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FORREST COUNTY, MISSISSIPPI

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

Year Ended September 30, 2006

FORREST COUNTY, MISSISSIPPI

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS	
Exhibit 1 - Statement of Net Assets	4
Exhibit 2 - Statement of Activities	5
Exhibit 3 - Balance Sheet - Governmental Funds	6
Exhibit 3-1 - Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets	7
Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Exhibit 4-1 - Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	9
Exhibit 5 - Statement of Fiduciary Assets and Liabilities	11
NOTES TO FINANCIAL STATEMENTS	12
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule 1 - Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) - General Fund	36
Schedule 2 - Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) - Workforce Investment Act (WIA) Fund	38
Schedule 3 - Budgetary Comparison Schedule Budget and Actual (Non-GAAP Basis) - Road and Bridge Maintenance Fund	40
Notes to the Required Supplementary Information	42
SUPPLEMENTAL INFORMATION	
Schedule 4 - Schedule of Expenditures of Federal Awards	44
Notes to the Schedule of Expenditures of Federal Awards	47
SPECIAL REPORTS	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Primary Government Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48
Independent Auditor's Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance with OMB Circular A-133	50

FORREST COUNTY, MISSISSIPPI

CONTENTS

PAGE TWO

	<u>Page</u>
<i>SPECIAL REPORTS (Cont.)</i>	
Independent Auditor's Report on Central Purchasing System, Inventory Control System, and Purchase Clerk Schedules (Required by Section 31-7-115, Mississippi Code Annotated [1972])	52
Schedule 1 - Schedule of Purchases Not Made from the Lowest Bidder	55
Schedule 2 - Schedule of Emergency Purchases	56
Schedule 3 - Schedule of Purchases Made Noncompetitively from a Sole Source	57
Limited Internal Control and Compliance Review Management Report	58
<i>SCHEDULE OF FINDINGS AND QUESTIONED COSTS</i>	61

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

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the County's primary government financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

The financial statements referred to above include only the primary government of Forrest County, Mississippi, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the County's legal entity. The financial statements do not include financial data for the County's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the County's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of Forrest County, Mississippi, as of September 30, 2006, and the respective changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities for the primary government of Forrest County, Mississippi, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information for the primary government of Forrest County, Mississippi, as of September 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2007, on our consideration of Forrest County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board of Supervisors
Forrest County, Mississippi

Forrest County, Mississippi has not presented Management's Discussion and Analysis that is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board.

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
July 25, 2007

PRIMARY GOVERNMENT BASIC FINANCIAL STATEMENTS

EXHIBIT 1

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	Governmental Activities
ASSETS	
Cash	\$ 35,136,801
Property tax receivable	19,742,898
Fines receivable, net of allowance for uncollectibles of \$1,405,463	564,787
Intergovernmental receivables	394,871
Other receivables	24,231
Capital assets, net	75,385,510
Total assets	\$ 131,249,098
LIABILITIES	
Claims payable	\$ 1,179,271
Intergovernmental payables	619,841
Accrued interest payable	163,532
Deferred revenue	19,742,898
Other payables	405,525
Long-term liabilities:	
Due within one year:	
Capital debt	1,588,455
Non-capital debt	729,000
Due in more than one year:	
Capital debt	15,721,394
Non-capital debt	2,453,194
Total liabilities	42,603,110
NET ASSETS	
Invested in capital assets, net of related debt	58,075,661
Restricted:	
Expendable:	
General government	460,297
Debt service	1,721,381
Public safety	1,564,081
Public works	8,893,196
Culture and recreation	429,853
Conservation of natural resources	153,600
Unemployment compensation	107,352
Capital projects	1,131,695
Unrestricted	16,108,872
Total net assets	\$ 88,645,988

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

EXHIBIT 2

FORREST COUNTY, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental activities:					
General government	\$ 8,886,080	\$ 1,779,191	\$ 1,414,410	\$ 10,432	\$ (5,682,047)
Public safety	6,531,572	2,444,505	769,440	223,925	(3,093,702)
Public works	10,640,245	-	487,815	-	(10,152,430)
Health and welfare	881,479	-	-	-	(881,479)
Culture and recreation	1,267,897	131,025	384,032	-	(752,840)
Education	10,500	-	-	-	(10,500)
Conservation of natural resources	183,916	-	-	-	(183,916)
Economic development and assistance	996,128	-	855,222	25,000	(115,906)
Interest on long-term debt	822,567	-	-	-	(822,567)
Total governmental activities	30,220,384	4,354,721	3,910,919	259,357	(21,695,387)
Total primary government	\$ 30,220,384	\$ 4,354,721	\$ 3,910,919	\$ 259,357	(21,695,387)
General revenues:					
Taxes:					
Property taxes					18,936,495
Road and bridge privilege taxes					733,195
Grants and contributions not restricted to specific programs					1,180,715
Unrestricted investment income					1,028,360
Gain on sale of capital assets					17,555
Miscellaneous					1,874,882
Total general revenues					23,771,202
CHANGES IN NET ASSETS					2,075,815
NET ASSETS - BEGINNING					32,176,257
Prior period adjustment					54,393,916
NET ASSETS - BEGINNING, AS RESTATED					86,570,173
NET ASSETS - ENDING					\$ 88,645,988

