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FOREST MUNICIPAL SCHOOL DISTRICT

AUDIT REPORT

JUNE 30, 2005

**FOREST MUNICIPAL SCHOOL DISTRICT
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FOREST MUNICIPAL SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
Boyd M. Edwards, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Staggers, CPA
Aubrey R. Holder, CPA
David M. Howell, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
Gary C. Hamilton, CPA

R. Steve Sinclair, CPA
Michael L. Pierca, CPA
Marsha L. McDonald, CPA
Wanda S. Holley, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Schivner, CPA
Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA

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

Superintendent and School Board
Forest Municipal School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Municipal School District, as of and for the year ended June 30, 2005, which collectively comprise the Forest Municipal School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Forest Municipal School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Municipal School District as of June 30, 2005, 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 November 2, 2005, on our consideration of the Forest Municipal School District'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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages 4 through 13 and the Budgetary Comparison Schedules and corresponding notes on pages 37 through 40 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion in it.

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
November 2, 2005

Watkins, Ward and Stafford, PLLC

FOREST MUNICIPAL SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Forest Municipal School District

325 Cleveland Street • Forest, Mississippi 39074 • (601) 469-3250

Kathleen Bunyard
Director of Curriculum/Fed. Programs
(601) 469-4244

Skip Latfiem
Superintendent

Tim Crotwell
Director of Technology
(601) 469-3658

FOREST MUNICIPAL SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2005

The discussion and analysis of Forest Municipal School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District'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 School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extend this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

This discussion and analysis is a new element of 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.

FINANCIAL HIGHLIGHTS

* Total net assets increased \$1,091,784, which represents 30% increase from fiscal year 2004.

* General revenues account for \$9,298,784 in revenue, or 77% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,845,378 or 23% of total revenues.

* The District had \$11,052,378 in expenses; only \$2,845,378 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$9,298,784 were adequate to provide for these programs.

* Among major funds, the General Fund had \$8,797,925 in revenues and \$8,184,343 in expenditures. The General Fund's fund balance increased \$721,101 over the prior year. This increase was due to the fact that spending was kept low because of potential funding cuts by the State of Mississippi.

* Capital assets, net of accumulated depreciation, decreased by (\$42,831).

* Long-term debt decreased by (\$341,200). The primary reason for the decrease is that the district is paying a substantial portion of the general and limited obligation bonds each year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of new assets presents information on all the District's assets and liabilities, with the difference between the two 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 District is improving or deteriorating.

The statement of activities presents information showing how the District's 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

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

The government-wide financial statements can be found on pages 15 - 16 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current 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 District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

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 District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20, respectively.

The District maintains individual governmental funds in accordance with the "Financial Accounting Manual for Mississippi Public School Districts" issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund

statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 17-19 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 21.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 35 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and Special Revenue Major funds. This required supplementary information can be found on pages 37 - 39 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$4,719,678 as of June 30, 2005.

The largest portion of the District's net assets (58%) is unrestricted. The next largest portion of the District's net assets (20%) reflects its investment in capital assets (e.g., buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment, less any related debt used to acquire those assets that is still

outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

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

The following table presents a summary of the District's new assets for the fiscal year ended June 30, 2004 and June 30, 2005.

	FYE	FYE
	June 30, 2004	June 30, 2005
Current assets	3,669,538	4,079,066
Capital assets, net	4,290,797	4,247,966
	<hr/>	<hr/>
Total assets	7,960,335	8,327,032
	<hr/>	<hr/>
Current liabilities	949,160	552,383
Long-term debt outstanding	3,383,281	3,054,971
	<hr/>	<hr/>
Total liabilities	4,332,441	3,607,354
	<hr/>	<hr/>
Net assets:		
Invested in capital assets, net of related debt	659,587	951,492
Restricted	938,151	1,010,465
Unrestricted	2,030,156	2,757,721
	<hr/>	<hr/>
Total net assets	3,627,894	4,719,678
	<hr/>	<hr/>

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

* The principal retirement of \$341,200 of long-term debt.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2005 were \$12,144,162. The total cost of all programs and services was \$11,052,378. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2004 and June 30, 2005.

	FYE June 30, 2004	FYE June 30, 2005
Revenues:		
Program revenues	2,509,681	2,845,378
General revenues	8,972,431	9,298,784
	-----	-----
Total revenues	11,482,112	12,144,162
Expenses:		
Instruction	5,929,180	6,158,223
Support services	3,557,924	3,914,581
Non-instructional	746,337	820,451
Sixteenth Section	11,299	7,985
Interest on long-term Liabilities	173,339	151,138
	-----	-----
Total expenses	10,418,079	11,052,378
	-----	-----
Increase in net assets	1,064,033	1,091,784
	-----	-----

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

Fiscal Year Ended June 30, 2004

	Total Expenses	Net (Expense) Revenue
Instruction	5,929,180	(4,796,941)
Support services	3,557,924	(2,921,470)
Non-instructional	746,337	(5,379)
Sixteenth section	11,299	(11,269)
Interest on long-term Liabilities	173,339	(173,339)
	<hr/>	<hr/>
Total expenses	10,418,079	(7,908,398)
	<hr/>	<hr/>

Fiscal Year Ended June 30, 2005

	Total Expenses	Net (Expense) Revenue
Instruction	6,158,223	(5,203,146)
Support services	3,914,581	(2,849,550)
Non-instructional	820,451	(925)
Sixteenth section	7,985	(2,241)
Interest on long-term Liabilities	151,138	(151,138)
	<hr/>	<hr/>
Total expenses	11,052,378	(8,207,000)
	<hr/>	<hr/>

* Net cost of governmental activities (8,207,000), was financed by general revenue, which is made up of primarily property taxes (\$2,943,756) and state grants (\$6,118,500).

