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FORREST COUNTY, MISSISSIPPI

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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Supervisors
Forrest County, Mississippi
Post Office Box 951
Hattiesburg, Mississippi 39403

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, 2010, which collectively comprise the County's basic 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 the 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(l) to the financial statements, the County has not adequately maintained subsidiary records documenting the existence, completeness, and valuation of capital assets, and, accordingly, has not recorded the appropriate depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that adequate subsidiary records be maintained to document the existence, completeness, and valuation of capital assets including the County's infrastructure and also that depreciation on capital assets, including infrastructure, be adequately documented. The amount by which this departure would affect the assets and expenses of the governmental activities is not reasonably determinable.

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

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

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of Forrest County, Mississippi, as of September 30, 2010, or the changes in financial position thereof for the year then ended.

In our opinion, except for the effects of the matters discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities for the primary government of Forrest County, Mississippi, as of September 30, 2010, 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, 2010, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2011, on our consideration of Forrest County, Mississippi's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 39 through 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Forrest County, Mississippi's financial statements as a whole. 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Nicholson & Company, P.C.

Hattiesburg, Mississippi
June 13, 2011

**FORREST COUNTY, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEARED ENDED SEPTEMBER 30, 2010**

INTRODUCTION

This discussion and analysis of Forrest County's financial performance provides an overall narrative review of the County's financial activities for the year ended September 30, 2010. The intent of this discussion and analysis is to look at the County's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the County's financial performance.

This discussion and analysis is an element of the required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 - Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments issued June 1999.

Forrest County is located in the southern portion of the State of Mississippi approximately 85 miles south of Jackson, Mississippi, the State Capital. The population, according to the 2010 census, is 74,934. The local economic base is driven by diverse trade and service developments and a regional healthcare center of southeast Mississippi. Forrest County is also home to Camp Shelby, which serves as a National Guard training facility. The University of Southern Mississippi's presence within Forrest County also provides a large degree of economic stability to the County.

FINANCIAL HIGHLIGHTS

Forrest County is financially stable. The County has committed itself to financial management by using sound financial planning, budgeting and internal controls. The County is committed to maintaining sound fiscal management to meet the challenges of the future.

Key financial highlights for 2010 were as follows:

- Total net assets for 2010, \$85,704,521 decreased \$1,447,800, or 1.66 % from 2009, \$87,152,321.
- Total assets of governmental activities for 2010, \$148,116,229 decreased by \$2,461,161 or 1.63% from 2009, \$150,577,390.
- Total liabilities for 2010, \$62,411,708 decreased \$1,013,361 or 1.60 % from 2009, \$63,425,069.
- In total, equity in cash and cash equivalents for 2010, \$51,423,882 decreased \$6,306,718 or 10.92 % from 2009, \$57,730,600.
- Total assessed valuation for 2010 tax year increased 7.7 million from the 2009 tax year. This increase indicates that our County continues to have a healthy increase in new growth.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basis financial statements. Required Supplementary information is included in addition to the basic financial statements.

Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the County's finances in a manner similar to private-sector businesses.

The statement of net assets presents information on all of the County's assets and liabilities with the difference between the two being reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

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

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, public safety, public works (roads and bridges), health and welfare, culture and recreation, education, conservation of natural resources, economic development and assistance, and interest on long-term debt.

Component units are not included in our basic financial statements.

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

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the County's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financial decisions. The Governmental Funds Balance Sheet and the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances both provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. The County maintains individual governmental funds in accordance with the *Mississippi County Financial Accounting Manual* issued by the Mississippi Office of the State Auditor.

Fiduciary funds are used to account for resources held for the benefit of parties outside the County government. These funds account for various taxes, deposits, and other monies collected or held by the County in which the County acts in the capacity of an agent for distribution to other governmental units or designated beneficiaries.

The County adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets - Net assets may serve over time as a useful indicator of the County's financial position. In the case of Forrest County, assets exceeded liabilities by \$85,704,521 as of September 30, 2010.

The largest portion of the County's net assets (41.44%) reflects its investment in capital assets (e.g., roads, bridges, land, buildings, mobile equipment, furniture and equipment, leased property under capital lease, and construction in progress) less related outstanding debt used to acquire such assets. The County uses these capital assets to provide services to its citizens.

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

The following table presents a summary of the County's net assets at September 30, 2010, as compared to September 30, 2009.

**Table 1
Net Assets**

	<u>Governmental Activities</u>		<u>Total</u>
	<u>2010</u>	<u>2009</u>	<u>Percentage</u>
			<u>Change</u>
ASSETS			
Current and other assets	\$ 78,260,332	\$ 83,784,940	-6.59%
Capital assets, net	69,855,897	66,792,450	4.59%
Total assets	<u>148,116,229</u>	<u>150,577,390</u>	-1.63%
LIABILITIES AND DEFERRED REVENUE			
Long-term liabilities, outstanding	35,658,563	38,170,786	-6.58%
Deferred revenues and other liabilities	26,753,145	25,254,283	5.94%
Total liabilities and deferred revenue	<u>62,411,708</u>	<u>63,425,069</u>	-1.60%
NET ASSETS			
Invested in capital assets, net of related debt	35,515,979	30,358,356	16.99%
Restricted	26,222,139	34,094,672	-23.09%
Unrestricted	23,966,403	22,699,293	5.58%
Total net assets	<u>\$ 85,704,521</u>	<u>\$ 87,152,321</u>	-1.66%

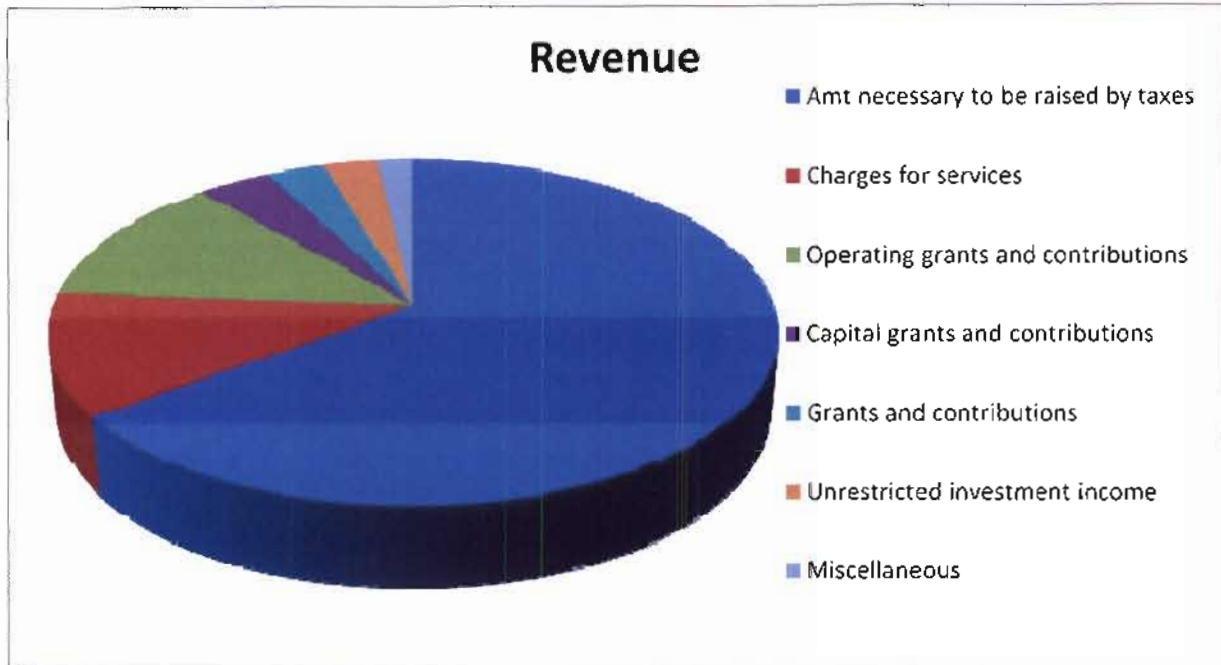
The following are significant current year transactions that have had an impact on the Statement of Net Assets. The County received \$928,614 less in general revenues (excluding revenues from taxes) accounting for most of the reduction in net assets for the fiscal year ending September 30, 2010.

Changes in Net Assets - Forrest County's total program and general revenues for the fiscal year ended September 30, 2010 was \$36,785,422. The total cost of all services provided was \$38,112,048. The decrease in net assets was \$1,326,626. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2010, as compared to the fiscal year ended September 30, 2009.