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

EXHIBIT 3

FORREST COUNTY, MISSISSIPPI

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Major Funds					
	General Fund	Workforce Investment Act (WIA) Fund	Road and Bridge Maintenance Fund	G.O. Bond Construction, Series 2005	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 20,079,398	\$ 50	\$ 6,424,203	\$ 1,221,378	\$ 7,411,772	\$ 35,136,801
Property tax receivable	14,008,031	-	2,193,927	-	3,540,940	19,742,898
Fines receivable (net of allowance for uncollectibles of \$1,405,463)	564,787	-	-	-	-	564,787
Intergovernmental receivables	388,548	-	-	-	6,323	394,871
Other receivables	24,231	-	-	-	-	24,231
Due from other funds	-	-	87,103	-	48,890	135,993
Total assets	\$ 35,064,995	\$ 50	\$ 8,705,233	\$ 1,221,378	\$ 11,007,925	\$ 55,999,581
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Claims payable	\$ 753,628	\$ -	\$ 347,817	\$ -	\$ 77,826	\$ 1,179,271
Intergovernmental payables	607,451	-	-	-	-	607,451
Due to other funds	148,383	-	-	-	-	148,383
Deferred revenue	14,572,818	-	2,193,927	-	3,540,940	20,307,685
Other payables	256,436	-	-	149,089	-	405,525
Total liabilities	16,338,716	-	2,541,744	149,089	3,618,766	22,648,315
FUND BALANCES						
Reserved for:						
Debt service	-	-	-	-	1,885,950	1,885,950
Unemployment compensation	-	-	-	-	107,352	107,352
Unreserved, reported in:						
General fund	18,726,279	-	-	-	-	18,726,279
Special revenue funds	-	50	6,163,489	-	5,336,456	11,499,995
Capital project funds	-	-	-	1,072,289	59,401	1,131,690
Total fund balances	18,726,279	50	6,163,489	1,072,289	7,389,159	33,351,266
Total liabilities and fund balances	\$ 35,064,995	\$ 50	\$ 8,705,233	\$ 1,221,378	\$ 11,007,925	\$ 55,999,581

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

EXHIBIT 3-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006**

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 33,351,266
Amounts reported for governmental services in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and, therefore, are not reported in the funds, net of accumulated depreciation of \$36,072,290.	75,385,510
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	564,787
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(20,492,043)
Interest on long-term liabilities is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	<u>(163,532)</u>
Total net assets - governmental activities (Exhibit 1)	<u><u>\$ 88,645,988</u></u>

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

EXHIBIT 4

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2006**

	Major Funds					
	General Fund	Workforce Investment Act (WIA) Fund	Road and Bridge Maintenance Fund	G.O. Bond Construction, Series 2005	Other Governmental Funds	Total Governmental Funds
REVENUES						
Property taxes	\$ 13,218,320	\$ -	\$ 2,178,459	\$ -	\$ 3,539,716	\$ 18,936,495
Road and bridge privilege taxes	-	-	733,195	-	-	733,195
Licenses, commissions and other revenue	1,051,325	-	-	-	18,757	1,070,082
Fines and forfeitures	492,087	-	-	-	258,545	750,632
Intergovernmental revenues	4,031,716	855,222	952,127	-	1,046,991	6,886,056
Charges for services	905,430	-	-	-	-	905,430
Interest income	673,603	-	187,361	48,145	209,681	1,118,790
Miscellaneous revenues	267,170	-	84,391	6,745	881,534	1,239,840
Total revenues	<u>20,639,651</u>	<u>855,222</u>	<u>4,135,533</u>	<u>54,890</u>	<u>5,955,224</u>	<u>31,640,520</u>
EXPENDITURES						
Current:						
General government	7,025,289	-	-	748,244	601,833	8,375,366
Public safety	5,231,731	-	-	-	1,387,634	6,619,365
Public works	927,414	-	3,391,377	47,303	905,833	5,271,927
Health and welfare	877,934	-	-	-	-	877,934
Culture and recreation	356,672	-	-	-	1,006,227	1,362,899
Education	10,500	-	-	-	-	10,500
Conservation of natural resources	117,647	-	-	-	45,394	163,041
Economic development and assistance	140,906	855,222	-	-	-	996,128
Debt Service:						
Principal	439,010	-	13,133	-	1,788,484	2,240,627
Interest	98,196	-	3,004	-	772,070	873,270
Total expenditures	<u>15,225,299</u>	<u>855,222</u>	<u>3,407,514</u>	<u>795,547</u>	<u>6,507,475</u>	<u>26,791,057</u>
Excess of revenues over (under) expenditures	<u>5,414,352</u>	<u>-</u>	<u>728,019</u>	<u>(740,657)</u>	<u>(552,251)</u>	<u>4,849,463</u>
OTHER FINANCING SOURCES (USES)						
Long-term capital debt issued	-	-	-	-	1,000,000	1,000,000
Proceeds from sale of capital assets	6,355	-	49,065	-	54,925	110,345
Compensation for loss of capital assets	593,664	-	1,881	-	8,268	603,813
Transfers in	259,666	-	-	-	1,379,797	1,639,463
Transfers out	(1,377,595)	-	-	-	(264,666)	(1,642,261)
Total other financing sources (uses)	<u>(517,910)</u>	<u>-</u>	<u>50,946</u>	<u>-</u>	<u>2,178,324</u>	<u>1,711,360</u>
Net changes in fund balances	4,896,442	-	778,965	(740,657)	1,626,073	6,560,823
FUND BALANCES - BEGINNING	<u>13,829,837</u>	<u>50</u>	<u>5,384,527</u>	<u>1,812,946</u>	<u>5,763,085</u>	<u>26,790,445</u>
FUND BALANCES - ENDING	<u>\$ 18,726,279</u>	<u>\$ 50</u>	<u>\$ 6,163,489</u>	<u>\$ 1,072,289</u>	<u>\$ 7,389,159</u>	<u>\$ 33,351,266</u>

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

EXHIBIT 4-1

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006**

	<u>Amount</u>
Net changes in fund balances - total governmental funds (Exhibit 4)	\$ 6,560,823
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Thus, the change in net assets differs from the change in fund balances by the amount that depreciation (\$6,676,125) exceeded capital outlays (\$1,020,109) in the current period.	(5,656,016)
In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and loss from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain \$17,555 and the proceeds from the sale of \$110,345.	(92,790)
Fine revenue recognized on the modified accrual basis in the funds during the year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	37,109
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$2,240,661 exceeded debt proceeds of \$1,000,000.	1,240,661

EXHIBIT 4-1
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2006**

Amount

Under the modified accrual basis of accounting used in the governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. However, in the Statement of Activities, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is recognized under the modified accrual basis of accounting when due, rather than as it accrues. Thus, the change in net assets differs from the change in fund balances by the amount of the increases in accrued interest payable and compensated absences.