* Investment earnings accounted for \$87,799 of funding.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,891,571, an increase of \$794,477 due primarily to increase to ad valorem taxes due to new property within Scott County. \$2,837,977 or 73% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$1,053,594 or 27% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$721,101 a result of ad valorem tax collections along with a concerted effort to keep district costs under control. The fund balance of Other Governmental Funds showed an increase of \$73,376 for the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget.

* Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2005, the District's total capital assets were \$8,241,155, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$137,337 from the previous year. The primary capital addition during the school year was for the purchase of school buses. Total accumulated depreciation as of June 30, 2005 was \$3,993,189 and total depreciation expense for the year was \$213,163, resulting in total net assets of \$4,247,966.

Additional information of the District's capital assets can be found in Note 4 on page 29 of this report.

Debt Administration. At June 30, 2005, the District had \$3,376,730 in general obligation bonds and other long-term debt outstanding, of which \$321,759 is due within one year.

The District maintains an **A** bond rating.

Additional information of the District's long-term debt can be found in Note 5 on page 30 of this report.

CURRENT ISSUES

The Forest Municipal School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The millage has increased 0% over four (4) years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decline 5 students. The budget for the next fiscal year has taken into account this reduction in both funding and staffing needs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Forest Municipal School District at 325 Cleveland St., Forest, MS.

FOREST MUNICIPAL SCHOOL DISTRICT

FINANCIAL STATEMENTS

Forest Municipal School District
Statement of Net Assets
June 30, 2005

Exhibit A

	Primary Government Governmental Activities
Assets	
Cash and cash equivalents (Note 2)	\$ 3,186,352
Cash with fiscal agents (Note 2)	122,629
Due from other governments	513,777
Other receivables, net	32,412
Inventories and prepaid items	6,045
Restricted assets	217,851
Capital assets, net (Note 4)	<u>4,247,966</u>
Total Assets	\$ <u>8,327,032</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 163,804
Deferred revenue	23,691
Interest payable on long-term liabilities	43,129
Long-term liabilities, due within one year (Note 5)	
Capital related liabilities	321,759
Long-term liabilities, due beyond one year (Note 5)	
Capital related liabilities	2,974,715
Non-capital related liabilities	<u>80,256</u>
Total Liabilities	\$ <u>3,607,354</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 951,492
Restricted net assets:	
Expendable:	
School - based activities	332,357
Debt service	393,062
Capital improvements	16,616
Forestry improvements	31,093
Unemployment benefits	19,486
Non-expendable:	
Sixteenth section	217,851
Unrestricted	<u>2,757,721</u>
Total Net Assets	\$ <u>4,719,678</u>

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

Forest Municipal School District
Statement of Activities
For the Year Ended June 30, 2005

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 6,158,223	123,141	831,936		(5,203,146)
Support services	3,914,581		1,065,031		(2,849,550)
Non-instructional	820,451	162,237	657,289		(925)
Sixteenth section	7,985	5,744			(2,241)
Interest on long-term liabilities	151,138				(151,138)
Total governmental activities	\$ 11,052,378	291,122	2,554,256	0	(8,207,000)

General Revenues:

Taxes:

General purpose levies	2,794,997
Debt purpose levies	148,759

Unrestricted grants and contributions:

State	6,118,500
Federal	12,399
Unrestricted investment earnings	87,799
Sixteenth section sources	106,007
Other	30,323
Total General Revenues	9,298,784

Total General Revenues, Special Items,

Extraordinary Items and Transfers	9,298,784
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Change in Net Assets

1,091,784

Net Assets - Beginning

3,627,894

Net Assets - Ending

\$ 4,719,678

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

Forest Municipal School District
 Balance Sheet - Governmental Funds
 June 30, 2005