Table 2
Changes in Net Assets

	Governmental Activities		Total Percentage Change
	2010	2009	
REVENUES			
Program revenues:			
Charges for services	\$ 4,126,897	\$ 3,888,306	6.14%
Operating grants and contributions	4,814,552	2,764,626	74.15%
Capital grants and contributions	1,387,854	629,371	120.51%
<i>Total program revenues</i>	<u>10,329,303</u>	<u>7,282,303</u>	41.84%
General revenues:			
Property taxes	22,872,710	21,763,819	5.10%
Other taxes	805,151	736,379	9.34%
Grants and contributions not restricted to specific programs	1,094,116	1,773,083	-38.29%
Other general revenues	1,684,142	1,933,789	-12.91%
<i>Total general revenues</i>	<u>26,456,119</u>	<u>26,207,070</u>	0.95%
<i>Total revenues</i>	<u>36,785,422</u>	<u>33,489,373</u>	9.84%
PROGRAM EXPENSES			
General government	10,437,825	11,508,565	-9.30%
Public safety	18,168,130	12,126,366	49.82%
Public services	4,518,164	10,766,549	-58.04%
Health/Welfare/Education	1,037,184	937,493	10.63%
Economic development	327,706	192,824	69.95%
Culture and recreation	1,914,696	2,114,143	-9.43%
Conservation natural resources	291,380	191,604	52.07%
Interest and fiscal charges	1,416,963	953,568	48.60%
<i>Total program expenses</i>	<u>38,112,048</u>	<u>38,791,112</u>	-1.75%
Decrease in net assets	<u>(1,326,626)</u>	<u>(5,301,739)</u>	-74.98%
Net Assets - Beginning	87,152,321	92,484,559	-5.77%
Prior period adjustment	(121,174)	(30,499)	297.30%
Net Assets - Beginning, as restated	<u>87,031,147</u>	<u>92,454,060</u>	-5.87%
Net Assets - Ending	<u>\$ 85,704,521</u>	<u>\$ 87,152,321</u>	-1.66%

WHERE THE COUNTY GETS ITS REVENUE



FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

At the close of the fiscal year, Forrest County's governmental funds reported a combined fund balance of \$49,409,659, a decrease of \$7,290,937 from the close of the prior year. The primary reason for this decrease was in the Public Improvement Proceeds Fund 302 (jail facility construction funds).

The General Fund is the principal operating fund of the County. The net increase in the fund balance of the General Fund for the fiscal year was \$632,741 after the recognition of the prior period adjustment of \$(121,174).

BUDGETARY HIGHLIGHTS OF MAJOR FUNDS

Over the course of the year, Forrest County revised its annual operating budget on several occasions. For the most part, these revisions were due to capital projects and/or awarded grant changes.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - As of September 30, 2010, Forrest County's total capital assets was \$132,207,481. This includes roads, bridges, other infrastructure, land, buildings, mobile equipment, and furniture and equipment.

Total accumulated depreciation as of September 30, 2010, was \$62,351,584, including \$7,184,051 of depreciation expense for the year. The balance in total net capital assets was \$69,855,897 at year-end. The following table provides an overview of the County's capital assets net of accumulated depreciation

Table 3
Capital Assets (Net of Depreciation)

	<u>2010</u>	<u>2009</u>	<u>Total Percentage Change</u>
Land and construction in progress	\$ 10,221,117	\$ 2,103,678	385.87%
Buildings and improvements	25,769,000	26,405,162	-2.41%
Infrastructure	28,002,147	33,290,064	-15.88%
Machinery and equipment	<u>5,863,633</u>	<u>4,993,546</u>	17.42%
Total	<u>\$ 69,855,897</u>	<u>\$ 66,792,450</u>	4.59%

Debt Administration - At September 30, 2010, Forrest County has \$35,658,563 in long-term debt outstanding. This includes general obligation bonds and other loans. Of this debt \$2,298,254 is due within one year.

The State of Mississippi limits the amount of debt a County can issue to generally 15.00% of total assessed value of property. The County's outstanding debt as of September 30, 2010 was equal to 5.31% of the latest property assessments.

The following is a summary of the total outstanding long-term debt obligations of the County.

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

	<u>2010</u>	<u>2009</u>	<u>Total Percentage Change</u>
General obligation bonds	\$ 34,391,894	\$ 36,388,173	-5.49%
Limited obligation bonds	-	355,000	-100.00%
Other loans	745,004	981,282	-24.08%
Compensated absences	<u>521,665</u>	<u>446,331</u>	16.88%
Total bonded debt and compensated absences	<u>\$ 35,658,563</u>	<u>\$ 38,170,786</u>	-6.58%

CONTACTING THE COUNTY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the funds it received. If you have questions about this report or need additional financial information, please contact the Forrest County Chancery Clerk at Post Office Box 951, Hattiesburg, MS 39403-0951.

FINANCIAL STATEMENTS

EXHIBIT 1

FORREST COUNTY, MISSISSIPPI

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 51,423,882
Property tax receivable	23,016,084
Fines receivable, net of allowance for uncollectibles of \$4,495,469	1,659,631
Deferred charges - issuance costs	597,549
Intergovernmental receivables	1,532,514
Other receivables	30,672
Capital assets, net	69,855,897
Total assets	<u><u>\$ 148,116,229</u></u>
LIABILITIES	
Claims payable	2,002,624
Intergovernmental payables	1,241,704
Accrued interest payable	159,652
Deferred revenue	23,016,084
Other payables	333,081
Long-term liabilities:	
Due within one year:	
Capital debt	1,930,000
Non-capital debt	368,254
Due in more than one year:	
Capital debt	32,409,918
Non-capital debt	950,391
Total liabilities	<u><u>62,411,708</u></u>
NET ASSETS	
Invested in capital assets, net of related debt	35,515,979
Restricted:	
Expendable:	
General government	117,593
Debt service	2,196,000
Public safety	1,736,309
Public works	9,165,481
Culture and recreation	392,120
Conservation of natural resources	163,181
Unemployment compensation	113,703
Capital projects	12,337,752
Unrestricted	23,966,403
Total net assets	<u><u>\$ 85,704,521</u></u>

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

EXHIBIT 2

FORREST COUNTY, MISSISSIPPI

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

Functions / Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Primary Government:				
Governmental activities:				
General government	\$ 10,437,825	\$ 1,756,090	\$ 909,575	\$ (7,637,344)
Public safety	18,168,130	2,370,807	2,792,911	(12,761,420)
Public works	4,518,164	-	859,320	(3,658,844)
Health and welfare	1,026,684	-	54,765	(971,919)
Culture and recreation	1,914,696	-	197,981	(806,669)
Education	10,500	-	-	(10,500)
Conservation of natural resources	291,380	-	-	(291,380)
Economic development and assistance	327,706	-	-	(227,706)
Interest on long-term debt	1,416,963	-	-	(1,416,963)
Total governmental activities	38,112,048	4,126,897	4,814,552	(27,782,745)
Total primary government	\$ 38,112,048	\$ 4,126,897	\$ 4,814,552	\$ (27,782,745)
General revenues:				
Taxes:				
Property taxes				22,872,710
Road and bridge privilege taxes				805,151
Grants and contributions not restricted to specific programs				1,094,116
Unrestricted investment income				986,692
(Loss) on sale of capital assets				(41,323)
Miscellaneous				738,773
Total general revenues				26,456,119
CHANGES IN NET ASSETS				(1,326,626)
NET ASSETS - BEGINNING				87,152,321
Prior period adjustment				(121,174)
NET ASSETS - BEGINNING, AS RESTATED				87,031,147
NET ASSETS - ENDING				\$ 85,704,521

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

EXHIBIT 3

FORREST COUNTY, MISSISSIPPI

BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2010

	Major Funds				Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Public Improvement Proceeds, 2008 Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 23,985,750	\$ 5,027,675	\$ 13,264,240	\$ 9,146,217	\$ 51,423,882
Property tax receivable	16,290,374	2,798,664	-	3,927,046	23,016,084
Fines receivable (net of allowance for uncollectibles of \$4,495,469)	1,659,631	-	-	-	1,659,631
Intergovernmental receivables	1,525,691	3,536	-	3,287	1,532,514
Other receivables	30,672	-	-	-	30,672
Due from other funds	-	96,985	127,746	52,175	276,906
Total assets	\$ 43,492,118	\$ 7,926,860	\$ 13,391,986	\$ 13,128,725	\$ 77,939,689
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Claims payable	\$ 662,556	\$ 48,304	\$ 1,162,413	\$ 129,351	\$ 2,002,624
Intergovernmental payables	1,229,896	-	-	-	1,229,896
Due to other funds	288,714	-	-	-	288,714
Deferred revenue	17,950,005	2,798,664	-	3,927,046	24,675,715
Other payables	333,081	-	-	-	333,081
Total liabilities	20,464,252	2,846,968	1,162,413	4,056,397	28,530,030
FUND BALANCES					
Reserved for:					
Debt service	-	-	-	2,355,652	2,355,652
Unemployment compensation	-	-	-	113,703	113,703
Unreserved, reported in:					
General fund	23,027,866	-	-	-	23,027,866
Special revenue funds	-	5,079,892	-	6,494,793	11,574,685
Capital project funds	-	-	12,229,573	108,180	12,337,753
Total fund balances	23,027,866	5,079,892	12,229,573	9,072,328	48,409,659
Total liabilities and fund balances	\$ 43,492,118	\$ 7,926,860	\$ 13,391,986	\$ 13,128,725	\$ 77,939,689

