



**STATE OF MISSISSIPPI  
OFFICE OF THE STATE AUDITOR**

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State Auditor**

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**FORREST COUNTY, MISSISSIPPI**

**Audited Primary Government Financial Statements and Special Reports  
For the Year Ended September 30, 2004**

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FORREST COUNTY

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FORREST COUNTY

FINANCIAL SECTION

FORREST COUNTY

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# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

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

Members of the Board of Supervisors  
Forrest County, 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, 2004, 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.

As discussed in Note 1(I) to the financial statements, management has not recorded certain general infrastructure assets in the governmental activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those general infrastructure assets be capitalized and depreciated which would increase the assets and expenses of the governmental activities. 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, 2004, 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, 2004, 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, 2004, 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 April 28, 2005, 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.

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 consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental 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 and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

April 28, 2005

FORREST COUNTY

PRIMARY GOVERNMENT FINANCIAL STATEMENTS

FORREST COUNTY  
Statement of Net Assets  
September 30, 2004

Exhibit 1

	<u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
<b>ASSETS</b>	
Cash	\$ 23,303,427
Property tax receivable	15,767,583
Fines receivable (net of allowance for uncollectibles of \$1,059,680)	522,209
Intergovernmental receivables	271,651
Other receivables	14,988
Capital assets, net	<u>24,117,296</u>
Total Assets	<u>63,997,154</u>
<b>LIABILITIES</b>	
Claims payable	476,498
Intergovernmental payables	570,936
Unearned revenue	15,767,583
Other payables	206,045
Long-term liabilities	
Due within one year:	
Capital debt	1,976,292
Non-capital debt	371,017
Due in more than one year:	
Capital debt	14,259,774
Non-capital debt	<u>3,291,193</u>
Total Liabilities	<u>36,919,338</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	7,881,230
Restricted:	
Expendable:	
General government	278,102
Debt service	2,569,166
Public safety	803,765
Public works	6,541,247
Culture and recreation	539,935
Conservation of natural resources	150,992
Unemployment compensation	106,991
Capital projects	161
Unrestricted	<u>8,206,227</u>
Total Net Assets	<u>\$ 27,077,816</u>

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

FORREST COUNTY  
Statement of Activities  
For the Year Ended September 30, 2004

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets
					Primary Government
					Governmental Activities
Primary government:					
Governmental activities:					
General government	\$ 13,765,777	1,216,911	19,364		(12,529,502)
Public safety	5,247,280	1,184,797	606,610	805	(3,455,068)
Public works	3,776,003		1,040,188	187,400	(2,548,415)
Health and welfare	909,740		227,432		(682,308)
Culture and recreation	754,302				(754,302)
Conservation of natural resources	191,090		44,489		(146,601)
Economic development and assistance	146,272	32	5,815,657		5,669,417
Interest on long-term debt	1,725,926				(1,725,926)
Total Governmental Activities	\$ <u>26,516,390</u>	<u>2,401,740</u>	<u>7,753,740</u>	<u>188,205</u>	<u>(16,172,705)</u>
General revenues:					
Property taxes				\$	15,478,175
Road & bridge privilege taxes					624,209
Grants and contributions not restricted to specific programs					1,010,835
Unrestricted interest income					342,904
Miscellaneous					952,264
Total General Revenues					<u>18,408,387</u>
Changes in Net Assets					<u>2,235,682</u>
Net Assets - Beginning					27,095,928
Prior period adjustment					(2,253,794)
Net Assets - Beginning, as restated					<u>24,842,134</u>
Net Assets - Ending				\$	<u>27,077,816</u>

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

FORREST COUNTY  
 Balance Sheet - Governmental Funds  
 September 30, 2004

Exhibit 3

	<u>Major Funds</u>				
	<u>General Fund</u>	<u>WIA Grant Fund</u>	<u>Road and Bridge Maintenance Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>					
Cash	\$ 12,009,199	50	4,403,244	6,890,934	23,303,427
Property tax receivable	11,314,685		1,849,135	2,603,763	15,767,583
Fines receivable (net of allowance for uncollectibles of \$1,059,680)	522,209				522,209
Intergovernmental receivables	271,651				271,651
Other receivables	14,988				14,988
Due from other funds	336,452		83,728	49,802	469,982
Total Assets	<u>\$ 24,469,184</u>	<u>50</u>	<u>6,336,107</u>	<u>9,544,499</u>	<u>40,349,840</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Claims payable	\$ 375,551		57,191	43,756	476,498
Intergovernmental payables	558,069				558,069
Due to other funds	146,397			336,452	482,849
Deferred revenue	11,836,894		1,849,135	2,603,763	16,289,792
Other payables	206,045				206,045
Total Liabilities	<u>13,122,956</u>	<u>0</u>	<u>1,906,326</u>	<u>2,983,971</u>	<u>18,013,253</u>
<b>Fund balances:</b>					
<b>Reserved for:</b>					
Debt service				2,569,166	2,569,166
Unemployment compensation				106,991	106,991
<b>Unreserved, reported in:</b>					
General Fund	11,346,228				11,346,228
Special Revenue Funds		50	4,429,781	3,884,210	8,314,041
Capital Project Funds				161	161
Total Fund Balances	<u>11,346,228</u>	<u>50</u>	<u>4,429,781</u>	<u>6,560,528</u>	<u>22,336,587</u>
Total Liabilities and Fund Balances	<u>\$ 24,469,184</u>	<u>50</u>	<u>6,336,107</u>	<u>9,544,499</u>	<u>40,349,840</u>