Exhibit C

	Major Funds				Total Governmental Funds
	General Fund	Title 1 Fund	IDEA Part B Fund	Other Governmental Funds	
ASSETS					
Cash and cash equivalents (Note 2)	\$ 2,590,981	1,333	1,460	810,429	3,404,203
Cash with fiscal agents (Note 2)				122,629	122,629
Due from other governments	109,294	77,736	52,149	274,598	513,777
Other receivables, net	315			13,890	14,205
Due from other funds (Note 3)	256,845	140		28,063	285,048
Inventories and prepaid items				6,045	6,045
Total Assets	\$ 2,957,435	79,209	53,609	1,255,654	4,345,907
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	\$ 94,534	1,333	1,460	66,477	163,804
Due to other funds (Note 3)	24,924	59,620	52,009	130,288	266,841
Deferred revenue		17,994		5,897	23,691
Total Liabilities	119,458	78,947	53,469	202,462	454,336
Fund Balances:					
Reserved for:					
Forestry escrow				31,093	31,093
Inventory				6,045	6,045
Unemployment compensation				19,486	19,486
Undesignated, reported in:					
General fund	2,837,977				2,837,977
Special revenue funds		262	140	325,910	326,312
Capital projects funds				16,616	16,616
Debt service funds				436,191	436,191
Permanent funds				217,851	217,851
Total Fund Balances	2,837,977	262	140	1,053,192	3,891,571
Total Liabilities and Fund Balances	\$ 2,957,435	79,209	53,609	1,255,654	4,345,907

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

Forest Municipal School District
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,891,571
Amounts reported for governmental activities in the statement of net assets are different because:	
1. Capital assets are used in governmental activities are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$ 3,993,189.	4,247,966
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 5)	(3,376,730)
3. Interest payable on long-term liabilities is not due and payable in the current period and therefore are not reported in the funds.	(43,129)
Total Net Assets - Governmental Activities	\$ <u><u>4,719,678</u></u>

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

Forest Municipal School District
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2005

Exhibit D

	Major Funds			Other	Total
	General Fund	Title 1 Fund	IDEA Part B Fund	Governmental Funds	Governmental Funds
Revenues:					
Local sources	\$ 2,889,269			462,463	3,351,732
State sources	5,896,257			443,690	6,339,947
Federal sources	12,399	511,693	454,375	1,362,265	2,340,732
Sixteenth section sources				111,751	111,751
Total Revenues	8,797,925	511,693	454,375	2,380,169	12,144,162
Expenditures:					
Instruction	5,174,324	206,376	233,116	443,121	6,056,937
Support services	2,957,029	285,797	211,725	543,025	3,997,576
Noninstructional services	19,053	6,717		770,979	796,749
Sixteenth section				7,985	7,985
Debt service:					
Principal	32,871			301,865	334,736
Interest	1,066			154,633	155,699
Other				580	580
Total Expenditures	8,184,343	498,890	444,841	2,222,188	11,350,262
Excess (Deficiency) of Revenues Over Expenditures	613,582	12,803	9,534	157,981	793,900
Other Financing Sources (Uses):					
Sale of transportation equipment	200				200
Sale of other property	377				377
Operating transfers in	123,902			16,960	140,862
Operating transfers out	(16,960)	(12,541)	(9,394)	(101,967)	(140,862)
Total Other Financing Sources (Uses)	107,519	(12,541)	(9,394)	(85,007)	577
Net Change in Fund Balances	721,101	262	140	72,974	794,477
Fund Balances:					
July 1, 2004	2,116,876	-	-	986,421	3,103,297
Increase (Decrease) in reserve for inventory				(6,203)	(6,203)
June 30, 2005	\$ 2,837,977	262	140	1,053,192	3,891,571

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

**Forest Municipal School District
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005**

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 794,477
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$ 170,665 and the depreciation expense amounted to \$ 213,163.(Note 4)	(42,498)
2. Proceeds from the sale of capital assets are reported as an increase in financial resources in the governmental funds, but only the gain or losses from the sale of the capital assets is reported in the statement of activities.	(333)
3. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces and amortized in the statement of activity. (Note 5)	334,736
4. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased (decreased) in the statement of activity.	(6,203)
5. Expenditures are recognized on the modified accrual basis in the governmental funds; therefore expenditures are not recognized for transactions that will not be paid with expendable available financial resources. However, expenses are recognized on the accrual basis in the statement of activities; therefore the change in applicable accrued expenses will result in an increase or decrease in the related expense.	6,464
6. Interest on long-term debt is recognized when it becomes due and payable in the governmental funds, but is recognized when it accrues in the statement of activities	<u>5,141</u>
Change in Net Assets of Governmental Activities	\$ <u><u>1,091,784</u></u>

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

**Forest Municipal School District
Statement of Fiduciary Net Assets
June 30, 2005**

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 2)	\$ 645,722
Due from other funds (Note 3)	35
Other receivables, net	<u>2,455</u>
Total Assets	<u>\$ 648,212</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 608,890
Due to other funds (Note 3)	18,242
Due to student clubs	<u>21,080</u>
Total Liabilities	<u>\$ 648,212</u>

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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Forest, Mississippi since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation.

The school district's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district 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 school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues, are presented as general revenues of the school district, 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 school district.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

Fund Financial Statements:

Fund financial statements of the school district 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/expenses. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

C. Measurement Focus and Basis of Accounting.

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities 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. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds and agency funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

General Fund – This is the school district's primary operating fund. It accounts for all financial resources of the school district, except those required to be accounted for in another fund.