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

EXHIBIT 3-1

FORREST COUNTY, MISSISSIPPI

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2010

	<u>Amount</u>
Total fund balance - governmental funds (Exhibit 3)	\$ 49,409,659
Amounts reported for governmental activities 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 \$62,351,584.	69,855,897
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	1,659,631
Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.	(35,658,563)
Accrued interest payable is not due and payable in the current period and, therefore, are not reported in the funds.	(159,652)
Deferred charges - issuance costs	<u>597,549</u>
Total net assets - governmental activities (Exhibit 1)	<u><u>\$ 85,704,521</u></u>

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

EXHIBIT 4

FORREST COUNTY, MISSISSIPPI

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2010

	Major Funds				Total Governmental Funds
	General Fund	Road and Bridge Maintenance Fund	Public Improvement Proceeds, 2008 Fund	Other Governmental Funds	
REVENUES					
Property taxes	\$ 15,963,564	\$ 2,950,671	\$ -	\$ 3,958,475	\$ 22,872,710
Road and bridge privilege taxes	13,089	792,062	-	-	805,151
Licenses, commissions and other revenue	1,296,228	-	-	26,444	1,322,672
Fines and forfeitures	708,033	-	-	100,701	808,734
Intergovernmental revenues	4,258,773	1,729,451	-	1,528,742	7,516,966
Charges for services	1,544,706	-	-	-	1,544,706
Interest income	429,099	93,959	295,016	168,618	986,692
Miscellaneous revenues	319,676	40,564	-	453,879	814,119
Total revenues	24,533,168	5,606,707	295,016	6,236,559	36,671,750
EXPENDITURES					
Current:					
General government	9,974,653	-	-	843,554	10,818,207
Public safety	9,553,869	-	7,923,795	1,374,040	18,851,704
Public works	343,689	5,665,808	-	793,895	6,803,392
Health and welfare	1,012,056	-	-	-	1,012,056
Culture and recreation	654,282	-	-	1,279,969	1,934,251
Education	10,500	-	-	-	10,500
Conservation of natural resources	133,911	-	-	136,594	270,505
Economic development and assistance	327,706	-	-	-	327,706
Debt Service:					
Principal	517,581	-	-	2,222,697	2,740,278
Interest	30,225	-	-	1,452,536	1,482,761
Total expenditures	22,558,472	5,665,808	7,923,795	8,103,285	44,251,360
Excess of revenues over (under) expenditures	1,974,696	(59,101)	(7,628,779)	(1,866,426)	(7,579,610)
OTHER FINANCING SOURCES (USES)					
Long-term capital debt issued	-	-	-	160,000	160,000
Proceeds from sale of capital assets	13,189	169,320	-	165,115	347,624
Compensation for loss of capital assets	8,269	1,365	-	69,373	79,007
Other uses	(176,784)	-	-	-	(176,784)
Transfers in	136,040	-	-	1,201,495	1,337,535
Transfers out	(1,201,495)	-	-	(136,040)	(1,337,535)
Total other financing sources (uses)	(1,220,781)	170,685	-	1,459,943	409,847
Net changes in fund balances	753,915	111,584	(7,628,779)	(406,483)	(7,169,763)
FUND BALANCES - BEGINNING	22,395,125	4,968,308	19,858,352	9,478,811	56,700,596
Prior Period Adjustments	(121,174)	-	-	-	(121,174)
FUND BALANCES - BEGINNING, AS RESTATED	22,273,951	4,968,308	19,858,352	9,478,811	56,579,422
FUND BALANCES - ENDING	23,027,866	5,079,892	12,229,573	9,072,328	49,409,659

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

EXHIBIT 4-1

FORREST COUNTY, MISSISSIPPI

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010

	<u>Amount</u>
Net changes in fund balances - governmental funds (Exhibit 4)	\$ (7,169,763)
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 capital outlays (\$10,636,445) exceeded depreciation of (\$7,184,051) in the current period	3,452,394
In the Statement of Activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the net loss (\$41,323) and the proceeds from the sale of \$347,624 in the current period.	(388,947)
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.	252,772
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Thus, the change in net assets differs from the change in fund balances by the amount that debt repayments of \$2,740,278 exceeded debt proceeds of \$160,000.	2,580,278

EXHIBIT 4-1
PAGE TWO

FORREST COUNTY, MISSISSIPPI

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Amount</u>
<p>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 a combination of the following items:</p>	
<p>The amount of (increase) decrease in:</p>	
Compensated absences	\$ (75,334)
Accrued interest payable	51,147
Deferred charge - issuance cost	(36,452)
Premium on refunding bond	14,651
Unamortized charge - refunding bond	<u>(7,372)</u>
Change in net assets of governmental activities (Exhibit 2)	<u>\$ (1,326,626)</u>

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

EXHIBIT 5

FORREST COUNTY, MISSISSIPPI

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
SEPTEMBER 30, 2010

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 385,039
Due from other funds	<u>11,808</u>
Total assets	<u>\$ 396,847</u>
LIABILITIES	
Amounts held in custody for others	\$ 116,032
Other liabilities	268,501
Intergovernmental payables	<u>12,314</u>
Total liabilities	<u>\$ 396,847</u>

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

NOTES TO FINANCIAL STATEMENTS

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

B. **Individual Component Unit Disclosure:**

Blended Component Unit

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2010

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

Forrest County Public Improvement Corporation was incorporated as a nonprofit under Section 31-8-3, Miss. Code Ann. (1972), which allows counties to enter into lease agreements with any corporation. The corporation's three-member board of directors is appointed by the Board of Supervisors. Although legally separate from the primary government, the corporation'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 10 for further disclosure concerning the issuance of certificates of participation (COPs) and related capital facilities construction, acquisition and renovation.

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

Government-wide Financial Statements

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2010

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

Fund Financial Statements

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

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

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

The County reports the following major Governmental Funds:

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

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

Public Improvement Proceeds, 2008 Fund - This fund is used to account for monies from specific revenue sources that are restricted for the construction of the correctional facility.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2010

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

Additionally, the County reports the following fund types:

GOVERNMENTAL FUND TYPES

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

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

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

FIDUCIARY FUND TYPES

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2010

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

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

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

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

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

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2010

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

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

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

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

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

K. Equity Classifications

Government-wide Financial Statements:

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2010

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

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

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

Fund Financial Statements:

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

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

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

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2010

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

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

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

NOTE 2 - PRIOR PERIOD ADJUSTMENT

A summary of significant fund equity adjustments is as follows:

Exhibit 2 - Statement of Activities

<u>Explanation</u>	<u>Amount</u>
Unrecorded cash with fiscal agent	\$ (173,448)
Prior year property taxes payable to other local entities	<u>294,622</u>
<i>Total prior period adjustment</i>	<u>\$ 121,174</u>

Exhibit 4 - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Explanation</u>	<u>Amount</u>
Unrecorded cash with fiscal agent	\$ (173,448)
Prior year property taxes payable to other local entities	<u>294,622</u>
<i>Total prior period adjustment</i>	<u>\$ 121,174</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINE

YEAR ENDED SEPTEMBER 30, 2010

NOTE 3 - DEPOSITS

Deposits - The carrying amount of the County's total deposits with financial institutions at September 30, 2010, was \$51,788,197, and the bank balance was \$52,471,000. The collateral for public entities' deposits in financial institutions are held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC).

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

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES

The following is a summary of interfund balances at September 30, 2010:

A. Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Road and Bridge Maintenance	General Fund	\$ 96,985
Public Improvement Proceeds, Series 2008	General Fund	127,746
Other Governmental Funds	General Fund	52,175
Agency Funds	General Fund	11,808
<i>Total</i>		<u>\$ 288,714</u>

Amounts listed are the tax revenue collected but not settled until October 2010. All interfund balances are expected to be repaid within one (1) year from the date of the financial statements

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 4 - INTERFUND TRANSACTIONS AND BALANCES (Cont.)