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

## FORREST COUNTY

Exhibit 3-1Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
September 30, 2004

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 22,336,587
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 \$12,664,658.	24,117,296
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	522,209
Long-term liabilities are not due and payable in the current-period and, therefore, are not reported in the funds.	<u>(19,898,276)</u>
Total Net Assets - Governmental Activities	<u>\$ 27,077,816</u>

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

## FORREST COUNTY

Exhibit 4

Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds  
For the Year Ended September 30, 2004

	Major Funds			Other Governmental Funds	Total Governmental Funds
	General Fund	WIA Grant Fund	Road and Bridge Maintenance Fund		
<b>REVENUES</b>					
Property taxes	\$ 10,249,805		1,944,095	3,284,275	15,478,175
Road and bridge privilege taxes			624,209		624,209
Licenses, commissions and other revenue	998,510			23,038	1,021,548
Fines and forfeitures	600,661			189,173	789,834
Intergovernmental revenues	1,529,260	5,815,657	1,067,362	540,501	8,952,780
Charges for services	1,010,560				1,010,560
Interest income	186,461		43,478	112,965	342,904
Miscellaneous revenues	467,638		22,594	444,700	934,932
<b>Total Revenues</b>	<b>15,042,895</b>	<b>5,815,657</b>	<b>3,701,738</b>	<b>4,594,652</b>	<b>29,154,942</b>
<b>EXPENDITURES</b>					
Current:					
General government	7,283,477	5,815,657		183,390	13,282,524
Public safety	4,958,437			149,540	5,107,977
Public works	359,610		2,639,283	695,611	3,694,504
Health and welfare	907,583				907,583
Culture and recreation	399,962			886,408	1,286,370
Conservation of natural resources	125,726				125,726
Economic development and assistance	146,272			44,489	190,761
Debt service:					
Principal	407,621		5,222	1,696,668	2,109,511
Interest	186,655		1,502	742,769	930,926
Bond issue costs				99,420	99,420
<b>Total Expenditures</b>	<b>14,775,343</b>	<b>5,815,657</b>	<b>2,646,007</b>	<b>4,498,295</b>	<b>27,735,302</b>
Excess of Revenues over (under) Expenditures	267,552	0	1,055,731	96,357	1,419,640
<b>OTHER FINANCING SOURCES (USES)</b>					
Long-term capital debt issued			133,620		133,620
Refunding bonds issued				6,870,000	6,870,000
Proceeds from sale of capital assets	43,290		1,215		44,505
Transfers in	18,895			455,681	474,576
Transfers out	(423,000)			(51,576)	(474,576)
Payment to bond refunding escrow agent				(6,685,429)	(6,685,429)
Discount on bonds issued				(85,151)	(85,151)
<b>Total Other Financing Sources and Uses</b>	<b>(360,815)</b>	<b>0</b>	<b>134,835</b>	<b>503,525</b>	<b>277,545</b>
<b>Net Changes in Fund Balances</b>	<b>(93,263)</b>	<b>0</b>	<b>1,190,566</b>	<b>599,882</b>	<b>1,697,185</b>
Fund Balances - Beginning	11,439,491	50	3,239,215	5,960,646	20,639,402
Fund Balances - Ending	\$ 11,346,228	50	4,429,781	6,560,528	22,336,587

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

## FORREST COUNTY

Exhibit 4-1

Reconciliation of the Statement of Revenues, Expenditures and Changes in  
Fund Balances of Governmental Funds to the Statement of Activities  
For the Year Ended September 30, 2004

	<u>Amount</u>
Net Changes in Fund Balances - Governmental Funds	\$ 1,697,185
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 \$1,334,345 exceeded capital outlays of \$1,149,297 in the current period.	(185,048)
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the Governmental Funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net gain of \$10,204 and the proceeds from the sale of \$44,505 in the current period.	(34,301)
Fine revenue recognized on the modified accrual basis in the funds during the current year is reduced because prior year recognition would have been required on the Statement of Activities using the full-accrual basis of accounting.	(420,202)
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 proceeds of \$7,003,620 exceeded debt repayments of \$2,109,511 and by the amount of the \$6,075,000 bond issue refunded.	1,180,891
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 increase in compensated absences.	<u>(2,843)</u>
Change in Net Assets of Governmental Activities	<u>\$ 2,235,682</u>

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

FORREST COUNTY  
Statement of Fiduciary Assets and Liabilities  
September 30, 2004

Exhibit 5

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash	\$ 1,235,593
Due from other funds	<u>12,867</u>
Total Assets	<u><u>\$ 1,248,460</u></u>
<b>LIABILITIES</b>	
Other liabilities	\$ 1,206,563
Intergovernmental payables	<u>41,897</u>
Total Liabilities	<u><u>\$ 1,248,460</u></u>

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

## FORREST COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### (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

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 9 for further disclosure concerning the issuance of certificates of participation (COPs) and related capital facilities construction, acquisition and renovation.