\$ (13,938)

Change in net assets of governmental activities (Exhibit 2)

\$ 2,075,849

EXHIBIT 5

FORREST COUNTY, MISSISSIPPI

**STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2006**

	<u>Agency Funds</u>
<i>ASSETS</i>	
Cash	\$ 2,278,679
Due from other funds	12,390
Other receivables	<u>46,391</u>
Total assets	<u><u>\$ 2,337,460</u></u>
<i>LIABILITIES</i>	
Other liabilities	\$ 2,213,363
Intergovernmental payables	<u>124,097</u>
Total liabilities	<u><u>\$ 2,337,460</u></u>

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

NOTES TO FINANCIAL STATEMENTS

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

B. Individual Component Unit Disclosure:

Blended Component Unit

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2006

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

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

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

Government-wide Financial Statements

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2006

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

Fund Financial Statements

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

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

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

The County reports the following major Governmental Funds:

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

Workforce Investment Act (WIA) Fund - This fund is used to account for monies from specific federal revenue sources that are restricted for workforce training.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2006

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

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

G.O. Bond Construction, Series 2005 Capital Project - This fund is used to account for monies collected from specific revenue sources that are restricted for the acquisition or construction of major capital facilities.

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUND TYPES

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2006

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

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

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2006

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

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

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

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2006

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

In the fund financial statements, Governmental Fund Types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Equity Classifications

Government-wide Financial Statements:

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

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

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

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

Fund Financial Statements:

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2006

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

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

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 2 - CHANGES IN ACCOUNTING STANDARDS

For the fiscal year ended September 30, 2006, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 requires governments to report the effects of capital asset impairment in their financial statements when impairment occurs. The provisions of this new statement have been incorporated into the financial statements and the accompanying notes.

NOTE 3 - PRIOR PERIOD ADJUSTMENT

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

Explanation	Amount
Capital assets	\$ 54,393,916
<i>Total prior period adjustment</i>	<u><u>\$ 54,393,916</u></u>

NOTE 4 - DEPOSITS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2006, was \$35,136,801, and the bank balance was \$35,931,457. The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC).

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 4 – DEPOSITS (Cont.)

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

NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2006:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Maintenance	General Fund	\$ 87,103
Other Governmental Funds	General Fund	48,890
Agency Funds	General Fund	12,390
Total		<u><u>\$ 148,383</u></u>

Amounts listed are the tax revenue collected but not settled until October, 2006. All interfund balances are expected to be repaid within one (1) year from the date of the financial statements.

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 259,666
Other Governmental Funds	Other Governmental Funds	1,379,797
Total		<u><u>\$ 1,639,463</u></u>

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 6 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2006 consisted of the following:

<u>Description</u>	<u>Amount</u>
Legislative tax credit	\$ 260,808
Homeland Security - FEMA Disaster Assistance	127,740
Violence Against Women Grant	<u>6,323</u>
<i>Total all intergovernmental receivables</i>	<u><u>\$ 394,871</u></u>

NOTE 7 - OTHER RECEIVABLES

Other receivables at September 30, 2006 consisted of the following:

<u>Description</u>	<u>Amount</u>
General Fund:	
Tax Collector bad checks	<u>\$ 24,231</u>
Total General Fund	<u>24,231</u>
<i>Total all other receivables</i>	<u><u>\$ 24,231</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE
YEAR ENDED SEPTEMBER 30, 2006

NOTE 8 - CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2006:

	Balance Oct. 1, 2005	Additions	Deletions	Adjustments *	Balance Sep. 30, 2006
Non-depreciable capital assets:					
Land	\$ 1,358,569	\$ -	\$ -	\$ -	\$ 1,358,569
Construction in progress	2,701,783	52,208	-	(2,019,636)	734,355
Total non-depreciable capital assets	<u>4,060,352</u>	<u>52,208</u>	<u>-</u>	<u>(2,019,636)</u>	<u>2,092,924</u>
Depreciable capital assets:					
Buildings	26,031,555	230,176	-	2,019,630	28,281,361
Improvements other than buildings	1,301,817	-	-	-	1,301,817
Mobile equipment	7,677,139	645,500	427,120	163,836	8,059,355
Furniture and equipment	1,391,961	92,225	8,138	(269,094)	1,206,954
Leased property under capital leases	120,967	-	-	133,621	254,588
Roads	-	-	-	62,177,169	62,177,169
Bridges	-	-	-	8,083,634	8,083,634
Total depreciable capital assets	<u>36,523,439</u>	<u>967,901</u>	<u>435,258</u>	<u>72,308,796</u>	<u>109,364,878</u>
Less accumulated depreciation for:					
Buildings	7,578,429	657,486	-	-	8,235,915
Improvements other than buildings	213,221	52,082	-	-	265,303
Mobile equipment	4,978,914	572,416	335,144	188,468	5,404,654
Furniture and equipment	1,040,476	60,373	7,324	(160,343)	933,182
Leased property under capital leases	32,353	45,836	-	48,106	126,295
Roads	-	5,126,254	-	15,350,616	20,476,870
Bridges	-	161,678	-	468,395	630,073
Total accumulated depreciation	<u>13,843,393</u>	<u>6,676,125</u>	<u>342,468</u>	<u>15,895,242</u>	<u>36,072,292</u>
Total depreciable capital assets, net	<u>22,680,046</u>	<u>(5,708,224)</u>	<u>92,790</u>	<u>56,413,554</u>	<u>73,292,586</u>
Governmental activities capital assets, net	<u>\$ 26,740,398</u>	<u>\$ (5,656,016)</u>	<u>\$ 92,790</u>	<u>\$ 54,393,918</u>	<u>\$ 75,385,510</u>

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THIRTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 8 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	Amount
General government	\$ 704,691
Public safety	303,548
Public works	5,583,723
Health and welfare	2,859
Culture and recreation	60,429
Conservation of natural resources	20,875
Total governmental activities depreciation expense	\$ 6,676,125

Commitments with respect to unfinished capital projects at September 30, 2006, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Justice Court Building	\$ 170,120	Jan-07
Trustee Facility	215,000	May-07

NOTE 9 - CLAIMS AND JUDGMENTS

Risk Financing - The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$750,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2005 to January 1, 2006. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOURTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 10 - OPERATING LEASES

As Lessee:

The County has entered into a certain operating lease which does not give rise to property rights. There was no cost for the lease for the year ended September 30, 2006 as the first payment was not due until May 2007. The future minimum lease payments for the lease are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2007	\$ 259,185
2008	259,185
2009	259,185
2010	<u>259,185</u>
<i>Total minimum payments required</i>	<u><u>\$ 1,036,740</u></u>

NOTE 11 - CAPITAL LEASES

As Lessee:

The County is obligated for the following capital assets acquired through capital leases as of September 30, 2006:

<u>Classes of Property</u>	<u>Governmental Activities</u>
Mobile equipment	<u>\$ 61,461</u>
<i>Leased property under capital leases</i>	<u><u>\$ 61,461</u></u>

The following is a schedule by years of the total payments due as of September 30, 2006:

<u>Year Ending September 30,</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	13,498	2,639
2008	13,871	2,266
2009	<u>76,196</u>	<u>1,296</u>
<i>Total</i>	<u><u>\$ 103,565</u></u>	<u><u>\$ 6,201</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIFTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 12 - LONG-TERM DEBT

Debt outstanding as of September 30, 2006, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
A. General obligation bonds:			
Library construction	\$ 600,000	6.10 - 6.25 %	03/2007
School bonds - series 1994	127,000	6.25 - 6.63 %	12/2009
Multi-purpose center project refinancing - series 1994	5,895,000	1.00 - 3.45 %	12/2017
School bonds - series 1998	830,000	4.90%	03/2013
Public buildings - series 1999	4,670,000	4.00 - 4.25 %	02/2019
Public improvements - series 2005	<u>3,805,000</u>	3.70 - 4.50 %	03/2020
Total general obligation bonds	<u>\$ 15,927,000</u>		
B. Limited obligation bonds:			
Youth Detention Facility project refinancing - series 2003	\$ 605,000	3.48%	01/2010
Human Service Building project refinancing - series 2003	<u>740,000</u>	3.46%	05/2010
Total limited obligation bonds	<u>\$ 1,345,000</u>		
C. Capital leases:			
Excavator	<u>\$ 103,565</u>	4.44%	06/2009
Total capital leases	<u>\$ 103,565</u>		

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 12 - LONG-TERM DEBT (Cont.)

D. Other loans:

* City of Hattiesburg	\$ 674,900	Variable	04/2010
MS Development Authority revolving loan	498,908	4.00%	04/2013
MS Development Authority revolving loan	502,961	4.00%	04/2013
Federal Emergency Management Agency Special Community Disaster Loan	1,000,000	2.90%	04/2011
Carnes and Sunrise Volunteer Fire Departments	24,980	3.84%	01/2007
McLaurin Volunteer Fire Department	<u>29,285</u>	3.49%	07/2010
Total other loans	<u>\$ 2,731,034</u>		

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

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

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 1,664,000	\$ 560,633
2008	1,096,000	502,890
2009	1,153,000	460,632
2010	1,189,000	416,558
2011	1,195,000	373,240
2012 - 2016	6,315,000	1,203,263
2017 - 2021	<u>3,315,000</u>	<u>196,616</u>
Total	<u>\$ 15,927,000</u>	<u>\$ 3,713,832</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVENTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 12 - LONG-TERM DEBT (Cont.)

<u>Year Ending September 30,</u>	Limited Obligation Bonds	
	Principal	Interest
2007	\$ 310,000	\$ 44,210
2008	335,000	33,285
2009	345,000	21,579
2010	355,000	9,527
Total	\$ 1,345,000	\$ 108,601

<u>Year Ending September 30,</u>	Other Loans	
	Principal	Interest
2007	\$ 329,957	\$ 73,320
2008	317,651	58,077
2009	328,863	42,743
2010	340,321	26,271
2011	1,162,168	159,346
2012 - 2016	252,074	9,102
Total	\$ 2,731,034	\$ 368,859

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHTEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 12 - LONG-TERM DEBT (Cont.)

Legal Debt Margin

The amount of debt, excluding specific exempted debt that can be incurred by the County is limited by state statute. Total outstanding debt during a year can be no greater than 15% of assessed value of the taxable property within the County, according to the then last completed assessment for taxation. However, the limitation is increased to 20% whenever a county issues bonds to repair or replace washed out or collapsed bridges on the public roads of the county. As of September 30, 2006, the amount of outstanding debt was equal to 3.97% of the latest property assessments.

Prior Year Defeasance of Debt

In prior years, the County defeased certain limited obligation and general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. On September 30, 2006, \$6,720,108 bonds outstanding were considered defeased.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2006:

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINETEEN

YEAR ENDED SEPTEMBER 30, 2006

NOTE 12 - LONG-TERM DEBT (Cont.)

	Balance Oct. 1, 2005	Additions	Reductions	Adjustments	Balance Sep. 30, 2006	Amount Due Within One Year
Compensated absences	\$ 320,803	\$ 64,641	\$ -	\$ -	\$ 385,444	\$ -
General obligation bonds	17,504,000	-	(1,577,000)	-	15,927,000	1,664,000
Limited obligation bonds	1,650,000	-	(305,000)	-	1,345,000	310,000
Equipment notes	-	-	-	-	-	-
Capital leases	116,698	-	(13,133)	-	103,565	13,498
Other loans	2,076,528	1,000,000	(345,494)	-	2,731,034	329,957
Total	\$ 21,668,029	\$ 1,064,641	\$ (2,240,627)	\$ -	\$ 20,492,043	\$ 2,317,455

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2006

NOTE 13 - CONTINGENCIES

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

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

Hospital Revenue Bond Contingencies - The County issued revenue bonds to provide funds for constructing and improving capital facilities of the Forrest General Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the County remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the County is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2006, is \$5,425,000.