B. Transfers In/Out:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
General Fund	Other Governmental Funds	\$ 136,040
Other Governmental Funds	General Fund	<u>1,201,495</u>
<i>Total</i>		<u><u>\$ 1,337,535</u></u>

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

NOTE 5 - INTERGOVERNMENTAL RECEIVABLES

Intergovernmental receivables at September 30, 2010, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
Legislative tax credit	\$ 201,999
Highway planning and construction	3,536
Hazard mitigation	1,140,192
Geothermal expenditures	69,525
Gustav disaster assistance grant	23,471
Alcohol encounter measures	39,026
Natural resource conservation service	<u>54,765</u>
<i>Total governmental activities</i>	<u><u>\$ 1,532,514</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE ELEVEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 6 - OTHER RECEIVABLES

Other receivables at September 30, 2010, consisted of the following:

<u>Description</u>	<u>Amount</u>
Governmental Activities:	
General Fund:	
Tax Collector bad checks	\$ 30,672
Total General Fund	<u>30,672</u>
<i>Total all governmental activities</i>	<u><u>\$ 30,672</u></u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
PAGE TWELVE

YEAR ENDED SEPTEMBER 30, 2010

NOTE 7 - CAPITAL ASSETS

The following is a summary of capital assets activity for the year ended September 30, 2010:

	Balance Oct. 1, 2009	Additions	Deletions	Balance Sep. 30, 2010
Non-depreciable capital assets:				
Land	\$ 1,369,323	\$ 9,860	-	\$ 1,379,183
Construction in progress	734,355	8,159,787	52,208	8,841,934
Total non-depreciable capital assets	<u>2,103,678</u>	<u>8,169,647</u>	<u>52,208</u>	<u>10,221,117</u>
Depreciable capital assets:				
Infrastructure	70,260,803	-	-	70,260,803
Buildings	35,712,725	75,000	-	35,787,725
Improvements other than buildings	1,339,270	-	-	1,339,270
Mobile equipment	11,572,724	2,078,201	710,301	12,940,624
Furniture and equipment	1,373,962	313,597	29,617	1,657,942
Total depreciable capital assets	<u>120,259,484</u>	<u>2,466,798</u>	<u>739,918</u>	<u>121,986,364</u>
Less accumulated depreciation for:				
Infrastructure	36,970,739	5,287,917	-	42,258,656
Buildings	10,222,286	666,238	-	10,888,524
Improvements other than buildings	424,547	44,924	-	469,471
Mobile equipment	6,855,253	1,076,598	379,088	7,552,763
Furniture and equipment	1,097,887	108,374	24,091	1,182,170
Total accumulated depreciation	<u>55,570,712</u>	<u>7,184,051</u>	<u>403,179</u>	<u>62,351,584</u>
Total depreciable capital assets, net	<u>64,688,772</u>	<u>(4,717,253)</u>	<u>336,739</u>	<u>59,634,780</u>
Governmental activities capital assets, net	\$ 66,792,450	\$ 3,452,394	\$ 388,947	\$ 69,655,897

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 7 - CAPITAL ASSETS (Cont.)

Depreciation expense was charged to the following functions:

Governmental Activities:	<u>Amount</u>
General government	\$ 744,479
Public safety	623,571
Public works	5,673,082
Courts	14,218
Health and welfare	22,128
Culture and recreation	85,698
Conservation of natural resources	<u>20,875</u>
Total governmental activities depreciation expense	<u>\$ 7,184,051</u>

Commitments with respect to unfinished capital projects at September 30, 2010, consisted of the following:

<u>Description of Commitment</u>	<u>Remaining Financial Commitment</u>	<u>Expected Date of Completion</u>
Construction of the correctional facility	\$ 13,664,286	March 2012

NOTE 8 - CLAIMS AND JUDGMENTS

Risk Financing - The County finances its exposure to risk of loss related to workers' compensation for injuries to its employees through the Mississippi Public Entity Workers' Compensation Trust, a public entity risk pool. The County pays premiums to the pool for its workers' compensation insurance coverage, and the participation agreement provides that the pool will be self-sustaining through member premiums. The retention for the pool is \$1,000,000 for each accident and completely covers statutory limits set by the Workers' Compensation Commission. Risk of loss is remote for claims exceeding the pool's retention liability. However, the pool also has catastrophic reinsurance coverage for statutory limits above the pool's retention, provided by Safety National Casualty Corporation, effective from January 1, 2010, to January 1, 2011. The pool may make an overall supplemental assessment or declare a refund depending on the loss experience of all the entities it insures.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 9 - LONG-TERM DEBT

Debt outstanding as of September 30, 2010, consisted of the following:

<u>Description and Purpose</u>	<u>Amount Outstanding</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>
Governmental Activities:			
A. General obligation bonds:			
Multi-purpose center project refinancing, Series 2004	\$ 3,955,000	4.60%	09/2017
School bonds, Series 1998	390,000	4.90%	03/2013
Construction, Series 2005	2,945,000	3.70 - 4.50%	03/2020
Public improvement bond, Series 2009	23,290,000	3.50 - 5.00%	03/2029
Refunding bond, Series 2009B	<u>3,655,000</u>	3.00 - 3.50%	01/2019
Total general obligation bonds	<u>\$ 34,235,000</u>		
B. Other loans:			
MS Development Authority revolving loan	\$ 204,316	4.00%	04/2013
MS Development Authority revolving loan	202,664	4.00%	04/2013
Carnes Volunteer Fire Department	14,867	4.19%	01/2012
North Forrest Volunteer Fire Department	9,491	7.75%	01/2012
Sunrise Volunteer Fire Department	51,131	2.99%	03/2014
Rawls Springs Volunteer Fire Department	53,956	2.99%	03/2014
Macedonia Volunteer Fire Department	48,579	2.99%	03/2014
Brooklyn Volunteer Fire Department	60,000	3.22%	02/2015
Dixie Volunteer Fire Department	<u>100,000</u>	3.22%	02/2015
Total other loans	<u>\$ 745,004</u>		

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

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YEAR ENDED SEPTEMBER 30, 2010

NOTE 9 - LONG-TERM DEBT (Cont.)

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

<u>Year Ending September 30,</u>	<u>General Obligation Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 2,055,000	\$ 1,341,287
2012	2,130,000	1,268,317
2013	2,210,000	1,191,707
2014	2,155,000	1,114,035
2015	2,240,000	1,038,187
2016 - 2020	10,105,000	3,993,287
2021 - 2025	6,720,000	2,415,066
2026 - 2030	6,620,000	680,581
<i>Total</i>	<u>\$ 34,235,000</u>	<u>\$ 13,042,467</u>

<u>Year Ending September 30,</u>	<u>Other Loans</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 243,254	\$ 25,211
2012	247,593	15,778
2013	146,969	6,913
2014	73,128	3,357
2015	34,060	1,097
<i>Total</i>	<u>\$ 745,004</u>	<u>\$ 52,356</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE SIXTEEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 9 - LONG-TERM DEBT (Cont.)

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, 2010, the amount of outstanding debt was equal to 5.31% of the latest property assessments.

Prior Year Defeasance of Debt

In prior years, the County defeased certain limited obligation and general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the County's financial statements. On September 30, 2010, \$7,305,000 bonds outstanding were considered defeased.

The following is a summary of changes in long-term liabilities and obligations for the year ended September 30, 2010:

(See Table on Next Page)

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS
PAGE SEVENTEEN
YEAR ENDED SEPTEMBER 30, 2010

NOTE 9 - LONG-TERM DEBT (Cont.)

	Balance Oct. 1, 2009	Additions	Reductions	Balance Sep. 30, 2010	Amount Due Within One Year
Governmental Activities:					
General obligation bonds	\$ 36,224,000	\$ -	\$ 1,989,000	\$ 34,235,000	\$ 2,055,000
Less deferred amounts:					
For premium	237,897	-	14,651	223,246	
On refunding	(73,724)	-	(7,372)	(66,352)	
Total bonds	<u>36,388,173</u>	-	<u>1,996,279</u>	<u>34,391,894</u>	<u>2,055,000</u>
Limited obligation bonds	355,000	-	355,000	-	-
Other loans	981,282	160,000	396,278	745,004	243,254
Compensated absences	446,331	75,334	-	521,665	-
Total governmental activities	<u>\$ 38,170,786</u>	<u>\$ 235,334</u>	<u>\$ 2,747,557</u>	<u>\$ 35,658,563</u>	<u>\$ 2,298,254</u>

Compensated absences will be paid from the fund from which the employees' salaries are paid which are generally the General Fund and the Road Maintenance Fund.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE EIGHTEEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 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, 2010, is \$2,050,000.

NOTE 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, 2010</u>
Industrial revenue bonds	\$ 240,000

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE NINETEEN

YEAR ENDED SEPTEMBER 30, 2010

NOTE 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 (5) of ten (10) members of the board. By contractual agreement, the County's appropriation to the joint venture was \$120,000 in fiscal year 2010. Complete financial statements for the Forrest County Industrial Park Commission can be obtained from Post Office Box 1898, Hattiesburg, Mississippi 39403.

Forrest County is a participant with Jones County, the Cities of Hattiesburg and Laurel, and the State of Mississippi in a joint venture, authorized by Section 61-3-5, Miss. Code Ann. (1971), to operate the Hattiesburg-Laurel Regional Airport Authority. The joint venture was created to develop and maintain the airport for the members of the authority. The Forrest County Board of Supervisors appoints one (1) of the five (5) members of the board of commissioners. By contractual agreement, the County's appropriation to the joint venture was \$266,811 in fiscal year 2010. Complete financial statements for the Hattiesburg-Laurel Regional Airport Authority can be obtained from 1002 Terminal Drive, Moselle, Mississippi 39459.