## FORREST COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### C. Basis of Presentation.

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

##### Government-wide Financial Statements:

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

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

##### 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.

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 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.

## FORREST COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

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.

WIA Grant Fund - This fund is used to account for monies from specific federal revenue sources that are restricted for workforce training.

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.

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 TYPE

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 2001 by the Government Finance Officers Association and the *Mississippi County Financial Accounting Manual* as revised in 2002 by the Office of the State Auditor.

#### F. Deposits and Investments.

State law authorizes the county to invest in interest bearing time certificates of deposit for periods of fourteen days to one 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 months or less). Investments in governmental securities are stated at fair value. However, the county did not invest in any governmental securities during the fiscal year.

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

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. All purchased capital assets are stated at historical cost where records are available and at an estimated historical cost where no records exist. 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 costs have been estimated and the methods of estimation are not readily available. Donated capital assets are recorded at estimated fair market value at the time of donation. The costs of normal maintenance and repairs that do not add to the value of assets or materially extend their respective lives are not capitalized; however, improvements are capitalized. Interest expenditures are not capitalized on capital assets.

Governmental accounting and financial reporting standards allow governments meeting certain criteria to retroactively report major general infrastructure assets by September 30, 2007. Forrest County meets this criteria and has so elected. Therefore, the major general infrastructure assets acquired prior to October 1, 2002, are not reported in the government-wide financial statements. Also, general infrastructure assets acquired subsequent to October 1, 2002, are not reported on the government-wide financial statements.

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	\$ 0	N/A
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.

## FORREST COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### 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.

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 the 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, constructions 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.

#### 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.

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

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 cannot 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.

(2) Prior Period Adjustment.

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities.

Explanation	Amount
Capital assets	\$ <u>(2,253,794)</u>
Total prior period adjustment	\$ <u><u>(2,253,794)</u></u>

(3) Deposits.

The carrying amount of the county's total deposits with financial institutions at September 30, 2004, was \$24,539,020, and the bank balance was \$25,135,866. 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.

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

(4) Interfund Transactions and Balances.

The following is a summary of interfund balances at September 30, 2004:

A. Due From/To Other Funds:

Receivable Fund	Payable Fund	Amount
General	Other Governmental Funds	\$ 336,452
Road and Bridge Maintenance	General	83,728
Other Governmental Funds	General	49,802
Agency Funds	General	12,867
Total		\$ 482,849

The amount payable from the Other Governmental Funds represents bond payments. All other amounts listed are the tax revenue collected but not settled until October, 2004. All interfund balances are expected to be repaid within one year from the date of the financial statements.

B. Transfers In/Out:

Transfer In	Transfer Out	Amount
General Fund	Other Governmental Funds	\$ 18,895
Other Governmental Funds	Other Governmental Funds	32,681
Other Governmental Funds	General Fund	423,000
Total		\$ 474,576

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.

(5) Intergovernmental Receivables.

Intergovernmental receivables at September 30, 2004, consisted of the following:

Description	Amount
Legislative tax credit	\$ 231,651
Community prosecution and project safe neighborhoods grant	40,000
Total Governmental Activities	\$ 271,651

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

(6) Capital Assets.

The following is a summary of capital assets activity for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Deletions	Adjustments *	Balance Sept. 30, 2004
<u>Non-depreciable capital assets:</u>					
Land	\$ 1,351,113	36,963		(38,807)	1,349,269
Construction in progress	555,793			126,355	682,148
Total non-depreciable capital assets	<u>1,906,906</u>	<u>36,963</u>	<u>0</u>	<u>87,548</u>	<u>2,031,417</u>
<u>Depreciable capital assets:</u>					
Buildings	26,499,999			(1,582,444)	24,917,555
Improvements other than buildings	1,585,036	527,885		(811,104)	1,301,817
Mobile equipment	8,453,179	481,515	158,008	(1,597,724)	7,178,962
Furniture and equipment	2,798,485	102,934	6,260	(1,542,956)	1,352,203
Leased property under capital leases	51,991			(51,991)	
Total depreciable capital assets	<u>39,388,690</u>	<u>1,112,334</u>	<u>164,268</u>	<u>(5,586,219)</u>	<u>34,750,537</u>
<u>Less accumulated depreciation for:</u>					
Buildings	7,338,231	630,600		(1,043,282)	6,925,549
Improvements other than buildings	223,742	52,082		(114,685)	161,139
Mobile equipment	5,707,819	534,251	124,333	(1,483,001)	4,634,736
Furniture and equipment	1,412,137	117,412	5,634	(580,681)	943,234
Leased property under capital leases	23,228			(23,228)	
Total accumulated depreciation	<u>14,705,157</u>	<u>1,334,345</u>	<u>129,967</u>	<u>(3,244,877)</u>	<u>12,664,658</u>
Total depreciable capital assets, net	<u>24,683,533</u>	<u>(222,011)</u>	<u>34,301</u>	<u>(2,341,342)</u>	<u>22,085,879</u>
Governmental activities capital assets, net	<u>\$ 26,590,439</u>	<u>(185,048)</u>	<u>34,301</u>	<u>(2,253,794)</u>	<u>24,117,296</u>