Title 1 Fund – This is the school district's fund that operates the Title 1 grants to local educational agencies passed through the Mississippi Department of Education.

IDEA Part B Fund – This is the school district's fund that operates the special education grants for states to local educational agencies passed through the Mississippi Department of Education.

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

Additionally, the school district reports the following fund types:

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

GOVERNMENTAL FUNDS

Special Revenue Funds – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Capital Projects Funds – Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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

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

FIDUCIARY FUNDS

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

D. Account Classifications.

The account classifications used in the financial statements conform to the classifications prescribed in the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Office of the State Auditor. The classifications in that manual are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

E. Encumbrances.

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

F. Cash and Cash Equivalents.

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

G. Investments.

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

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

H. Inventories and Prepaid Items.

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

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

I. Capital Assets.

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements and proprietary funds. Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

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

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 4 for details.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

J. Long-term liabilities.

Long-term liabilities are the unmatured principal of bonds, warrants, 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. Long-term liabilities should not be reported as liabilities in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. See Note 5 for details.

K. Interfund Transactions and Balances.

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

L. Equity Classifications.

Government-wide Financial Statements:

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

1. 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, mortgages, notes or borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet 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 further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for inventory – An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

N. Mississippi Adequate Education Program Revenues.

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the State of Mississippi.

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources.

(2) Cash and Cash Equivalents, and Cash with Fiscal Agents.

Cash and Cash Equivalents.

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,404,203 and \$645,722, respectively. The carrying amount of deposits reported in the government-wide statements was: Cash and cash equivalents \$3,186,352 and Restricted Assets \$217,851. The Restricted

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

assets represents the cash balance of the 16th section principal funds (Permanent Funds) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$4,407,825.

Custodial Credit Risk – Deposits. Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a formal policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, none of the district's bank balance of \$4,407,825 was exposed to custodial credit risk.

Cash with Fiscal Agents.

The carrying amount of the school district's cash with fiscal agents held by financial institutions was \$122,629.

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 256,845	24,924
Title 1 fund	140	59,620
IDEA Part B fund	-	52,009
Other governmental funds	28,063	130,288
Fiduciary funds	35	18,242
Total Funds	\$ 285,083	285,083

All interfund loans from the General Fund were made to offset deficit cash balances. All other loans were for expenditures made by receiving funds that were due from the General fund.

B. Transfer In/Out:

	<u>Transfer In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ 123,902	16,960
Title 1 fund	-	12,541
IDEA Part B fund	-	9,394
Other governmental funds	16,960	101,967
Total Funds	\$ 140,862	140,862

Transfers in and out were made for funding of salaries, indirect cost, and vocational funding.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(4) Capital Assets.

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

	<u>Balance</u> <u>7-1-2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6-30-2005</u>
<u>Depreciable capital assets:</u>				
Buildings	\$ 6,569,729			6,569,729
Improvements other than buildings	93,304			93,304
Mobile equipment	1,110,692	162,966		1,273,658
Furniture and equipment	330,093	7,699	(33,328)	304,464
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciable capital assets	8,103,818	170,665	(33,328)	8,241,155
<u>Less accumulated depreciation for:</u>				
Buildings	2,764,432	131,394		2,895,826
Improvements other than buildings	7,464	3,733		11,197
Mobile equipment	741,725	66,083		807,808
Furniture and equipment	299,400	11,953	(32,995)	278,358
	<hr/>	<hr/>	<hr/>	<hr/>
Total accumulated depreciation	3,813,021	213,163	(32,995)	3,993,189
	<hr/>	<hr/>	<hr/>	<hr/>
Total depreciable capital assets, net	4,290,797	(42,498)	(333)	4,247,966
	<hr/>	<hr/>	<hr/>	<hr/>
Governmental activities capital assets, net	\$ 4,290,797	(42,498)	(333)	4,247,966

Depreciation expense was charged to the following governmental functions:

		<u>Amount</u>
Instruction	\$	110,671
Support services		85,342
Non-instructional		17,150
		<hr/>
Total depreciation expense	\$	213,163

The capital assets above include significant amounts of buildings, and furniture and equipment, 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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(5) Long-term liabilities.

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

	Balance 7-1-2004	Additions	Reductions	Balance 6-30-2005	Amounts due within one Year
A. General obligation bonds payable	\$ 432,923		(45,485)	387,438	47,717
B. Limited obligation bonds payable	2,175,000		(180,000)	1,995,000	185,000
C. Three mill notes payable	939,390		(76,380)	863,010	79,765
D. Transportation equipment loans payable	23,594		(23,594)	-	-
E. Other loans payable	60,303		(9,277)	51,026	9,277
F. Compensated absences payable	86,720	-	(6,464)	80,256	-
Total	\$ 3,717,930	-	(341,200)	3,376,730	321,759

A. General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
General obligation refunding bonds, Series 2001	4.85%	6-01-01	6-01-12	<u>557,000</u>	<u>387,438</u>
Total				\$ <u>557,000</u>	<u>387,438</u>

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 47,717	18,219	65,936
2007	50,060	15,877	65,937
2008	52,517	13,419	65,936
2009	55,095	10,841	65,936
2010	57,799	8,137	65,936
2011-2015	<u>124,250</u>	<u>7,623</u>	<u>131,873</u>
Total	\$ <u>387,438</u>	<u>74,116</u>	<u>461,554</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to .6% of property assessments as of October 1, 2004. This debt will be retired from the Debt Service School Improvement Bonds fund and EEF Buildings and Buses Fund.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

B. Limited obligation bonds payable.

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district.