Forrest County is a participant with the Cities of Hattiesburg and Petal in a joint venture, authorized by Section 39-3-8, Miss. Code Ann. (1972), to operate the Library of Hattiesburg, Petal and Forrest County. The joint venture was created to provide free public library service to the citizens of Forrest County and the Cities of Hattiesburg and Petal. The Forrest County Board of Supervisors appoints six (6) of the fifteen (15) members of the board of directors. By contractual agreement, the County's appropriation to the joint venture was \$711,373 in fiscal year 2010. Complete financial statements for the Library of Hattiesburg, Petal and Forrest County can be obtained from 329 Hardy Street, Hattiesburg, Mississippi 39401.

NOTE 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 (2) of the sixteen (16) members of the college board of trustees. The County appropriated \$1,238,373 for maintenance and support of the college in fiscal year 2010.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS

PAGE TWENTY

YEAR ENDED SEPTEMBER 30, 2010

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

Southeast Mississippi Air Ambulance District provides air ambulance service to the Counties of Covington, Forrest, Greene, Jefferson Davis, Lamar, Marion, Pearl River, Perry and Walthall. The Forrest County Board of Supervisors appoints one (1) of the nine (9) members of the board of directors. There is no ongoing financial interest or responsibility for the appointing authorities. The County contributed \$258,457 for support of the district in fiscal year 2010.

Southern Mississippi Planning and Development District operates in a district composed of the Counties of Covington, Forrest, George, Greene, Hancock, Harrison, Jackson, Jefferson Davis, Jones, Lamar, Marion, Pearl River, Perry, Stone, and Wayne. The Forrest County Board of Supervisors appoints one (1) of the twenty-seven (27) members of the board of directors. The County contributes a small percentage of the district's total revenue. The County appropriated \$58,405 to the agency in fiscal year 2010.

Pearl River Valley Opportunity, Inc. operates in a district composed of the Counties of Covington, Forrest, Jefferson Davis, Jones, Lamar, Marion, Pearl River, and Perry. The entity was created to administer programs conducted by community action agencies, limited purpose agencies and related programs authorized by federal law. The Forrest County Board of Supervisors appoints one (1) of the twenty-four (24) members of the board of directors. The primary source of funding for the entity is derived from federal funds. Each County provides a modest amount of financial support when matching funds are required for federal grants. \$8,500 was contributed in fiscal year 2010.

Pine Belt Mental Health Care Resources operates in a district composed of the Counties of Covington, Forrest, Greene, Jefferson Davis, Jones, Lamar, Marion, Perry and Wayne. The Forrest County Board of Supervisors appoints one (1) of the nine (9) members of the board of commissioners. The County appropriated \$212,500 for support of the agency in fiscal year 2010.

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

Pearl and Leaf Rivers Rails-to-Trails Recreational District operates in a district composed of the Counties of Forrest, Jefferson Davis and Lamar and the Cities of Bassfield, Hattiesburg, Prentiss and Sumrall. The Forrest County Board of Supervisors appoints one (1) of seven (7) members of the board of directors. The County appropriated \$126,764 for the support of the district in fiscal year 2010.

FORREST COUNTY, MISSISSIPPI

NOTES TO FINANCIAL STATEMENTS PAGE TWENTY-ONE YEAR ENDED SEPTEMBER 30, 2010

NOTE 13 - JOINTLY GOVERNED ORGANIZATIONS (Cont.)

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

NOTE 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, Mississippi 39201-1005 or by calling 1-800-444-PERS.

Funding Policy - At September 30, 2010, PERS members were required to contribute 9% of their annual covered salary, and the County is required to contribute at an actuarially determined rate. The rate at September 30, 2010 was 12% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The County's contributions (employer share only) to PERS for the years ended September 30, 2010, 2009, and 2008 were \$1,194,461, \$1,105,995, and \$1,053,257 respectively, equal to the required contributions for each year.

NOTE 15 - SUBSEQUENT EVENTS

On October 7, 2010 the County authorized the Board of Trustees of Forrest General Hospital (the hospital) to borrow an amount not to exceed \$70,000,000, to enter into loan agreements with the Mississippi Hospital Equipment and Facilities Authority for constructing and equipping a new facility for the Highland Community Hospital, as well as reimbursement of capital expenditures incurred with various improvements to the hospital's facilities, and to pay certain expenses incurred in connection with the series 2010 Bonds and Series 2010 Notes. Indebtedness attributable to the hospital is described in Note 11.

Additionally, on April 4, 2011, the County authorized a loan from First Bankers in the amount of \$75,000, at 3.62% interest for the North Forrest Volunteer Fire Department for the purchase of a new fire truck. Final terms of the transaction have not been determined as of the financial statement date.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE 1

FORREST COUNTY, MISSISSIPPI

BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ 16,331,072
Licenses, commissions and other revenue	948,600
Fines and forfeitures	378,000
Intergovernmental revenues	5,361,351
Charges for services	800,150
Interest income	252,500
Miscellaneous revenues	85,400
Total revenues	<u>24,157,073</u>
EXPENDITURES	
Current:	
General government	12,887,374
Public safety	10,539,516
Public works	249,311
Health and welfare	1,110,140
Culture and recreation	1,411,764
Education	10,500
Conservation of natural resources	145,017
Economic development and assistance	223,151
Debt Service	272,059
Total expenditures	<u>26,848,832</u>
Excess of revenues over (under) expenditures	<u>(2,691,759)</u>
OTHER FINANCING SOURCES (USES)	
Transfers in	460,000
Transfers out	(648,500)
Other sources	-
Other uses	(385,000)
Total other financing sources and uses	<u>(573,500)</u>
NET CHANGE IN FUND BALANCES	(3,265,259)
Fund balances - beginning	<u>19,019,224</u>
Fund balances - ending	<u>\$ 15,753,965</u>

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

Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
\$ 16,178,872	16,044,799	\$ (134,073)
1,040,800	1,308,725	267,925
378,500	716,594	338,094
5,762,656	3,648,373	(2,114,283)
860,150	1,544,706	684,556
252,500	459,735	207,235
85,400	151,638	66,238
<u>24,558,878</u>	<u>23,874,570</u>	<u>(684,308)</u>
13,125,806	9,882,971	3,242,835
12,682,801	8,728,631	3,954,170
321,576	321,576	-
1,110,390	962,580	147,810
1,878,073	1,464,177	413,896
10,500	10,500	-
145,017	134,759	10,258
233,151	222,146	11,005
272,059	377,278	(105,219)
<u>29,779,373</u>	<u>22,104,618</u>	<u>7,674,755</u>
<u>(5,220,495)</u>	<u>1,769,952</u>	<u>6,990,447</u>
460,000	628,069	168,069
(1,191,735)	(1,058,307)	133,428
-	21,458	21,458
-	-	-
<u>(731,735)</u>	<u>(408,780)</u>	<u>322,955</u>
(5,952,230)	1,361,172	7,313,402
<u>24,114,665</u>	<u>21,313,030</u>	<u>5,265,042</u>
<u>\$ 18,162,435</u>	<u>\$ 22,674,202</u>	<u>\$ 12,578,444</u>

SCHEDULE 2

FORREST COUNTY, MISSISSIPPI

BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
ROAD AND BRIDGE MAINTENANCE FUND
YEAR ENDED SEPTEMBER 30, 2010

	<u>Original Budget</u>
REVENUES	
Property taxes	\$ 2,897,249
Road and bridge privilege taxes	450,000
Intergovernmental revenues	640,000
Interest income	50,000
Miscellaneous revenues	-
Total revenues	<u>4,037,249</u>
EXPENDITURES	
Current:	
Public works	6,741,991
Debt service:	
Principal	-
Total expenditures	<u>6,741,991</u>
Excess of revenues over (under) expenditures	<u>(2,704,742)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	-
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(2,704,742)
Fund balances - beginning	<u>5,500,000</u>
Fund balances - ending	<u>\$ 2,795,258</u>

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

Final Budget	Actual (Budgetary Basis)	Variance with Final Budget Positive (Negative)
\$ 2,897,249	\$ 3,003,813	\$ 106,564
450,000	733,643	283,643
1,328,024	1,725,915	397,891
50,000	101,226	51,226
-	40,563	40,563
<u>4,725,273</u>	<u>5,605,160</u>	<u>879,887</u>
8,133,045	5,623,796	2,509,249
-	-	-
<u>8,133,045</u>	<u>5,623,796</u>	<u>2,509,249</u>
<u>(3,407,772)</u>	<u>(18,636)</u>	<u>3,389,136</u>
-	170,685	170,685
-	170,685	170,685
(3,407,772)	152,049	3,559,821
<u>5,179,723</u>	<u>4,875,625</u>	<u>304,098</u>
<u>\$ 1,771,951</u>	<u>\$ 5,027,674</u>	<u>\$ 3,863,919</u>