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

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

Depreciation expense was charged to the following functions:

	Amount
Governmental Activities:	
General government	\$ 680,843
Public safety	278,617
Public works	281,977
Health and welfare	2,184
Culture and recreation	69,849
Conservation of natural resources	20,875
 Total governmental activities depreciation expense	 \$ 1,334,345

Commitments with respect to unfinished capital projects at September 30, 2004, consisted of the following:

Description of Commitment	Remaining Financial Commitment	Expected Date of Completion
Youth court renovations	\$ 24,900	December 2004

(7) 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 \$500,000 for law enforcement, fire fighters and road construction personnel and \$400,000 for all other employees 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, 2004, to January 1, 2005. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

(8) Capital Leases.

As Lessee:

The county is obligated for the following capital assets acquired through capital leases as of September 30, 2004:

Classes of Property	Governmental Activities
Mobile equipment	\$ 133,620
Total	\$ 133,620

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

The following is a schedule by years of the total payments due as of September 30, 2004:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2005	\$ 12,778	3,359
2006	13,133	3,004
2007	13,498	2,639
2008	13,871	2,266
2009	75,118	1,296
Total	<u>\$ 128,398</u>	<u>12,564</u>

(9) Long-term Debt.

Debt outstanding as of September 30, 2004, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
<b>A. General Obligation Bonds:</b>			
Library construction	\$ 1,640,000	6.10 - 6.25%	03-07
School bonds - series 1994	180,000	6.25 - 6.63%	12-09
Multi-purpose Center project refinancing - series 2004	6,870,000	1.00 - 3.45%	12-17
School bonds - series 1998	1,025,000	4.90%	03-13
Public buildings - series 1999	5,160,000	4.00 - 4.25%	02-19
Public improvements - series 2000	35,000	4.13%	08-05
Total General Obligation Bonds	<u>\$ 14,910,000</u>		
<b>B. Limited Obligation Bonds:</b>			
Youth Detention Facility project refinancing - series 2003	\$ 880,000	3.48%	01-10
Human Services Building project refinancing - series 2003	1,065,000	3.46%	05-10
Total Limited Obligation Bonds	<u>\$ 1,945,000</u>		
<b>C. Equipment Notes:</b>			
Road equipment	<u>\$ 328,759</u>	2.34%	12-04
<b>D. Capital Leases:</b>			
Excavator	<u>\$ 128,398</u>	4.44%	09-04

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

Description and Purpose	Amount Outstanding	Interest Rate	Final Maturity Date
E. Other Loans:			
Dixie Volunteer Fire Department	\$ 12,557	9.75%	09-06
Carnes Volunteer Fire Department	12,669	9.75%	05-06
Macedonia Volunteer Fire Department	16,377	10.00%	06-06
North Forrest Volunteer Fire Department	8,750	7.25%	04-06
McLaurin Volunteer Fire Department	6,351	8.21%	08-05
* City of Hattiesburg	887,400	Variable	04-10
MS Development Authority revolving loan	629,121	4.00%	04-13
MS Development Authority revolving loan	634,229	4.00%	04-13
Carnes and Sunrise Volunteer Fire Departments	<u>72,205</u>	3.84%	01-07
Total Other Loans	<u>\$ 2,279,659</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:

Year Ending September 30	General Obligation Bonds		Limited Obligation Bonds	
	Principal	Interest	Principal	Interest
2005	\$ 1,406,000	543,766	295,000	65,107
2006	1,382,000	484,067	305,000	54,788
2007	1,464,000	420,878	310,000	44,210
2008	886,000	372,097	335,000	33,285
2009	933,000	339,277	700,000	31,106
2010 - 2014	4,874,000	1,172,136		
2015 - 2019	<u>3,965,000</u>	<u>317,941</u>		
Total	<u>\$ 14,910,000</u>	<u>3,650,162</u>	<u>1,945,000</u>	<u>228,496</u>

Year Ending September 30	Equipment Notes		Other Loans	
	Principal	Interest	Principal	Interest
2005	\$ 328,759	7,693	304,772	128,964
2006			314,589	108,897
2007			306,008	88,337
2008			296,859	68,805
2009			312,920	49,111
2010 - 2014			<u>744,511</u>	<u>51,736</u>
Total	<u>\$ 328,759</u>	<u>7,693</u>	<u>2,279,659</u>	<u>495,850</u>

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

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.

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, 2004, the amount of outstanding debt was equal to 4.00% of the latest property assessments.

Advance Refunding - On April 21, 2004, the county issued \$6,870,000 in general obligation bonds with an average interest rate of 2.39% to advance refund \$6,075,000 of the following outstanding bond issue:

Issue	Average Interest Rate	Outstanding Amount Refunded
General Obligation Bond, Multi-purpose Center	5.15%	\$ 6,075,000

The net proceeds of \$6,685,429 (after payment of \$99,420 in underwriting fees and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, those bonds are considered to be defeased, and the liability for those bonds has been removed from the Statement of Net Assets.