Limited obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement Series 1998	Varies	3-01-98	8-01-13	\$ 2,715,000	1,995,000
Total				\$ 2,715,000	1,995,000

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	185,000	83,244	268,244
2007	195,000	73,513	268,513
2008	200,000	64,387	264,387
2009	215,000	55,569	270,569
2010	220,000	46,325	266,325
2011-2015	<u>980,000</u>	<u>86,062</u>	<u>1,066,062</u>
Total	\$ <u>1,995,000</u>	<u>409,100</u>	<u>2,404,100</u>

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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

C. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Bank of Forest-2001 Note	4.5%	5-15-01	5-15-14	\$ <u>1,149,000</u>	<u>863,010</u>
Total				\$ <u>1,149,000</u>	<u>863,010</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 79,765	37,971	117,736
2007	83,395	34,341	117,736
2008	87,019	30,717	117,736
2009	91,154	26,582	117,736
2010	95,302	22,434	117,736
2011-2015	<u>426,375</u>	<u>44,572</u>	<u>470,947</u>
Total	\$ <u>863,010</u>	<u>196,617</u>	<u>1,059,627</u>

This debt will be retired from Debt Service Three Mill Note Fund.

D. Other loans payable.

The school district has issued debt instruments granted under the authority of Section 37-7-302, Miss. Code Ann. (1972).

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
EPA Asbestos Loan	N/A	4-17-92	11-30-11	\$ <u>166,994</u>	<u>51,026</u>
Total				\$ <u>166,994</u>	<u>51,026</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 9,277	-	9,277
2007	9,278	-	9,278
2008	9,277	-	9,277
2009	9,278	-	9,278
2010	9,277	-	9,277
2011-2015	<u>4,639</u>	-	<u>4,639</u>
Total	\$ <u>51,026</u>	-	<u>51,026</u>

This debt will be retired from the District Maintenance Fund

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

E. Compensated absences payable.

As more fully explained in Note 1(0), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307(5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

(6) Defined Benefit Pension Plan.

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

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004 and 2003, were \$608,178, \$562,475, \$547,023, respectively, which equaled the required contributions for each year.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2005

(7) Sixteenth Section Lands.

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

Year Ending <u>June 30</u>	<u>Amount</u>
2006	\$ 71,594
2007	68,854
2008	68,724
2009	67,173
2010	63,847
2011-2015	317,609
2016-2020	317,609
2021-2025	317,609
2026-2030	301,549
2031-2035	238,738
2036-2040	139,035
2041-2045	<u>53,390</u>
Total	\$ <u>2,025,731</u>

(8) Subsequent Events.

Subsequent to June 30, 2005, the school district entered into the following purchase commitments:

Two school buses to be purchased from Empire Truck Sales with an estimated cost of \$104,000.

(9) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2005

employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Uncertainties.

In cases where a township is occupied by two or more school districts, state law requires that available sixteenth section funds shall be divided between the school districts lying wholly or partly within such townships in proportion to the number of children enrolled and residing in each school district. In order to determine what portions of available sixteenth section funds are due to or from other school districts, the superintendent of each school district is required to compile lists of such children in compliance with Section 29-3-121, Miss Code Ann. (1972). Because none of the school districts which share townships with Forest Municipal School District filed lists of children as required, no division of sixteenth section revenues has been accrued as a receivable or payable, as the case may be.

Of the townships Forest Municipal School District shares with other school districts, Forest Municipal School District has control of some of the sixteenth section property. A portion of the sixteenth section revenues (rents, leases, timber sales, etc.) Forest Municipal School District received on these sections may be due to other school district. In addition, on the other townships where another school district controls the sixteenth section property, Forest Municipal School District may be entitled to a portion of the sixteenth section revenues the other school district received. Because none of the other school districts compiled and filed lists of children as state law requires in either the current year or in preceding years, neither the amounts of any liabilities owed to other school districts nor the amounts of any receivables from other school districts can be determined.

(11) Prior Year Defeasance of Debt.

In prior years, the Forest Municipal School District defeased certain certificates of participation 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 liability for the defeased bonds are not included in the district's financial statements. On June 30, 2005, \$387,438 of bonds outstanding are defeased.