SCHEDULE 3

FORREST COUNTY, MISSISSIPPI

**BUDGETARY COMPARISON SCHEDULE - BUDGET AND ACTUAL (NON-GAAP BASIS)
PUBLIC IMPROVEMENT PROCEEDS, 2008 FUND
YEAR ENDED SEPTEMBER 30, 2010**

	<u>Original Budget</u>
REVENUES	
Interest income	\$ 80,000
Total revenues	<u>80,000</u>
EXPENDITURES	
Current:	
Public safety	<u>16,000,000</u>
Total expenditures	<u>16,000,000</u>
Excess of revenues over (under) expenditures	<u>(15,920,000)</u>
OTHER FINANCING SOURCES (USES)	
Other financing sources	<u>-</u>
Total other financing sources and uses	<u>-</u>
NET CHANGE IN FUND BALANCES	(15,920,000)
Fund balances - beginning	<u>18,000,000</u>
Fund balances - ending	<u>\$ 2,080,000</u>

<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
<u>\$ 80,000</u>	<u>\$ 325,523</u>	<u>\$ 245,523</u>
<u>80,000</u>	<u>325,523</u>	<u>245,523</u>
<u>20,000,000</u>	<u>7,528,596</u>	<u>12,471,404</u>
<u>20,000,000</u>	<u>7,528,596</u>	<u>12,471,404</u>
<u>(19,920,000)</u>	<u>(7,203,073)</u>	<u>12,716,927</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>(19,920,000)</u>	<u>(7,203,073)</u>	<u>12,716,927</u>
<u>20,467,312</u>	<u>20,467,312</u>	<u>-</u>
<u>\$ 547,312</u>	<u>\$ 13,264,239</u>	<u>\$ 12,716,927</u>

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED SEPTEMBER 30, 2010

NOTE 1 - BUDGETARY INFORMATION

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

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

NOTE 2 - BASIS OF PRESENTATION

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

NOTE 3 - BUDGET/GAAP RECONCILIATION

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

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

FORREST COUNTY, MISSISSIPPI

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2010

NOTE 3 - BUDGET/GAAP RECONCILIATION (Cont.)

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

	Governmental Fund Types		
	General Fund	Road and Bridge Maintenance Fund	Public Improvement Bond Proceeds, 2008 Fund
Budget (cash basis)	\$ 1,361,172	\$ 152,049	\$ (7,203,073)
Increase (decrease):			
Net adjustments for revenue accruals	658,598	1,546	(30,508)
Net adjustments for expenditure accruals	<u>(1,265,855)</u>	<u>(42,011)</u>	<u>(395,198)</u>
GAAP Basis	<u>\$ 753,915</u>	<u>\$ 111,584</u>	<u>\$ (7,628,779)</u>

SUPPLEMENTAL INFORMATION

SCHEDULE 4

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
<i>U.S. Department of Agriculture</i>			
Passed-through the Mississippi State Treasurer's Office			
Schools and Roads - Grants to States	10.665	N/A	\$ 243,958
Passed through National Resource Conservation Service			
Emergency Watershed Protection Program	10.923	DSR-280350810	79,737
Emergency Watershed Protection Program	10.923	DSR-280350524	54,765
Subtotal			<u>134,502</u>
Total U.S. Department of Agriculture			<u>378,460</u>
<i>U.S. Department of Housing and Urban Development</i>			
Passed-through the Mississippi Development Authority			
HOME Down Payment Assistance Program	14.239	1218-M06-SG-280-134	<u>100,000</u>
<i>U.S. Department of Justice - Office of Justice Programs</i>			
Passed-through the Mississippi Department of Public Safety			
Juvenile Accountability Block Grants	16.523	05JB1181	35,749
ARRA - Edward Byrne Memorial Justice Assistance Grant Program	16.804	2009-SB-89-3215	103,094
Total U.S. Department of Justice			<u>138,843</u>
<i>U.S. Department of Transportation</i>			
Federal Highway Administration/Passed-through the Mississippi Department of Transportation:			
Highway Planning and Construction	20.205	BR-NBIS(71)B/BRIS-18(71)	48,000
ARRA - Highway Planning and Construction	20.205	STP-0018-00(31)B	585,242
			<u>633,242</u>

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass Through Number	Federal Expenditures
<i>U.S. Department of Transportation (Cont.):</i>			
Passed-through the Mississippi Department of Public Safety Alcohol Countermeasures Incentives Grant	20.605	09-TA-118-1	\$ 112,110
Total U.S. Department of Transportation			<u>112,110</u>
<i>U.S. Department of Energy:</i>			
ARRA - Renewable Energy Research and Development	81.087	N/A	<u>152,932</u>
<i>U.S. Department of Health and Human Services:</i>			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	N/A	<u>299,407</u>
<i>U.S. Department of Homeland Security:</i>			
Passed-through the Mississippi Emergency Management Agency Disaster grants - public assistance	97.036	1794-DR-MS	<u>81,325</u>
Passed-through the Mississippi Emergency Management Agency Hazard Mitigation Grant	97.039	1604-0320	855,719
Hazard Mitigation Grant	97.039	DR-1604-MS-0010-42	451,125
Hazard Mitigation Grant	97.039	HMGP-1604-0358	3,287
Subtotal			<u>1,310,131</u>
Assistance to Firefighters Grant (Direct Award)	97.044	N/A	211,452
Total U.S. Department of Homeland Security			<u>1,602,908</u>
<i>Total Federal Financial Assistance</i>			<u>\$ 3,417,902</u>

FORREST COUNTY, MISSISSIPPI

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2010**

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 2 - EDWARD BYRNE MEMORIAL JUSTICE ASSISTANCE GRANT PROGRAM

Of the federal expenditures presented in the schedule, the County received federal awards totaling \$103,094 as a subrecipient from the City of Hattiesburg, Mississippi during the year ended September 30, 2010.

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

Members of the Board of Supervisors
Forrest County, Mississippi
Post Office Box 951
Hattiesburg, Mississippi 39403

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Forrest County, Mississippi, as of and for the year ended September 30, 2010, which collectively comprise the County's basic financial statements and have issued our report thereon dated June 13, 2011. Our report includes an adverse opinion on the aggregate discretely presented component units due to the omission of the discretely presented component units which are required by accounting principles generally accepted in the United States of America to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. The report is qualified on the governmental activities because the County did not maintain adequate subsidiary records documenting the existence, completeness, and valuation of capital assets as required by accounting principles generally accepted in the United States of America, and, accordingly, has not recorded the appropriate depreciation expense on those assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2010-1 and 2010-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Forrest County, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter 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 2010-3.

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 and the Limited Internal Control and Compliance Review Management Report dated June 13, 2011, included within this document.

Forrest County, Mississippi's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Forrest County, Mississippi's responses and, accordingly, we express no opinion on it.

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

Nicholson & Company, PLLC
Hattiesburg, Mississippi
June 13, 2011

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

Members of the Board of Supervisors
Forrest County, Mississippi
Post Office Box 951
Hattiesburg, Mississippi 39403

Compliance

We have audited Forrest County, Mississippi's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010. Forrest County, Mississippi's major federal programs are 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 each of its major federal programs is the responsibility of Forrest County, Mississippi's management. Our responsibility is to express an opinion on Forrest County, Mississippi's compliance based on our audit.

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

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

As described in items 2010-3, 2010-4, and 2010-5 in the accompanying schedule of findings and questioned costs, Forrest County, Mississippi, did not comply with requirements regarding procurement, suspension, and debarment applicable to the Edward Byrne Memorial Justice Assistance Grant Program, cash management requirements regarding the Highway Planning and Construction Grant, and procurement, suspension, and debarment for all major federal programs listed in the accompanying schedule of findings and questioned costs. Compliance with such requirements is necessary, in our opinion, for Forrest County, Mississippi, to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, Forrest County, Mississippi, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2010.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2010-5 and 2010-6. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

Forrest County, Mississippi's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Forrest County, Mississippi's responses and, accordingly, we express no opinion on the responses.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 13, 2011

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

Members of the Board of Supervisors
Forrest County, Mississippi
Post Office Box 951
Hattiesburg, Mississippi 39403

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, 2010. 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.

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

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 findings and recommendations and your responses 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. As reported in prior years' audit reports, capital asset control procedures were inadequate for maintaining subsidiary records documenting the existence, completeness and valuation of capital assets. Accordingly, the appropriate depreciation expense has not been recorded on those assets. Failure to properly address these issues could result in the loss or misappropriation of public funds.

Recommendation

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

Inventory Control Clerk's Response

Inventory has improved with a full-time inventory control clerk being employed. He has had training and will continue to receive training. He will attempt to bring the inventory up to standards.

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.

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

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.

Forrest County's response to the finding included in this report was not audited, and accordingly, we express no opinion on it.