The county advance refunded the above bonds to reduce its total debt service payments over the next thirteen years by almost \$218,429 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$183,839.

Prior Year Defeasance of Debt - In prior years, the county defeased certain limited 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, 2004, \$1,887,415 of bonds outstanding were considered defeased.

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2004:

	Balance Oct. 1, 2003	Additions	Reductions	Adjustments *	Balance Sept. 30, 2004	Amount due within one year
Compensated absences	\$ 303,617	2,843			306,460	
General obligation bonds	15,310,000	6,870,000	1,195,000	(6,075,000)	14,910,000	1,406,000
Limited obligation bonds	2,230,000		285,000		1,945,000	295,000
Equipment notes	650,000		321,241		328,759	328,759
Capital leases	11,247	133,620	16,469		128,398	12,778
Other loans	2,571,460		291,801		2,279,659	304,772
<b>Total</b>	<b>\$ 21,076,324</b>	<b>7,006,463</b>	<b>2,109,511</b>	<b>(6,075,000)</b>	<b>19,898,276</b>	<b>2,347,309</b>

\* Adjustment is to remove \$6,075,000 of general obligation bonds that were defeased on April 21, 2004.

(10) Contingencies.

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

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

Hospital Revenue Bond Contingencies - The county issued revenue bonds to provide funds for constructing and improving capital facilities of the Forrest General Hospital. Revenue bonds are reported as a liability of the hospital because such debt is payable primarily from the hospital's pledged revenues. However, the county remains contingently liable for the retirement of these bonds because the full faith, credit and taxing power of the county is secondarily pledged in case of default by the hospital. The principal amount of hospital revenue bonds outstanding at September 30, 2004, is \$6,885,000.

(11) 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, 2004</u>
Industrial revenue bonds	\$ <u>1,420,000</u>

## FORREST COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

#### (12) 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 of the ten members of the board. By contractual agreement, the county's appropriation to the joint venture was \$68,000 in fiscal year 2004. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from P.O. Box 1898, Hattiesburg, MS 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. (1972), 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 of the five members of the board of commissioners. By contractual agreement, the county's appropriation to the joint venture was \$232,115 in fiscal year 2004. Complete financial statements for the Hattiesburg-Laurel Regional Airport Authority can be obtained from 1002 Terminal Drive, Moselle, MS 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 of the 15 members of the board of directors. By contractual agreement, the county's appropriation to the joint venture was \$630,141 in fiscal year 2004. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, MS 39401.

#### (13) Jointly Governed Organizations.

The county participates in the following jointly governed organizations:

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 of the 16 members of the college board of trustees. The county appropriated \$851,247 for maintenance and support of the college in fiscal year 2004.

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 of the nine members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The county contributed \$202,779 for support of the district in fiscal year 2004.

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 of the 27 members of the board of directors. The county contributes a small percentage of the district's total revenue.

## FORREST COUNTY

### Notes to Financial Statements For the Year Ended September 30, 2004

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 of the 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.

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 of the nine members of the board of commissioners. The county appropriated \$212,500 for support of the agency in fiscal year 2004.

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 15-member board of commissioners, one appointed by the Board of Supervisors of each of the member counties and one appointed at large. The counties generally provide no financial support to the organization.

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 of the seven members of the board of directors. The county appropriated \$82,757 for the support of the district in fiscal year 2004.

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 of the six members of the council. Operating funds are provided by state grants, E-911 charges and direct contributions.

(14) 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, MS 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 current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The county's contributions (employer share only) to PERS for the years ending September 30, 2004, 2003 and 2002 were \$696,510, \$642,653 and \$607,984, respectively, equal to the required contributions for each year.

FORREST COUNTY

Notes to Financial Statements  
For the Year Ended September 30, 2004

(15) Subsequent Events.

Subsequent to September 30, 2004, Forrest County issued the following debt obligation:

<u>Issue Date</u>	<u>Interest Rate</u>	<u>Issue Amount</u>	<u>Type of Financing</u>	<u>Source of Financing</u>
03-01-05	4.50%	\$ 4,000,000	General obligation bonds	G. O. Bond Construction - Series 2005 fund