NOTE 14 - NO COMMITMENT DEBT (NOT INCLUDED IN FINANCIAL STATEMENTS)

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

<u>Description</u>	<u>Balance at Sept. 30, 2006</u>
Industrial revenue bonds	<u>\$ 1,070,000</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-ONE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 15 - JOINT VENTURES

The County participates in the following joint ventures:

Forrest County is a participant with the City of Hattiesburg in a joint venture, authorized by Chapter 956, House Bill 1865, of the Local and Private Laws of 1994, to operate the Forrest County Industrial Park Commission. The joint venture was created to develop and operate an industrial park complex for the citizens of Forrest County and the City of Hattiesburg. The Forrest County Board of Supervisors appoints five (5) of ten (10) members of the board. By contractual agreement, the County's appropriation to the joint venture was \$68,000 in fiscal year 2006. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from Post Office Box 1898, Hattiesburg, Mississippi 39403.

Forrest County is a participant with Jones County, the Cities of Hattiesburg and Laurel, and the State of Mississippi in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1971), to operate the Hattiesburg-Laurel Regional Airport Authority. The joint venture was created to develop and maintain the airport for the members of the authority. The Forrest County Board of Supervisors appoints one (1) of the five (5) members of the board of commissioners. By contractual agreement, the County's appropriation to the joint venture was \$198,127 in fiscal year 2006. Complete financial statements for the Hattiesburg-Laurel Regional Airport Authority can be obtained from 1002 Terminal Drive, Moselle, Mississippi 39459.

Forrest County is a participant with the Cities of Hattiesburg and Petal in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Library of Hattiesburg, Petal and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The Forrest County Board of Supervisors appoints six (6) of the fifteen (15) members of the board of directors. By contractual agreement, the County's appropriation to the joint venture was \$698,009 in fiscal year 2006. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS

The County participates in the following jointly governed organizations:

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-TWO

YEAR ENDED SEPTEMBER 30, 2006

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Pearl River Community College operates in a district composed of the Counties of Forrest, Hancock, Jefferson Davis, Lamar, Marion and Pearl River. The Forrest County Board of Supervisors appoints two (2) of the sixteen (16) members of the college board of trustees. The County appropriated \$1,108,019 for maintenance and support of the college in fiscal year 2006.

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Forrest County Board of Supervisors appoints one (1) of the nine (9) members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The County contributed \$204,192 for support of the district in fiscal year 2006.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone, and Wayne. The Forrest County Board of Supervisors appoints one (1) of the twenty-seven (27) members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$18,151 to the agency in fiscal year 2006.

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River, and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Forrest County Board of Supervisors appoints one (1) of the twenty-four (24) members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each county provides a modest amount of financial support when matching funds are required for federal grants. \$8,500 was contributed in fiscal year 2006.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Forrest County Board of Supervisors appoints one (1) of the nine (9) members of the board of commissioners. The County appropriated \$264,347 for support of the agency in fiscal year 2006.

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-THREE

YEAR ENDED SEPTEMBER 30, 2006

NOTE 16 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Pearl and Leaf Rivers Rails-to-Trails Recreational District operates in a district composed of the Counties of Forrest, Jefferson Davis and Lamar and the Cities of Bassfield, Hattiesburg, Prentiss and Sumrall. The Forrest County Board of Supervisors appoints one (1) of seven (7) members of the board of directors. The County appropriated \$94,274 for the support of the district in fiscal year 2006.

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

NOTE 17 - DEFINED BENEFIT PENSION PLAN

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

Funding Policy - PERS members are required to contribute 7.25% of their annual covered salary and the County is required to contribute at an actuarially determined rate. The employer's contribution rate for annual covered payroll increased from 10.75% to 11.30% effective July 1, 2006. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ended September 30, 2006, 2005, and 2004 were \$833,010, \$762,233, and \$696,510, respectively, equal to the required contributions for each year.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY-FOUR

YEAR ENDED SEPTEMBER 30, 2006

NOTE 18 - HURRICANE KATRINA

On August 29, 2005, Hurricane Katrina caused extensive damage to the Southeastern United States, including Forrest County. The County expects to recover damages from the Federal Emergency Management Agency (FEMA). The County is currently assessing the impact of the hurricane on facilities and operations. The full impact of the storm on the County is not presently known. However, due to water damage that occurred in the County courthouse, conditions have deteriorated leading to the growth of mold throughout the facility. The County is in the process of advertising for bids for the mold cleanup and does not have a cost estimate at this time.

Subsequent to year end, to help with costs associated with storm cleanup, Forrest General Hospital provided a \$1,000,000 grant to assist the County with operating expenses and funding the budget for the County Health Department.

The County applied for and received a special community disaster loan through FEMA to assist with cash flow during clean up efforts. The loan is limited to 25% of the County's operating budget or the anticipated loss in ad valorem tax revenue. Currently, the County is authorized to borrow \$4,046,000 through this program, but expects to limit the total loan amount to \$1 Million, the amount drawn down in fiscal year 2006.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Original Budget
REVENUES	
Property taxes	\$ 12,792,435
Licenses, commissions and other revenue	771,300
Fines and forfeitures	393,400
Intergovernmental revenues	3,487,962
Charges for services	809,100
Interest income	245,000
Miscellaneous revenues	92,000
Total revenues	18,591,197
EXPENDITURES	
Current:	
General government	8,566,744
Public safety	5,653,072
Public works	238,127
Health and welfare	1,065,194
Culture and recreation	666,471
Education	10,500
Conservation of natural resources	125,239
Economic development and assistance	135,151
Debt service:	
Principal	428,621
Total expenditures	16,889,119
Excess of revenues over (under) expenditures	1,702,078
OTHER FINANCING SOURCES (USES)	
Transfers out	(1,000,000)
Other sources	377,000
Other uses	(421,313)
Total other financing sources and uses	(1,044,313)
NET CHANGE IN FUND BALANCES	657,765
Fund balances - beginning	10,377,000
Fund balances - ending	\$ 11,034,765