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 13, 2011

SCHEDULE 5

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES NOT MADE FROM THE LOWEST BIDDER
YEAR ENDED SEPTEMBER 30, 2010**

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

SCHEDULE 6

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2010

Date	Item Purchased	Amount Paid	Vendor	Reasons for Emergency Purchase
10/05/09	External Hard Drive	\$ 118	Best Buy	To reimburse Jon Byrd at South MS Bureau of Forensic Services
10/22/09	IBM/Ricoh InfoPrint 6500-v5P 500LPM Line Matrix and Ethernet Adapter	6,449	Premise, Inc.	Purchased for Data Processing
11/05/09	Estate Electric Dryer	280	Cowboy Maloney	Juvenile Detention Center
12/10/09	Printer	400	Office Depot	Tax Collector's Office
01/07/10	40" Television	600	Cowboy Maloney	District 4 Recreation
02/01/10	(2) HP Office Pro 8500 Color Flatbed Printers	460	Office Depot	Tax Assessor's Office
02/18/10	Dell Computer	1,102	Dell Marketing, L.P.	Forrest County Metro Narcotics Office
05/20/10	(4) 65 Foot Class 2 Poles	9,735	Chain Electric	To replace existing poles and transfer lights to new poles at Carnes Softball Field
06/07/10	External Hard Drive	171	Best Buy	Automated Fingerprint Identification System
06/07/10	Medical Wheel Chair	350	Hattiesburg Medical Supply	Jail

FORREST COUNTY, MISSISSIPPI
SCHEDULE OF EMERGENCY PURCHASES
YEAR ENDED SEPTEMBER 30, 2010

<u>Date</u>	<u>Item Purchased</u>	<u>Amount Paid</u>	<u>Vendor</u>	<u>Reasons for Emergency Purchase</u>
07/22/10	Galaxy Discovery 16 Channel 1 Terabyte Digital Recorder with CDRW and 800 Watt UPS Surge Protector	\$ 5,697	MBI	Jail
08/02/10	Fire Alarm System	23,816	Gilliland Electronics Supply Co.	Forrest County Multi Purpose Center
08/02/10	Okidata 320 Turbo Printer	579	Owens Business Machines	Chancery Clerk's Record Room
09/07/10	2000 Ford Excursion XLT	5,775	Dossett Pontiac	Sheriff's Department

SCHEDULE 7

FORREST COUNTY, MISSISSIPPI

**SCHEDULE OF PURCHASES MADE NONCOMPETITIVELY FROM A SOLE SOURCE
YEAR ENDED SEPTEMBER 30, 2010**

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

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

Members of the Board of Supervisors
Forrest County, Mississippi
Post Office Box 951
Hattiesburg, Mississippi 39403

In planning and performing our audit of the financial statements of Forrest County, Mississippi, for the year ended September 30, 2010, we considered Forrest County, Mississippi's internal control to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on internal control.

In addition, for areas not considered material to Forrest County, Mississippi's financial reporting we have performed some additional limited internal control and state legal compliance review procedures as identified in the state legal compliance audit program issued by the Office of the State Auditor. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the County's compliance with these requirements. Accordingly, we do not express such an opinion. This report does not affect our report dated June 13, 2011, on the financial statements of Forrest County, Mississippi.

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

Members of the Board of Supervisors
Forrest County, Mississippi
Hattiesburg, Mississippi 39403

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

Nicholson & Company, PLLC

Hattiesburg, Mississippi
June 13, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2010

SECTION 1: SUMMARY OF AUDITOR'S RESULTS

Financial Statements:

- | | | |
|----|---|-------------|
| 1. | Type of auditor's report issued on the financial statements: | |
| | Governmental activities | Qualified |
| | General Fund | Unqualified |
| | Road and Bridge Maintenance Fund | Unqualified |
| | Public Improvement Proceeds, 2008 Fund | Unqualified |
| | Aggregate remaining fund information | Unqualified |
| | Aggregate discretely presented component units | Adverse |
| 2. | Internal control over financial reporting: | |
| | A. Material weaknesses identified? | Yes |
| | B. Significant deficiencies identified that are not considered to be material weaknesses? | Yes |
| 3. | Noncompliance material to the financial statements noted? | Yes |

Federal Awards:

- | | | |
|----|--|-----------|
| 4. | Internal control over major programs: | |
| | A. Material weakness identified? | No |
| | B. Significant deficiency identified that is not considered to be a material weakness? | Yes |
| 5. | Type of auditor's report issued on compliance for major funds programs: | |
| | Edward Byrne Memorial Justice Assistance Grant Program | Qualified |
| | Highway Planning and Construction | Qualified |
| | Renewable Energy Research and Development | Qualified |
| | Hazard Mitigation Grant | Qualified |
| 6. | Any audit findings reported as required by Section .510(a) of Circular A-133? | Yes |

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE TWO

YEAR ENDED SEPTEMBER 30, 2010

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

Federal Awards Continued:

7. Federal programs identified as major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
16.804	Edward Byrne Justice Assistance Grant Program
20.205	Highway Planning and Construction
81.087	Renewable Energy Research and Development
97.039	Hazard Mitigation Grant

8. The dollar threshold used to distinguish between type A and type B programs? \$300,000

9. Auditee qualified as a low-risk auditee? No

10. Prior fiscal year audit finding and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule or prior audit findings as discussed in Section .315(b) of OMB Circular A-133? No

SECTION 2: FINANCIAL STATEMENT FINDINGS

Significant Deficiency - Material Weakness

2010-1 Finding

Generally accepted accounting principles require the financial data for the County's component units to be reported with the financial data of the County's primary government unless the County also issues financial statements for the financial reporting entity that include the financial data for its component units. The financial statements do not include the financial data for the County's legally separate component units. The failure to properly follow generally accepted accounting principles resulted in an adverse opinion on the discretely presented component units

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE THREE

YEAR ENDED SEPTEMBER 30, 2010

SECTION 2: FINANCIAL STATEMENT FINDINGS (Cont.)

Recommendation

The Board of Supervisors should provide the financial data for its discretely presented component units for the inclusion in the County's financial statements.

Board of Supervisor's Response

Corrective action will be taken in the form of maintaining the data.

Significant Deficiency - Material Weakness

2010-2 Finding

Effective internal controls include the maintenance of an accurate inventory system. As reported in prior years' audit reports, capital asset control procedures were inadequate for maintaining subsidiary records documenting existence, completeness and valuation of capital assets. This lack of documentation resulted in a qualified opinion on the governmental activities in the Independent Auditor's Report. Failure to properly address these issues could result in a loss or misappropriation of public funds.

Recommendation

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

Inventory Control Clerk's Response

Inventory has made some progress with a full-time inventory control clerk being employed. He has had training and will continue to receive training. He will attempt to bring the inventory up to standards.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FOUR

YEAR ENDED SEPTEMBER 30, 2010

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2010-3 Finding

CFDA No. 16.804 Edward Byrne Memorial Justice Assistance Grant Program
U.S. Department of Justice
Grant Number - 07-WF-AX-0028
Passed-through the Mississippi Department of Public Safety

Compliance Requirement:

Procurement, Suspension, and Debarment – Compliance with applicable purchase laws and regulations

During fiscal year ended September 30, 2010, the County initiated a purchase transaction that did not comply with the State of Mississippi purchase laws or with applicable Federal law and regulations and standards identified in 28 CFR 66.36 and Part 176 of ARRA for its purchase of equipment for the Sheriff's Department. The County made this procurement without receiving two quotes due to a miscommunication as to the dollar amount of the transaction.

Questioned Costs:

The above-noted purchase resulted in a questioned cost in the amount of \$5,705 due to the failure to obtain two documented quotes.

Recommendation:

The County's purchasing procedures are designed to allow for compliance with the applicable statutes. This is considered to be an isolated instance of non-compliance and no recommendations are made other than the need to ascertain the accurate flow of information between departments.

Auditee's Response:

The County will stress the importance of following all purchasing policies and procedures and communications

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE FIVE

YEAR ENDED SEPTEMBER 30, 2010

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont.)

2010-4 Finding

CFDA No. 20.205 Highway Planning and Construction
U. S. Department of Transportation
Grant Number – STP-0018-00(026)/105757701
Passed-through the Mississippi Department of Transportation

Compliance Requirement:

Cash Management - Compliance with applicable purchase laws and regulations pertaining to cash management in the administration of federal grant programs should be followed

During fiscal year ended September 30, 2010, the County failed to comply with Federal law and regulations and standards identified in 48 CFR 18 that prescribes procedures to be followed pertaining to cash management requirements applicable to federal grant programs. The County inadvertently initiated reimbursement requests for construction projects that resulted in a questioned cost attributable to interest earnings.

Questioned Costs:

The above-noted transactions generated interest earnings in the amount of \$1,839 from federal grant funds received.

Recommendation:

The County should implement policies and procedures that result in the timely processing of grant related transactions that will avoid interest earnings on federal cash draws.