FORREST COUNTY

REQUIRED SUPPLEMENTARY INFORMATION

FORREST COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 General Fund  
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 10,106,484	10,236,600	10,241,573	4,973
Licenses, commissions and other revenue	668,900	1,006,150	1,006,150	
Fines and forfeitures	396,700	599,234	599,234	
Special assessments	400			
Intergovernmental revenues	1,693,712	1,694,286	1,559,840	(134,446)
Charges for services	708,500	1,010,560	1,010,560	
Interest income	203,500	203,500	188,190	(15,310)
Miscellaneous revenues	67,450	298,437	298,437	
Total Revenues	<u>13,845,646</u>	<u>15,048,767</u>	<u>14,903,984</u>	<u>(144,783)</u>
<b>EXPENDITURES</b>				
Current:				
General government	10,943,007	11,697,418	7,879,545	3,817,873
Public safety	5,337,258	5,389,547	4,901,500	488,047
Public works	272,115	272,835	272,489	346
Health and welfare	920,443	923,756	852,205	71,551
Culture and recreation	1,249,647	1,049,832	345,063	704,769
Education	28,000	28,000	28,000	28,000
Conservation of natural resources	120,711	125,711	122,922	2,789
Economic development and assistance	145,151	145,151	128,121	17,030
Debt service:				
Principal	562,000	562,000	486,778	75,222
Total Expenditures	<u>19,578,332</u>	<u>20,194,250</u>	<u>14,988,623</u>	<u>5,205,627</u>
Excess of Revenues over (under) Expenditures	<u>(5,732,686)</u>	<u>(5,145,483)</u>	<u>(84,639)</u>	<u>5,060,844</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets		22,658	22,658	
Transfers in	355,000	380,662	380,662	
Transfers out	(355,000)	(380,662)	(717,114)	(336,452)
Total Other Financing Sources and Uses	<u>0</u>	<u>22,658</u>	<u>(313,794)</u>	<u>(336,452)</u>
Net Change in Fund Balance	(5,732,686)	(5,122,825)	(398,433)	4,724,392
Fund Balances - Beginning	<u>10,855,000</u>	<u>11,201,885</u>	<u>11,499,562</u>	<u>297,677</u>
Fund Balances - Ending	<u>\$ 5,122,314</u>	<u>6,079,060</u>	<u>11,101,129</u>	<u>5,022,069</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

FORREST COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 WIA Grant Fund  
 For the Year Ended September 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>REVENUES</b>				
Intergovernmental revenues	\$ 2,474,000	5,815,657	5,815,657	
Total Revenues	<u>2,474,000</u>	<u>5,815,657</u>	<u>5,815,657</u>	<u>0</u>
<b>EXPENDITURES</b>				
Current:				
Economic development and assistance	<u>2,474,000</u>	<u>5,815,657</u>	<u>5,815,657</u>	
Total Expenditures	<u>2,474,000</u>	<u>5,815,657</u>	<u>5,815,657</u>	<u>0</u>
Excess of Revenues over (under) Expenditures	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	0	0	0	0
Fund Balances - Beginning	<u>          </u>	<u>50</u>	<u>50</u>	<u>0</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>50</u>	<u>50</u>	<u>0</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

FORREST COUNTY  
 Budgetary Comparison Schedule -  
 Budget and Actual (Non-GAAP Basis)  
 Road and Bridge Maintenance Fund  
 For the Year Ended September 30, 2004

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
<b>REVENUES</b>				
Property taxes	\$ 1,777,114	1,861,550	1,936,580	75,030
Road and bridge privilege taxes	450,000	618,696	618,696	
Intergovernmental revenues	600,000	1,065,889	1,065,889	
Interest income	50,000	50,000	43,477	(6,523)
Miscellaneous revenues		12,266	12,266	
Total Revenues	<u>2,877,114</u>	<u>3,608,401</u>	<u>3,676,908</u>	<u>68,507</u>
<b>EXPENDITURES</b>				
Current:				
Public works	3,874,138	3,906,669	2,678,821	1,227,848
Total Expenditures	<u>3,874,138</u>	<u>3,906,669</u>	<u>2,678,821</u>	<u>1,227,848</u>
Excess of Revenues over (under) Expenditures	<u>(997,024)</u>	<u>(298,268)</u>	998,087	<u>1,296,355</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from sale of capital assets			1,215	1,215
Transfers in			36,305	36,305
Total Other Financing Sources and Uses	<u>0</u>	<u>0</u>	<u>37,520</u>	<u>37,520</u>
Net Change in Fund Balance	(997,024)	(298,268)	1,035,607	1,333,875
Fund Balances - Beginning	<u>1,917,175</u>	<u>3,367,637</u>	<u>3,367,637</u>	
Fund Balances - Ending	<u>\$ 920,151</u>	<u>3,069,369</u>	<u>4,403,244</u>	<u>1,333,875</u>

The accompanying notes to the Required Supplementary Information are an integral part of this statement.

FORREST COUNTY

Notes to the Required Supplementary Information  
For the Year Ended September 30, 2004

A. 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.

B. 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.

C. 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).

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)	\$ (398,433)	0	1,035,607
Increase (Decrease)			
Net adjustments for revenue accruals	1,347,754	0	122,145
Net adjustments for expenditure accruals	(1,042,584)	0	32,814
GAAP Basis	\$ (93,263)	0	1,190,566