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

Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
\$ 13,703,323	\$ 13,703,324	\$ 1
1,073,672	1,073,746	74
504,862	504,861	(1)
3,956,571	4,039,258	82,687
904,277	905,430	1,153
625,280	671,617	46,337
2,430,895	160,251	(2,270,644)
<u>23,198,880</u>	<u>21,058,487</u>	<u>(2,140,393)</u>
9,899,807	6,768,591	3,131,216
5,252,553	5,251,425	1,128
924,708	924,708	-
848,747	852,451	(3,704)
339,207	339,307	(100)
10,500	10,500	-
118,282	119,280	(998)
140,016	140,016	-
432,642	432,642	-
<u>17,966,462</u>	<u>14,838,920</u>	<u>3,127,542</u>
<u>5,232,418</u>	<u>6,219,567</u>	<u>987,149</u>
(1,498,025)	(1,774,056)	(276,031)
1,856,660	1,270,998	(585,662)
(7,917)	(143,199)	(135,282)
<u>350,718</u>	<u>(646,257)</u>	<u>(996,975)</u>
5,583,136	5,573,310	(9,826)
<u>15,968,848</u>	<u>15,217,190</u>	<u>-</u>
<u>\$ 21,551,984</u>	<u>\$ 20,790,500</u>	<u>\$ (9,826)</u>

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
WORKFORCE INVESTMENT ACT (WIA) FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Original Budget
REVENUES	
Intergovernmental revenues	\$ 5,000,000
Total revenues	<u>5,000,000</u>
EXPENDITURES	
Current:	
Economic development	<u>5,000,000</u>
Total expenditures	<u>5,000,000</u>
Excess of revenues over (under) expenditures	<u>-</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	<u>-</u>
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	-
Fund balances - beginning	<u>50</u>
Fund balances - ending	<u>\$ 50</u>

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

Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<u>\$ 855,222</u>	<u>\$ 855,222</u>	<u>\$ -</u>
<u>855,222</u>	<u>855,222</u>	<u>-</u>
855,222	855,222	-
<u>855,222</u>	<u>855,222</u>	<u>-</u>
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
50	50	-
<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ -</u>

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2006**

	Original Budget
REVENUES	
Property taxes	\$ 2,053,843
Road and bridge privilege taxes	550,000
Intergovernmental revenues	710,000
Interest income	60,000
Miscellaneous revenues	-
Total revenues	<u>3,373,843</u>
EXPENDITURES	
Current:	
Public works	4,448,248
Debt service:	
Principal	-
Total expenditures	<u>4,448,248</u>
Excess of revenues over (under) expenditures	<u>(1,074,405)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	-
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(1,074,405)
Fund balances - beginning	<u>5,326,000</u>
Fund balances - ending	<u>\$ 4,251,595</u>

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

Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
\$ 2,232,796	\$ 2,232,795	\$ (1)
610,575	742,178	131,603
1,021,236	952,127	(69,109)
173,190	187,361	14,171
84,410	84,391	(19)
<u>4,122,207</u>	<u>4,198,852</u>	<u>76,645</u>
3,140,007	3,126,594	13,413
-	16,137	(16,137)
<u>3,140,007</u>	<u>3,142,731</u>	<u>(2,724)</u>
<u>982,200</u>	<u>1,056,121</u>	<u>73,921</u>
50,220	50,946	726
<u>50,220</u>	<u>50,946</u>	<u>726</u>
1,032,420	1,107,067	74,647
<u>6,196,288</u>	<u>5,317,133</u>	<u>-</u>
<u>\$ 7,228,708</u>	<u>\$ 6,424,200</u>	<u>\$ 74,647</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2006

NOTE 1 - BUDGETARY INFORMATION

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

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

NOTE 2 - BASIS OF PRESENTATION

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

NOTE 3 - BUDGET/GAAP RECONCILIATION

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2006

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

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

	Governmental Fund Types		
	General Fund	WIA Grant Fund	Road and Bridge Maintenance Fund
Budget (cash basis)	\$ 5,573,310	\$ -	\$ 1,107,067
Increase (decrease):			
Net adjustments for revenue accruals	(830,149)	-	(63,319)
Net adjustments for expenditure accruals	153,281	-	(264,783)
GAAP Basis	<u>\$ 4,896,442</u>	<u>\$ -</u>	<u>\$ 778,965</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 4

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
MAJOR FEDERAL AWARDS			
<i>U.S. Department of Labor</i>			
Passed-through the Mississippi Development Authority			
WIA Cluster:			
WIA Adult Program	17.258	500-05-04	\$ 183,006
WIA Youth Activities	17.259	500-05-04	175,000
WIA Dislocated Workers	17.260	500-05-04	477,216
Rapid Response	17.260	500-05-04	20,000
Total U.S. Department of Labor			<u>855,222</u>
<i>U.S. Department of Homeland Security</i>			
Federal Emergency Management Agency			
Passed-through the Mississippi Emergency Management Agency			
Special Community Disaster Loan	97.030	FEMA-1604-DR-MS	1,000,000
Disaster Assistance Grant	97.036	FEMA-1604-DR-MS	869,090
Total U.S. Department of Homeland Security			<u>1,869,090</u>
Total Expenditures of Major Federal Awards			<u>2,724,312</u>

SCHEDULE 4
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
OTHER FEDERAL AWARDS			
<i>U.S. Department of Housing and Urban Development</i>			
American Dream Downpayment Grant	14.239	M05-SG-280-ADDI-134	<u>\$ 25,000</u>
<i>U.S. Department of Justice/Office of Justice Programs</i>			
Passed-through the Mississippi Department of Public Safety			
Byrne Formula Grant Program	16.579	5NM1181	167,685
S.T.O.P. Violence Against Women	16.588	WFAX0014	10,248
Violence Against Women	16.590	WEAX0131	170,727
Hurricane Relief Subgrant	16.738	DH-BX-0438	<u>161,392</u>
Total U.S. Department of Justice/Office of Justice Programs			<u>510,052</u>
<i>U.S. Department of Transportation</i>			
Passed-through the Mississippi Department of Public Safety			
Bridge Inspection Program	20.205	DH-BX-0438	304
Bridge Inspection Program	20.205	WEAX0131	21,670
Alcohol Countermeasures	20.605	06-TA-118-1	<u>54,068</u>
Total U.S. Department of Transportation			<u>76,042</u>

SCHEDULE 4
PAGE THREE

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass Through Number</u>	<u>Federal Expenditures</u>
OTHER FEDERAL AWARDS Continued			
<i>U.S. Department of Homeland Security</i>			
State Domestic Preparedness Equipment Support Program	97.004	04HS018	\$ 22,324
State Domestic Preparedness Equipment Support Program	97.004	05HS018	33,486
State Domestic Preparedness Equipment Support Program	97.004	05LE018	52,888
Total U.S. Department of Homeland Security			<u>108,698</u>
Total Expenditures of Other Federal Awards			719,792
<i>Total Federal Financial Assistance</i>			<u><u>\$ 3,444,104</u></u>

FORREST COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2006**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - WORKFORCE INVESTMENT ACT

Of the federal expenditures presented in the schedule, the County provided federal awards totaling \$855,222 to subrecipients during the year ended September 30, 2006.