FOREST MUNICIPAL SCHOOL

REQUIRED SUPPLEMENTARY INFORMATION

Forest Municipal School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 2,638,374	2,889,167	2,889,269	250,793	102
State sources	5,611,455	5,896,257	5,896,257	284,802	-
Federal sources	2,000	12,399	12,399	10,399	-
Total Revenues	<u>8,251,829</u>	<u>8,797,823</u>	<u>8,797,925</u>	<u>545,994</u>	<u>102</u>
Expenditures:					
Instruction	5,284,714	5,174,830	5,174,324	109,884	506
Support services	3,021,334	2,952,205	2,957,029	69,129	(4,824)
Noninstructional services	12,400	19,053	19,053	(6,653)	-
Sixteenth section	5,000	-	-	5,000	-
Debt service:					
Principal	33,881	32,871	32,871	1,010	-
Interest	-	1,066	1,066	(1,066)	-
Total Expenditures	<u>8,357,329</u>	<u>8,180,025</u>	<u>8,184,343</u>	<u>177,304</u>	<u>(4,318)</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(105,500)</u>	<u>617,798</u>	<u>613,582</u>	<u>723,298</u>	<u>(4,216)</u>
Other Financing Sources (Uses):					
Other financing sources	236,352	269,394	124,479	33,042	(144,915)
Other financing uses	<u>(141,352)</u>	<u>(156,875)</u>	<u>(16,960)</u>	<u>(15,523)</u>	<u>139,915</u>
Total Other Financing Sources (Uses)	<u>95,000</u>	<u>112,519</u>	<u>107,519</u>	<u>17,519</u>	<u>(5,000)</u>
Net Change in Fund Balances	<u>(10,500)</u>	<u>730,317</u>	<u>721,101</u>	<u>740,817</u>	<u>(9,216)</u>
Fund Balances:					
July 1, 2004	<u>1,604,000</u>	<u>2,116,876</u>	<u>2,116,876</u>	<u>512,876</u>	<u>-</u>
June 30, 2005	<u>\$ 1,593,500</u>	<u>2,847,193</u>	<u>2,837,977</u>	<u>1,253,693</u>	<u>(9,216)</u>

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

Forest Municipal School District
 Budgetary Comparison Schedule
 Title 1 Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$			-	-
State sources				-	-
Federal sources	581,546	511,693	511,693	(69,853)	-
Total Revenues	581,546	511,693	511,693	(69,853)	-
Expenditures:					
Instruction	224,252	206,376	206,376	17,876	-
Support services	337,797	285,797	285,797	52,000	-
Noninstructional services	7,308	6,717	6,717	591	-
Sixteenth section				-	-
Debt service:					
Principal				-	-
Interest				-	-
Total Expenditures	569,357	498,890	498,890	70,467	-
Excess (Deficiency) of Revenues Over Expenditures	12,189	12,803	12,803	614	-
Other Financing Sources (Uses):					
Other financing sources				-	-
Other financing uses	(12,189)	(12,541)	(12,541)	(352)	-
Total Other Financing Sources (Uses)	(12,189)	(12,541)	(12,541)	(352)	-
Net Change in Fund Balances	-	262	262	262	-
Fund Balances:					
July 1, 2004	-	-	-	-	-
June 30, 2005	\$ -	262	262	262	-

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

Forest Municipal School District
 Budgetary Comparison Schedule
 IDEA Part B Fund
 For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$			-	-
State sources				-	-
Federal sources	494,535	454,375	454,375	(40,160)	-
Total Revenues	494,535	454,375	454,375	(40,160)	-
Expenditures:					
Instruction	262,049	233,116	233,116	28,933	-
Support services	222,116	211,725	211,725	10,391	-
Noninstructional services	-	-	-	-	-
Sixteenth section				-	-
Debt service:					
Principal				-	-
Interest				-	-
Total Expenditures	484,165	444,841	444,841	39,324	-
Excess (Deficiency) of Revenues Over Expenditures	10,370	9,534	9,534	(836)	-
Other Financing Sources (Uses):					
Other financing sources				-	-
Other financing uses	(10,370)	(9,394)	(9,394)	976	-
Total Other Financing Sources (Uses)	(10,370)	(9,394)	(9,394)	976	-
Net Change in Fund Balances	-	140	140	140	-
Fund Balances:					
July 1, 2004	-	-	-	-	-
June 30, 2005	\$ -	140	140	140	-

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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to the Required Supplementary Information
For the Year Ended June 30, 2005

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(2) Budget amendments and revisions.

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the general fund and each major special revenue fund consistent with accounting principles generally accepted in the United States of America.

(3) Individual Fund Disclosures.

Individual funds that have an excess of expenditures over budget, including amounts of the excess, are as follows:

<u>Individual Fund</u>	<u>Amount</u>
District Maintenance Fund	\$ 4,825
Vo-Tech Maintenance Fund	\$ 35,301

The funds with an excess of expenditures over budget are not in violation of state law since the excesses resulted from auditor's adjustments.