FORREST COUNTY

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FORREST COUNTY

SUPPLEMENTAL INFORMATION

FORREST COUNTY  
Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<b>MAJOR FEDERAL AWARDS</b>			
U.S. Department of Labor/Passed-through the Mississippi Development Authority			
WIA Cluster:			
WIA adult program	17.258	500-02-05	\$ 79,508
WIA adult program	17.258	500-03-03	1,526,917
Subtotal			<u>1,606,425</u>
WIA youth activities	17.259	500-02-02	83,740
WIA youth activities	17.259	500-03-03	1,508,745
WIA youth activities	17.259	500-04-03	391,700
Subtotal			<u>1,984,185</u>
WIA dislocated workers	17.260	500-01-07	48,054
WIA dislocated workers	17.260	500-02-05	389,728
WIA dislocated workers	17.260	500-03-03	1,759,265
WIA dislocated workers	17.260	500-04-03	28,000
Subtotal			<u>2,225,047</u>
Total U.S. Department of Labor			<u>5,815,657</u>
Total Expenditures of Major Federal Awards			<u>5,815,657</u>
<b>OTHER FEDERAL AWARDS</b>			
U.S. Department of Agriculture/Passed-through the State of Mississippi Treasury Department			
Secure rural schools and community self-determination act	10.XXX	N/A	<u>44,489</u>
U.S. Department of Housing and Urban Development/ Passed-through the Mississippi Development Authority			
Community development block grants/state's program	14.228	1118-01-018-PF-01	<u>17,000</u>
U.S. Department of Justice - Office of Justice Programs/ Passed-through the Mississippi Department of Public Safety			
Byrne formula grant program	16.579	2002-DB-BX-0028	172,335
Bulletproof vest partnership program	16.607	N/A	2,830
Community prosecution and project safe neighborhoods	16.609	2002-GP-CX-0137	<u>40,000</u>
Total U.S. Department of Justice			<u>215,165</u>

FORREST COUNTY  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended September 30, 2004

Federal Grantor/ Pass-through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
U.S. Department of Transportation - Federal Highway Administration/Passed-through the Mississippi Department of Transportation Highway planning and construction	20.205	N/A	<u>21,230</u>
Social Security Administration Social Security incentive payments	96.XXX	N/A	<u>2,800</u>
U.S. Department of Homeland Security/Passed-through the Mississippi Emergency Management Agency State domestic preparedness equipment support program	97.004	N/A	<u>38,919</u>
Total Expenditures of Other Federal Awards			<u>339,603</u>
Total Expenditures of Federal Awards			<u>\$ 6,155,260</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note A - Significant Accounting Policies

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

Note B - Workforce Investment Act

Of the federal expenditures presented in the schedule, the county provided federal awards totaling \$5,815,657 to subrecipients during the year ended September 30, 2004.

FORREST COUNTY

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FORREST COUNTY

SPECIAL REPORTS

FORREST COUNTY

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## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

### 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

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, 2004, which collectively comprise the county's basic primary government financial statements and have issued our report thereon dated April 28, 2005. 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 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 04-1 and 04-2.

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 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 04-1 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 04-1. We also noted certain instances 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 April 28, 2005, 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

April 28, 2005



## State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

### 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

#### 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, 2004. Forrest County, Mississippi's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to 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 on Forrest County, Mississippi's compliance with those requirements.

In our opinion, Forrest County, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2004.

#### 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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

April 28, 2005



# State of Mississippi

OFFICE OF THE STATE AUDITOR  
PHIL BRYANT  
AUDITOR

## INDEPENDENT AUDITOR'S REPORT ON CENTRAL PURCHASING SYSTEM, INVENTORY CONTROL SYSTEM AND PURCHASE CLERK SCHEDULES (REQUIRED BY SECTION 31-7-115, MISS. CODE ANN. (1972))

Members of the Board of Supervisors  
Forrest County, 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, 2004. 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.

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 31-7-107, Miss. Code Ann. (1972), requires the Inventory Control Clerk to maintain an inventory system. We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets:

- a. The deletion report did not include numerous assets deleted during the year.
- b. As reported in the prior year audit report, infrastructure constructed during the current fiscal year was not added to capital assets inventory.
- c. All assets were not marked with an inventory control number. The method for marking assets is not permanent and durable.
- d. Certain items were not marked with the county name.
- e. One item on the assets inventory listing could not be located.
- f. Improvements other than buildings were incorrectly classified as land.
- g. Assets removed from construction in progress were not reclassified as buildings.

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 capital assets.

### Inventory Control Clerk's Response

Forrest County has promoted a staff person to Inventory Control Clerk as their main duty. In the past, the person was both the Information Technology and Inventory Control Clerk. This move should allow the new person to spend more time in correcting current errors. Forrest County has acquired and implemented a different fixed asset software. We have purchased and will be implementing a bar code inventory tag system that will also work with the equipment used by the Office of the State Auditor. This should help both Forrest County and the Office of the State Auditor in future inventories. Every effort will be made to correct all problems noted in the finding.

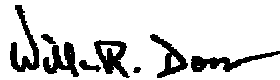
In our opinion, except as explained in the third paragraph and except for the noncompliance referred to in the preceding paragraph, Forrest County, Mississippi, complied, in all material respects, with state laws governing central purchasing, inventory and bid requirements.

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.



PHIL BRYANT  
State Auditor



WILLIAM R. DOSS, CPA  
Director, Financial and Compliance Audit Division

April 28, 2005

FORREST COUNTY  
 Schedule of Purchases Not Made From the Lowest Bidder  
 For the Year Ended September 30, 2004

Schedule 1

<u>Date</u>	<u>Item Purchased</u>	<u>Bid Accepted</u>	<u>Vendor</u>	<u>Lowest Bid</u>	<u>Reason for Accepting Other Than the Lowest Bid</u>
04-08-04	Excavator	\$ 133,620	Puckett Machinery	\$ 125,306	More economical because of labor rate and service facility location.