Auditee's Response:

The County has implemented policies and procedures that require contractors to present billings on a timely basis in conjunction with the processing of federally funded reimbursements.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE SIX

YEAR ENDED SEPTEMBER 30, 2010

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont.)

2010-5 Finding

- CFDA No. 16.804 Edward Byrne Memorial Justice Assistance Grant program
U. S. Department of Justice
Grant Number - 07-WF-AX-0028
Passed-through the Mississippi Department of Public Safety
- CFDA No. 20.205 Highway Planning and Construction
U. S. Department of Transportation
Grant Number – STP-0018-00(026)/105757701
Passed-through the Mississippi Department of Transportation
- CFDA No. 81.087 Renewable Energy Research and Development
U. S. Department of Energy
- CFDA No. 97.039 Hazard Mitigation Grant
U. S. Department of Homeland Security
Grant Numbers – 1604-0320; 1604-10-42; 1604-358
Passed-through the Mississippi Emergency Management Agency

Significant Deficiency

Compliance Requirement:

Procurement, Suspension, and Debarment - Federal regulations require that nonfederal entities, when engaged in covered transactions with an entity at a lower-tier, must verify that the lower-tier entity is not suspended or debarred for otherwise excluded from the conduction of business with federal funds or otherwise excluded from the conduction of business with federal funds by checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA). Controls that document compliance with this requirement should include documentation of these procedures that are prescribed in 28 CFR 66.36, 48 CFR 18, and 10 CFR 600. During fiscal year ended September 30, 2010, the County failed to comply with the above-noted EPLS monitoring requirement. The County does not have internal control procedures in place to document research inquiries into the Excluded Parties List System (EPLS) web-site.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE SEVEN

YEAR ENDED SEPTEMBER 30, 2010

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont.)

Recommendation:

The County should implement internal control procedures to document search results obtained from inquiries into the EPLS web-site for vendors and contractors.

Auditee's Response:

The County has implemented procedures to document the results of the above noted inquiries.

2010-6 Finding

CFDA No. 16.804 Edward Byrne Memorial Justice Assistance Grant program
U. S. Department of Justice
Grant Number - 07-WF-AX-0028
Passed-through the Mississippi Department of Public Safety

CFDA No. 20.205 Highway Planning and Construction
U. S. Department of Transportation
Grant Number – STP-0018-00(026)/105757701
Passed-through the Mississippi Department of Transportation

CFDA No 81.087 Renewable Energy Research and Development
U. S. Department of Energy

CFDA No. 97.039 Hazard Mitigation Grant
U. S. Department of Homeland Security
Grant Numbers – 1604-0320; 1604-10-42; 1604-358
Passed-through the Mississippi Emergency Management Agency

Significant Deficiency

Compliance Requirement: Reporting - Controls that include the documentation of a timely review of the grant reporting function should be strengthened.

28 CFR 66.36, 48 CFR 18, and 10 CFR 600 prescribe the applicable requirements for grant programs pertaining to financial reporting. The County did not have policies and procedures in place to document this review function.

FORREST COUNTY, MISSISSIPPI

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

PAGE EIGHT

YEAR ENDED SEPTEMBER 30, 2010

SECTION 3: FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (Cont.)

Recommendation:

Internal controls including a documented review of grant reporting should be implemented in order to ascertain the accuracy and timeliness of these reports and to allow for improved documentation in the files to support the reports.

Auditee's Response:

The County will implement policies and procedures that allow for properly trained and experienced staff members to provide a documented grant reporting review function.

FORREST COUNTY, MISSISSIPPI

CORRECTIVE ACTION PLAN

Fiscal Ended September 30, 2010

BOARD OF SUPERVISORS

DAVID HOGAN
DISTRICT 1

CHARLES MARSHALL
DISTRICT 2, PRESIDENT

LYNN CARTLIDGE
DISTRICT 3

RODERICK WOULLARD
DISTRICT 4

CHRIS BOWEN
DISTRICT 5, VICE PRESIDENT



641 MAIN STREET
P. O. BOX 1310
HATTIESBURG, MISSISSIPPI 39403-1310

PHONE (601) 545-6000
FAX (601) 545-6095

DAVID B. MILLER
ATTORNEY

BETTY CARLISLE
COUNTY ADMINISTRATOR

June 13, 2011

Finding 2010-3

Program: Edward Byrne Memorial Justice Assistance Grant Program
CFDA No.: 16.804
Federal Agency: United States Department of Justice
Passed Through: Federal Transit Authority
Award Year: Fiscal Year 2009-2010
Compliance Requirement: Procurement and Suspension and Debarment
Questioned Costs: \$5,705

Department's Response:

The County Administrator concurs with the finding.

Corrective Action Plan:

Response from the County Administrator:

Procedures have been implemented in order to ascertain that required American Recovery and Reinvestment Act (ARRA) procurement laws and regulations are followed. The County has established procedures pursuant to the purchasing process that appropriately identifies grant purchases as they are initiated as well as procedures that will ascertain compliance with the procurement requirements that are particular to ARRA. In particular, these procedures will ascertain that purchases in excess of \$5,000 shall be made pursuant to the prescribed procedures requiring the documentation of quoted prices.

Name of Responsible Person: Betty Carlisle, County Administrator
Name of Department Contact: Rochelle Campbell, County Purchase Clerk
Expected date of Completion: April 1, 2011

FORREST COUNTY, MISSISSIPPI

CORRECTIVE ACTION PLAN

Page Two

Fiscal Ended September 30, 2010

Finding 2010-4

Program: Highway Planning and Construction
CFDA No.: 20.205
Federal Agency: United States Department of Transportation
Passed Through: Federal Transit Authority
Award Year: Fiscal Year 2009-2010
Compliance Requirement: Cash Management
Questioned Costs: \$1,839

Department's Response:

The County Administrator concurs with the finding.

Corrective Action Plan:

Response from the Department of Administration:

Procedures have been implemented in order to ascertain that cash management requirements pursuant to applicable laws and regulations are followed. The County has established procedures that will allow for the timely processing of grant related transactions that will avoid interest earnings on federal cash draws. Additionally, the County will ascertain that federal cash draws will follow the prescribed funding methodologies (e.g., current needs and reimbursement funding procedures) applicable to the respective grant programs. The above noted questioned costs will be accounted for as a local participation amount in the processing of the final transaction for this grant program.

Name of Responsible Person: Betty Carlisle, County Administrator
Name of Department Contact: Penny Steed, Comptroller
Expected date of Completion: April 27, 2011

FORREST COUNTY, MISSISSIPPI

CORRECTIVE ACTION PLAN

Page Three

Fiscal Ended September 30, 2010

Finding 2010-5

Programs: Edward Byrne Memorial Justice Assistance Grant Program
Highway Planning and Construction
Renewable Energy Research and Development
Hazard Mitigation Grant

CFDA No.: 16.804, 20.205, 81.087, 97.039

Federal Agencies: Department of Justice, Department of Transportation, Department of Energy, and Department of Homeland Security

Passed Through: Mississippi Department of Public Safety, Federal Transit Authority/Mississippi Department of Transportation, and Mississippi Emergency Management Agency

Award Year: Fiscal Year 2009-2010

Compliance Requirement: Procurement, Suspension, and Debarment

Questioned Costs: None

Department's Response: The County Administrator concurs with the finding.

Corrective Action Plan:

The County Administrator will implement internal control procedures that will allow for the documentation of search results obtained from inquiries into the EPLS web-site for vendors and contractors.

Name of Responsible Person: Betty Carlisle, County Administrator

Name of Department Contact: Rochelle Campbell, County Purchase Clerk

Expected date of Completion: April 1, 2011

FORREST COUNTY, MISSISSIPPI

CORRECTIVE ACTION PLAN

Page Four

Fiscal Ended September 30, 2010

Finding 2010-6

Programs: Edward Byrne Memorial Justice Assistance Grant Program
Highway Planning and Construction
Renewable Energy Research and Development
Hazard Mitigation Grant

CFDA No.: 16.804, 20.205, 81.087, 97.039

Federal Agency: Department of Justice, Department of Transportation, Department of Energy, and Department of Homeland Security

Passed Through: Mississippi Department of Public Safety, Federal Transit Authority/Mississippi Department of Transportation, and Mississippi Emergency Management Agency

Award Year: Fiscal Year 2009-2010

Compliance Requirement: Reporting

Questioned Costs: None

Department's Response:

The County Administrator concurs with the finding.

Corrective Action Plan:

The Comptroller and the Planning Director will implement internal control procedures that will allow for the systematic review and documentation procedures in the routine performance of the grant reporting function. These procedures will also emphasize the need for accurate and timely preparation of Section 1512 reporting that includes all required financial fields and job calculations for ARRA programs.

Name of Responsible Person: Betty Carlisle, County Administrator

Name of Department Contacts: Penny Steed, Comptroller and Kara W. Drane, Planning Director

Expected date of Completion: April 1, 2011