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

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

We have audited the primary government financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2006, which collectively comprise the County's basis primary government financial statements and have issued our report thereon dated July 25, 2007. The auditor's report on the primary government financial statements is modified to reflect that the primary government financial statements do not include the financial data of the County's component units, and the report is qualified on the governmental activities because the County did not record certain general infrastructure assets and related depreciation in the government-wide financial statements as required by accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Forrest County, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over

Members of the Board of Supervisors
Forrest County, Mississippi

financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Forrest County, Mississippi's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 06-1, 06-2, 06-3 and 06-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the primary government financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 06-3 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Forrest County, Mississippi's primary government 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 06-3. We also noted a certain instance of noncompliance which we have reported to the management of Forrest County, Mississippi, in the Independent Auditor's Report on Central Purchasing System, Inventory Control System and Purchase Clerk Schedules dated July 25, 2007, included within this document.

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

Nicholson + Company, PLLC
Hattiesburg, Mississippi
July 25, 2007

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

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

Compliance

We have audited the compliance of Forrest County, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2006. Forrest County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Finding and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Forrest County, Mississippi's management. Our responsibility is to express an opinion on Forrest County, Mississippi's compliance based on our audit.

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

Members of the Board of Supervisors
Forrest County, Mississippi

In our opinion, Forrest County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2006.

Internal Control Over Compliance

The management of Forrest County, Mississippi, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Forrest County, Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
July 25, 2007

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

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

We have made a study and evaluation of the central purchasing system and inventory control system of Forrest County, Mississippi, as of and for the year ended September 30, 2006. Our study and evaluation included tests of compliance of the Purchase Clerk and Inventory Control Clerk records and such other auditing procedures as we considered necessary in the circumstances.

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

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

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

Members of the Board of Supervisors
Forrest County, Mississippi

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

Inventory Control Clerk

Finding

Section 7-7-211, Miss Code Ann. (1972), gives the Office of the State Auditor the authority to prescribe an accounting system for general fixed assets. As in prior years, we noted the following deficiencies in the policies and procedures of the internal control structure for fixed assets:

- a. The deletion report did not include some assets deleted during the year.
- b. Fixed assets beginning balances did not agree to the ending balances of the prior year subsidiary ledgers. The client corrected errors in the fixed asset system, i.e. the following items:
 - 1. The County moved completed construction in progress that was not properly recorded at September 30, 2005 as buildings to buildings during the current fiscal year (FY 2006) however; the transfer was backdated to FY 2005.
 - 2. The County capitalized infrastructure that was improperly not capitalized at September 30, 2005; however, capitalization was coded during fiscal year 2005 instead of fiscal year 2006.

Multiple other coding problems existed as the County's fixed asset system allows for corrections to be made to prior periods, therefore, changing the beginning and ending balances of each year. The County does not have personnel in charge of fixed assets that understand the back-dating problems.

- c. Land was sold during fiscal year 2006 that was never capitalized on the fixed asset system.
- d. Operating leases assets were capitalized in the fixed asset system.

The lack of documentation resulted in a qualified opinion on the governmental activities in the Independent Auditor's Report.

Recommendation

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

Members of the Board of Supervisors
Forrest County, Mississippi

Inventory Control Clerk's Response

The County is now fully aware of the deficiencies in our asset accounting. We hope to have this problem fully resolved and be in compliance by September 30, 2008.

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

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

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
July 25, 2007

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2006**

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

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2006**

Date	Item Purchased	Amount Paid	Vendor	Reasons for Emergency Purchase
02/09/06	Hurricane Katrina Repairs	\$ 123,770	Ham Contractors	Multi-Purpose Buildings Damaged in Katrina
02/14/06	Hurricane Katrina Repairs	35,200	Ham Contractors	Main Arena
02/14/06	Hurricane Katrina Repairs	15,600	Ham Contractors	Warm-Up Arena
02/14/06	Hurricane Katrina Repairs	7,100	Ham Contractors	Building "C"
02/14/06	Hurricane Katrina Repairs	7,000	Ham Contractors	Building "S"
02/14/06	Hurricane Katrina Repairs	4,000	Ham Contractors	Building "D"
02/14/06	Hurricane Katrina Repairs	4,000	Ham Contractors	Building "L"
02/14/06	Hurricane Katrina Repairs	5,000	Ham Contractors	Building "E"
02/14/06	Hurricane Katrina Repairs	2,870	Ham Contractors	Extension Office
03/06/06	Hurricane Katrina Repairs	21,490	W.A. Warren	Damaged Hurricane Katrina
03/23/06	Hurricane Katrina Repairs	1,000	Terry Trane	Air Condition out in Chancery Building
08/14/06	Steel Sheets	4,500	W. Paul Welding	Work Center dorms high inmate count
9/18/2006	Generator	16,500	Volvo Rents	Generator purchase from Katrina grant funds (2 quotes)
9/15/2006	Above ground tank	20,018	Pine Belt Oil	Above ground tank, Katrina Grant Fund (2 quotes)

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2006**

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

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LIMITED INTERNAL CONTROL AND
COMPLIANCE REVIEW MANAGEMENT REPORT

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

In planning and performing our audit of the financial statements of Forrest County, Mississippi, for the year ended September 30, 2006, we considered Forrest County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Forrest County, Mississippi's financial reporting we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated July 25, 2007, on the financial statements of Forrest County, Mississippi.