FORREST COUNTY  
 Schedule of Emergency Purchases  
 For the Year Ended September 30, 2004

Schedule 2

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reason for Emergency Purchase</u>
10-25-03	Repairs	\$ 177	Kone Elevator, Inc.	Repair to an elevator at the jail.
10-25-03	Repairs	3,250	Overhead Door Co.	Repair to sally port door at the jail.
10-23-03	Installation of steel plate	14,683	Walter Paul & Son	Repair to a cell at the jail.
11-20-03	Repairs	438	Terry Train, Inc.	Repair to an air conditioner at Multi-purpose Center.
03-01-04	Repairs	120	Mobility Systems	Repair to a wheelchair lift at Multi-purpose Center.
03-18-04	Repairs	10,788	Terry Train, Inc.	Repair to an air conditioner at the Circuit Courthouse.
04-05-04	Repairs	259	Kone Elevator, Inc.	Repair to an elevator at the jail.
04-05-04	Repairs	3,950	Hub Mechanical Contractors, Inc.	Repair to a boiler at the jail.
05-10-04	Wheelchair lift	38,200	Mobility Systems	Provide proper access to Multi-purpose Center.
05-10-04	Repairs	3,400	Mobility Systems	Repair to a wheelchair lift at Multi-purpose Center.
06-08-04	Culverts	18,853	Hanson Pipe	Repair to a bridge on Luther Carter Road.
06-08-04	Culverts	10,257	Dunn Roadbuilders	Repair to a bridge on Luther Carter Road.
09-23-04	Light pole	2,466	Chain Electric	Replace a fallen pole at Forrest County Agricultural High School.

FORREST COUNTY  
Schedule of Purchases Made Noncompetitively From a Sole Source  
For the Year Ended September 30, 2004

Schedule 3

<u>Date</u>	<u>Item Purchased</u>		<u>Amount Paid</u>	<u>Vendor</u>
01-22-04	Ambulance equipment	\$	29,981	Zoll Medical Corporation
07-08-04	4-N-1 tool		4,679	D. J. Reveal, Inc.

FORREST COUNTY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FORREST COUNTY

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FORREST COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2004

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 |
|    | 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 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 federal programs:                                                                                                                                                      | Unqualified |
| 6.  | Any audit findings reported as required by Section ____510(a) of Circular A-133?                                                                                                                                               | No          |
| 7.  | Federal program identified as a major program:                                                                                                                                                                                 |             |
|     | WIA Cluster:                                                                                                                                                                                                                   |             |
|     | WIA adult program, CFDA #17.258                                                                                                                                                                                                |             |
|     | WIA youth activities, CFDA #17.259                                                                                                                                                                                             |             |
|     | WIA dislocated workers, CFDA #17.260                                                                                                                                                                                           |             |
| 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 of prior audit findings as discussed in Section ____315(b) of OMB Circular A-133? | No          |

FORREST COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2004

Section 2: Financial Statement Findings

Inventory Control Clerk.

04-1. Finding

We noted the following deficiencies in the policies and procedures of the internal control structure for capital assets:

- a. The deletion report did not include numerous assets deleted during the year.
- b. As reported in the prior year audit report, infrastructure constructed during the current fiscal year was not added to capital assets inventory.
- c. All assets were not marked with an inventory control number. The method for marking assets is not permanent and durable.
- d. Certain items were not marked with the county name.
- e. One item on the assets inventory listing could not be located.
- f. Improvements other than buildings were incorrectly classified as land.
- g. Assets removed from construction in progress were not reclassified as buildings.

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 capital assets.

Inventory Control Clerk's Response

Forrest County has promoted a staff person to Inventory Control Clerk as their main duty. In the past, the person was both the Information Technology and Inventory Control Clerk. This move should allow the new person to spend more time in correcting current errors. Forrest County has acquired and implemented a different fixed asset software. We have purchased and will be implementing a bar code inventory tag system that will also work with the equipment used by the Office of the State Auditor. This should help both Forrest County and the Office of the State Auditor in future inventories. Every effort will be made to correct all problems noted in the finding.

Chancery Clerk.

04-2. Finding

As reported in the prior year audit report, bank accounts were not reconciled on a monthly basis. The general depository account was not reconciled for April 2004 through September 2004. The payroll bank account book balance was a negative \$1,915 at the end of the fiscal year. The cash balances for the Emergency Management Bond Fund were not shown as beginning cash balances at October 1.

FORREST COUNTY

Schedule of Findings and Questioned Costs  
For the Year Ended September 30, 2004

Recommendation

The Chancery Clerk should ensure all bank accounts are reconciled on a monthly basis.

Chancery Clerk's Response

All county bank accounts are now reconciled on a monthly basis. The general depository account is now reconciled for the entire 2004 fiscal year.

The computer balance for the payroll clearing account is in error. The computer balance has some posting errors and does not have interest earned during the past two fiscal years of \$4,194.00 posted to it. The actual current balance is a positive amount.

The Emergency Management Bond Fund was not handled properly during the closing process of the 2003 fiscal year and the opening of the 2004 fiscal year. This error resulted from the change in accounts and funds due to GASB 34 conversions at the time. The account will be properly accounted for during the 2005 fiscal year.

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.