FOREST MUNICIPAL SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

FOREST MUNICIPAL SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005

<u>Federal Grantor/ Pass-through Grantor/ Program Title</u>	<u>Catalog Of Federal Domestic Assistance No.</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Passed through the Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ 39,334
Child nutrition cluster		
School breakfast program	10.553	172,606
National school lunch program	10.555	432,269
Total child nutrition cluster		<u>604,875</u>
Total U.S. Department of Agriculture		<u>644,209</u>
<u>U.S. Department of Education</u>		
Passed through the Mississippi Department of Education:		
Title I, grants to local educational agencies	84.010	511,431
Migrant education - basic state grant program	84.011	1,862
Safe and drug free schools and communities - state grants	84.186	6,196
Fund for the improvement of education	84.215	214
Eisenhower professional development state grants	84.281	139,325
State grants for innovative programs	84.298	7,606
Education technology state grants	84.318	10,511
Comprehensive school reform demonstration	84.332	79,109
Reading first state grants	84.357	275,986
Rural education	84.358	58,349
English language acquisition grants	84.365	34,001
Improving teacher quality - state grants	84.367	6,927
Grants for state assessments and related activities	84.369	3,930
Total		<u>1,135,447</u>
Special Education Cluster:		
Special education - grants to states	84.027	454,235
Special education - preschool grants	84.173	61,419
Total Special Education Cluster		<u>515,654</u>
Total U.S. Department of Education		<u>1,651,101</u>
Total for All Federal Awards		<u>\$ 2,295,310</u>

Notes To Schedule:

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements
2. The expenditure amounts include transfers out.
3. The pass - through entities did not assign identifying numbers to the school district.

**Forest Municipal School District
 Schedule Of Instructional, Administrative and Other Expenditures - Governmental Funds
 For The Year Ended June 30,2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 8,417,323	5,390,708	1,033,442	1,993,173
Other	2,932,939	666,247	103,433	2,163,259
Total	<u>\$ 11,350,262</u>	<u>6,056,955</u>	<u>1,136,875</u>	<u>4,156,432</u>
Total number of students *	1,513.14			
Cost per student	<u>\$ 7,501.12</u>	<u>4,002.90</u>	<u>751.33</u>	<u>2,746.89</u>

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

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teacher aides or classroom assistants of any type - all the 1000 functional codes

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); Support Services - Business (2500s)

Other - includes all expenditure functions not included in Instruction or Administrative

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

FOREST MUNICIPAL SCHOOL DISTRICT

REPORTS ON COMPLIANCE AND INTERNAL CONTROL



Watkins, Ward and Stafford
Professional Limited Liability Company
Certified Public Accountants

James L. Stafford, CPA
Harry W. Stevens, CPA
Boyd W. Edwards, CPA
Paul A. Ray, CPA
S. Keith Winfield, CPA
William B. Stiggers, CPA
Aubrey R. Holder, CPA
David M. Howell, CPA
Michael W. McCully, CPA
Mort Stroud, CPA
Gary C. Hamilton, CPA

R. Steve Sinclair, CPA
Michael L. Pierce, CPA
Marsha L. McDonald, CPA
Wanda S. Holley, CPA
Robin Y. McCormick, CPA/PFS
J. Randy Scovner, CPA
Kimberly S. Caskey, CPA
Susan M. Lummus, CPA
Thomas J. Browder, CPA
Stephen D. Flake, CPA
John N. Russell, CPA

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

November 2, 2005

Superintendent and School Board
Forest Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Forest Municipal School District as of and for the year ended June 30, 2005, which collectively comprise the Forest Municipal School District's basic financial statements and have issued our report thereon dated November 2, 2005. 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 the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our opinion, could adversely affect the school district's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the Schedule of Findings and Questioned Costs as Finding 05-01.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 did not disclose any instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated November 2, 2005.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
November 2, 2005

Watkins, Ward and Stafford, PLLC



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

November 2, 2005

Superintendent and School Board
 Forest Municipal School District

Compliance

We have audited the compliance of the Forest Municipal School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district'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 the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Forest Municipal School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
November 2, 2005

Watkins, Ward and Stafford, PLLC

FOREST MUNICIPAL SCHOOL DISTRICT

**INDEPENDENT AUDITOR'S REPORT ON
COMPLIANCE WITH STATE LAWS AND REGULATIONS**



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
 STATE LAWS AND REGULATIONS**

November 2, 2005

Superintendent and School Board
 Forest Municipal School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Forest Municipal School District as of and for the year ended June 30, 2005, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated November 2, 2005. 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*.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(a)(iii), Miss. Code Ann. (1972), disclosed an instance of noncompliance. The non-compliance is reported in finding number 3 below. The district reported \$37,802 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding 1:

In compliance with Section 37-6-15 Miss Code Ann. (1972) the school district is to bond its board members in the amount of \$50,000 with these being recorded and on file in the chancery clerk's office. Per review of surety bonds, it was noted that one board member's surety bond coverage had expired and was not renewed by June 30, 2005.

Recommendation

We recommend the school district comply with Section 37-6-15 Miss Code Ann. (1972) and bond its board members for at least \$50,000 with these bonds being recorded and on file in the chancery clerk's office.

School District's Response

The school district will comply with Section 37-6-15 Miss. Code Ann. (1972) and bond its board members for at least \$50,000 with these bonds being recorded and on file in the chancery clerk's office.