These review procedures and compliance test cannot and do not provide absolute assurance that all state legal requirements have been complied with. Also, our consideration of internal control would not necessarily disclose all matters within the internal control that might be weaknesses. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Members of the Board of Supervisors
Forrest County, Mississippi

The results of our review procedures and compliance tests identified certain immaterial instances of noncompliance with state laws and regulations and other matters that are opportunities for strengthening internal controls and operating efficiency. Our findings and recommendations and your responses are disclosed below:

Circuit Clerk

1. Finding

It was noted that certain amounts on payroll summary documentation were calculated incorrectly. This occurred when the number of hours multiplied by the applicable hourly rate did not agree to the total calculated for two different months, resulting in an overpayment to the Circuit Clerk's office.

Recommendation

The County should recalculate figures from the payroll summary sheet sent from the Circuit Clerk's office.

Circuit Clerk's Response

Payroll accounting has been instructed to review and recalculate payroll summary sheets as submitted for payroll processing.

County Officials Statutory Bonding Requirements:

2. Finding

We noted that inventory reports were not filed with the Board of Supervisors by October 1st, and the inventory reports were not forwarded to the Office of the State Auditor by October 15th as required.

Recommendation

The Inventory Control Clerk should file inventory reports with the applicable parties by the above dates as required.

Members of the Board of Supervisors
Forrest County, Mississippi

County Officials Response

The Board will ensure that the Inventory Clerk files all applicable reports on a timely basis.

Chancery Clerk

3. Finding

Two (2) assistant receiving clerks were not bonded in accordance with Sections 9-11-29 and 31-7-124, respectively, Mississippi Code Ann. (1972).

Recommendation

The County should ascertain compliance with the applicable Mississippi Code sections requiring bonding of county officials.

Chancery Clerk's Response

The County has completely reviewed all compliance issues and has ascertained that proper Bonds are in place on all County Officials.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
July 25, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2006**

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|----|--|-------------|
| 1. | Type of auditor's report issued on the primary government financial statements: | |
| | Governmental activities | Qualified |
| | General Fund | Unqualified |
| | WIA Grant Fund | Unqualified |
| | Road and Bridge Maintenance Fund | Unqualified |
| | GO Bond Construction Fund, Series 2005 | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| 2. | Internal control over financial reporting: | |
| | A. Material weakness identified? | Yes |
| | B. Reportable condition identified that is not considered to be a material weakness? | Yes |
| 3. | Noncompliance material relating to the primary government financial statements: | Yes |

Federal Awards:

- | | | |
|----|--|-------------|
| 4. | Internal control over major programs: | |
| | A. Material weakness identified? | No |
| | B. Reportable condition identified that is not considered to be a material weakness? | No |
| 5. | Type of auditor's report issued on compliance for major funds programs: | Unqualified |
| 6. | Any audit findings reported as required by Section_.510(a) of Circular A-133? | No |
| 7. | Federal program identified as major program: | |
| | WIA Cluster: | |
| | WIA Adult Program, CFDA # 17.258 | |
| | WIA Youth Activities, CFDA #17.259 | |
| | WIA Dislocated Workers, CFDA #17.260 | |
| | Rapid Response, CFDA #17.260 | |

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2006

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

Federal Awards Continued:

Homeland Security - FEMA:

Special Community Disaster Loan, CFDA # 97.030

Disaster Assistance Grant, CFDA # 97.036

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

SECTION 2: FINANCIAL STATEMENT FINDINGS

Chancery Clerk

06-1. Finding

Numerous coding errors were found in the following areas:

- a. Chancery Clerk expenditures within the fee accounts
- b. Payroll records
- c. Notes payable
- d. Statutory fees

These errors result in discrepancies in the account balances.

Recommendation

The Chancery Clerk should implement policies and procedures to ensure that all items are properly coded.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Chancery Clerk's Response

The problem in coding the monthly payroll fees has been corrected and being monitored to ensure proper accounting.

Chancery Clerk

06-2. Finding

Cash was not reconciled during the fiscal year ended September 30, 2006 until May 2006 prior to Nicholson & Company, PLLC beginning audit fieldwork. The cash balance was adjusted for reconciling items and a new cash balance was established for the fiscal year September 30, 2007.

Recommendation

Cash should be reconciled on a monthly basis.

County Administrator's Response

The County has all accounts reconciled on a timely and monthly basis at this point and will ensure that these funds are maintained and reconciled as prescribed by law.

Inventory Control Clerk

06-3. Finding

Section 7-7-211, Miss. Code Ann. (1972), give the Office of the State Auditor the authority to prescribe an accounting system for general fixed assets. As in prior years, we noted the following deficiencies in the policies and procedures of the internal control structure for fixed assets:

- a. The deletion report did not include some assets deleted during the year.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

- b. Fixed assets beginning balances did not agree to the ending balances of the prior year subsidiary ledgers. The client corrected errors in the fixed asset system, i.e. the following items:
 - 1. The County moved completed construction in progress that was not properly recorded at September 30, 2005 as buildings to buildings during the current fiscal year (FY 2006); however, the transfer was backdated to FY 2005.
 - 2. The County capitalized infrastructure that was improperly not capitalized at September 30, 2005, however, capitalization was coded during fiscal year 2005 instead of fiscal year 2006.

Multiple other coding problems existed as the County's fixed asset system allows for corrections to be made to prior periods, therefore, changing the beginning and ending balances of each year. The County does not have personnel in charge of fixed assets that understand the back-dating problems.

- c. Land was sold during fiscal year 2006 that was never capitalized on the fixed asset system.
- d. Operating leases assets were capitalized in the fixed asset system.

The lack of documentation resulted in a qualified opinion on the governmental activities of the Independent Auditor's Report.

Recommendation

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

Inventory Clerk's Response

The County is now fully aware of the deficiencies in our asset accounting. We hope to have this problem fully resolved and be in compliance by September 30, 2008.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2006

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Chancery Clerk

06-4. Finding

During the fiscal year that ended September 30, 2006, the County entered into a new financing agreement with the Federal Emergency Management Agency. The loan proceeds were coded in the general ledger as a contract receivable instead of loan proceeds. All loan proceeds should be correctly coded.

Recommendation

The Chancery Clerk should implement policies and procedures to ensure that all items are properly coded.

Chancery Clerk's Response

The County having been made fully aware of accounting process deficiencies in this area has initiated plans and procedures to bring the County into full compliance.

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

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