recommendation: We recommend the District put into place policies and procedures for opening bank accounts and communicate that with these organizations.

Section 3: Federal Award Findings and Questioned Cost

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

FORREST COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

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AUDITEE'S CORRECTIVE ACTION PLAN

As required by Section .315 (b) of OMB Circular A-133, the Forrest County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2013:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
2013-01	<p>The school district will implement new procedures for organizations such as Parent Teacher Organizations, communicate those procedures to the officers of those organizations at the beginning of the school year at the same time the organizations are approved by their school board.</p> <p>Ann Mitcham, business manager will monitor to insure procedures are being followed.</p>