Finding 2:

In compliance with Section 71-5-359 Miss Code Ann. (1972) the school district is to set aside in a separate fund at least 2% of applicable wages for unemployment compensation. As of June 30, 2005, the school district should have set aside \$25,080. The balance actually set aside in this fund at June 30, 2005, was \$19,486. Therefore, the fund is under-funded by \$5,594 as of June 30, 2005.

Recommendation:

We recommend the school district comply with Section 71-5-359 Miss Code Ann. (1972) and set aside in a separate fund for unemployment compensation at least 2% of applicable wages.

School District's Response:

The school district will comply with Section 71-5-359 Miss Code Ann. (1972) and set aside in a separate fund for unemployment compensation at least 2% of applicable wages.

Finding 3:

In compliance with Section 37-61-33(3)(a)(iii) Miss Code Ann. (1972) the school district is to establish a system for tracking each teacher's allocation, expenditures and balance of Education Enhancement Classroom Supply and Instructional Materials Funds. At a minimum, each school principal should maintain a listing of all teachers, the amount allocated to each teacher, the carry forward amount for each teacher, a copy of each spending plan and a copy of all requisitions or purchase requests submitted by the teachers. It was noted that the high school and middle school's system for tracking expenditures were incomplete and not adequately documented.

Recommendation:

We recommend that each school maintain a system for tracking Education Enhancement Classroom Supply and Instructional Materials funds and adequately document expenditure of these funds in compliance with Section 37-61-33(3)(a)(iii) Miss Code Ann. (1972).

School District's Response:

Each school will maintain a system for tracking Education Enhancement Classroom Supply and Instructional Materials funds and adequately document expenditure of these funds in compliance with Section 37-61-33(3)(a)(iii) Miss Code Ann. (1972).

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi
November 2, 2005

Watkins, Ward and Stafford, PLLC

FOREST MUNICIPAL SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOREST MUNICIPAL SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

Schedule 1: Summary of Auditor's Results

Financial Statements

- | | |
|--|---------------------|
| 1. Type of auditor's report issued on the financial statements: | Unqualified Opinion |
| 2. Material noncompliance relating to the financial statements? | No |
| 3. Internal control over financial reporting: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes |

Federal Awards:

- | | |
|---|---------------------|
| 4. Type of auditor's report issued on compliance for major federal programs: | Unqualified Opinion |
| 5. Internal control over major programs: | |
| a. Material weakness(es) identified? | No |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. Federal programs identified as major programs: | |
| a. Cluster: Child nutrition
CFDA #10.553
CFDA #10.555 | |
| b. Cluster: Special Education
CFDA #84.027
CFDA #84.173 | |
| 8. The dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |
| 10. Prior fiscal year audit finding(s) questioned cost relative to federal awards which would require the auditee to prepare a summary of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | Yes |

FOREST MUNICIPAL SCHOOL DISTRICT

**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2005**

Section 2: Financial Statement Findings

05-01: Finding:

Per review of athletic event forms submitted by Forest High School it was noted that the principal was not signing the forms for approval on a regular basis. We selected 8 of these forms for testing and noted that the principal had not signed 5 of these forms.

Recommendation:

We recommend that the principal review and sign all athletic event forms prior to submission in the central office.

Section 3: Federal Award Findings and Questioned Costs

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

FOREST MUNICIPAL SCHOOL DISTRICT

**AUDITEE'S CORRECTIVE ACTION PLAN AND
SUMMARY OF PRIOR AUDIT FINDINGS**

Forest Municipal School District

325 Cleveland Street • Forest, Mississippi 39074 • (601) 469-3250

Kathleen Bunyard
Director of Curriculum/Fed. Programs
(601) 469-4244

Skip Lathem
Superintendent

Tim Crotwell
Director of Technology
(601) 469-3658

FOREST MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2005

Section 2: Financial Statement Findings

05-01: Finding:

Per review of athletic event forms submitted by Forest High School it was noted that the principal was not signing the forms for approval on a regular basis. We selected 8 of these forms for testing and noted that the principal has not signed 5 of these forms.

Recommendation:

We recommend that the principal review and sign all athletic event forms prior to submission in the central office.

Response:

We will ensure that all athletic event forms are signed by the principal with authority over that event. These forms will be reviewed by the business manager on a monthly basis when the financial records are processed.

FOREST MUNICIPAL SCHOOL DISTRICT



Mr. Skip Lathem, Superintendent

601 469-3250



Mr. David Wilson, Business Manager

601 469-3250

Forest Municipal School District

325 Cleveland Street • Forest, Mississippi 39074 • (601) 469-3250

Kathleen Bunyard
Director of Curriculum/Fed. Programs
(601) 469-4244

Skip Lathem
Superintendent

Tim Crotwell
Director of Technology
(601) 469-3658

November 2, 2005

Financial and Compliance Audit Division

As required by Section _____,315(b) of OMB Circular A-133, the Forest Municipal School district has prepared and hereby submits the following summary schedule of prior audit findings as of June 30, 2005:

Finding	Status
04-01	Corrected
04-02	Corrected

Sincerely,

Skip Lathem
Superintendent