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**FOREST MUNICIPAL SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2007**

**FOREST MUNICIPAL SCHOOL DISTRICT  
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**FOREST MUNICIPAL SCHOOL DISTRICT**

**FINANCIAL AUDIT REPORT**



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

Superintendent and School Board  
Forest Municipal School District

We have audited the accompanying 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, 2007, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Forest Municipal School District, as of June 30, 2007, 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 17, 2008, 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 considered in assessing the results of our audit.

The Managements Discussion and Analysis on pages 5 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 40 through 45 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 on 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 accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures – Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Watkins, Ward and Stafford, PLLC  
Louisville, Mississippi  
June 17, 2008

*Watkins, Ward and Stafford, PLLC*

**FOREST MUNICIPAL SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

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, 2007. 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 extent 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.

**FINANCIAL HIGHLIGHTS**

Total net assets increased \$396,022, which represents 7.83% increase from fiscal year 2006.

General revenues account for \$9,822,264 in revenue, or 82% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$2,170,577 or 18% of total revenues.

The District had \$11,596,819 in expenses; only \$2,170,577 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$9,822,264 were adequate to provide for these programs.

Among major funds, the General Fund had \$9,317,364 in revenues and \$9,227,016 in expenditures. The General Fund's fund balance increased \$117,441 over the prior year.

Capital assets, net of accumulated depreciation, decreased by \$47,343.

Long-term debt decreased by (\$286,354).

**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.

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

**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 net 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 and other expenses on long-term liabilities.

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

**Governmental funds.** 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.

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

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.

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

**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.

**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.

**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 each additional major Special Revenue fund.

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

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

**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 \$5,454,916 as of June 30, 2007.

The largest portion of the District's net assets (44%) reflects its investment in capital assets (e.g., buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment, and construction in progress 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, 2007 and June 30, 2006.

	June 30, 2007	June 30, 2006	% Change
Current assets	3,441,971	3,372,264	2.0%
Capital assets, net	5,060,764	5,108,107	( 9.3% )
<b>Total assets</b>	<b>8,502,735</b>	<b>8,480,371</b>	<b>2.6%</b>
Current liabilities	625,049	363,540	71.9%
Long-term debt outstanding	<u>2,422,770</u>	<u>3,057,937</u>	20.8%
<b>Total Liabilities</b>	<b><u>3,047,819</u></b>	<b><u>3,421,477</u></b>	<b>10.9%</b>
<b>Net assets:</b>			
Invested in capital assets, Net of related debt	2,423,824	2,133,347	13.6%
Restricted	1,038,020	1,015,756	2.2%
Unrestricted	<u>1,993,072</u>	<u>1,909,780</u>	4.4%
<b>Total net assets</b>	<b><u>5,454,916</u></b>	<b><u>5,058,84</u></b>	<b>7.8%</b>

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

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

The principal retirement of \$337,820 of long-term debt.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2007 were \$11,992,841. The total cost of all programs and services was \$11,596,819. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2007 and June 30, 2006.

	Change in Net Assets		
	6/30/07	6/30/06	% Change
Revenues:			
Program revenues:			
Charges for services	294,531	302,377	( 2.6% )
Operating grants & contributions	1,876,046	2,091,954	( 10.3% )
General revenues:			
Property taxes	2,916,617	2,970,718	( 1.8% )
Gants and contributions			
Not restricted	6,607,250	6,228,131	6.0%
Other	<u>298,397</u>	<u>249,541</u>	19.6%
Total revenues	<u>11,992,841</u>	<u>11,842,721</u>	1.3%
Expenses:			
Instruction	6,535,561	6,523,581	.2%
Support services	4,070,082	4,017,168	1.3%
Non-instructional	855,710	824,196	3.8%
Sixteenth section	16,009	14,749	8.5%
Interest on long-term liabilities	<u>119,457</u>	<u>135,355</u>	( 11.7% )
Total expenses	<u>11,596,819</u>	<u>11,515,049</u>	.7%
Increase in net assets	<u>396,022</u>	<u>327,672</u>	20.9%
Net Assets, July 1	5,058,894	4,719,678	7.2%
Prior period adjustments	-	11,544	
Net Assets, July 1, Restated	<u>5,058,894</u>	<u>4,731,222</u>	
Net Assets, June 30	<u>5,454,916</u>	<u>5,058,894</u>	7.8%

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

**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 for fiscal years ending June 30, 2007, and 2006, respectively. 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.

	2007		2006	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	6,535,561	( 5,806,555 )	6,523,581	( 5,670,602 )
Support services	4,070,082	( 3,485,397 )	4,017,168	( 3,291,597 )
Non-instructional	855,710	( 850 )	824,196	( 8,415 )
Sixteenth section	16,009	( 13,983 )	14,749	( 14,749 )
Interest & other expense on long- term liabilities	<u>119,457</u>	<u>( 119,457 )</u>	<u>135,355</u>	<u>( 135,355 )</u>
Total expenses	<u>11,596,819</u>	<u>( 9,426,242 )</u>	<u>11,515,049</u>	<u>( 9,120,718 )</u>

Net cost of governmental activities \$9,426,242 was financed by general revenue, which is made up of primarily property taxes \$2,916,617 and state grants \$6,558,839, Investment earnings accounted for \$151,019 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.

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

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 \$3,199,441, an increase of \$152,276 due primarily to a focused effort on keeping spending within budgeted amounts for the year. \$2,657,894 or 83% of the fund balance constitutes unreserved and undesignated fund balance. The remaining fund balance of \$541,547 or 17% 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 \$117,441 a result of a focused effort on keeping spending within budgeted amounts for the year. The fund balance of Other Governmental Funds showed an increase of \$72,921 due primarily to increase investment earnings and sixteenth section earnings.

#### **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 major special revenue fund is provided in this report as required supplementary information.

#### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2007, the District's total capital assets were \$9,287,475, including school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$172,606 from the previous year. The accumulated depreciation as of June 30, 2007, was \$4,226,711 and total depreciation expense for the year was \$219,949 resulting in total net capital assets of \$5,060,764.

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

	Capital Assets, Net of Depreciation Percentage		
	2007	2006	Change
Land	\$ 15,485	\$ 15,485	0
Construction in progress	0	949,150	( 100 %)
Buildings	4,103,584	3,542,508	15.8 %
Building improvements	261,748	0	100 %
Improvements other than buildings	74,643	78,375	( 4.8 %)
Mobile equipment	595,693	508,099	17.2 %
Furniture & equipment	9,611	14,490	( 33.7 %)
<b>Total</b>	<u>5,060,764</u>	<u>5,108,107</u>	( .9 %)

**Debt Administration.** At June 30, 2007, the District had \$2,771,583 in general obligation bonds and other long-term debt outstanding, of which \$348,813 is due within one year.

	Outstanding Debt		Percentage
	2007	2006	Change
General obligation bonds payable	\$ 289,661	\$ 339,721	( 14.7 %)
Three mill notes payable	699,808	783,291	( 10.7 %)
Other loans payable	32,471	41,748	( 22.2 %)
Limited obligation bonds payable	1,615,000	1,810,000	( 10.8 %)
Compensated absences payable	134,643	83,177	61.9 %
<b>Total</b>	<u>\$ 2,771,583</u>	<u>\$ 3,057,937</u>	( 9.4 %)

The District maintains an A bond rating.

FOREST MUNICIPAL SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007

**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 not increased in four (4) years. In addition, the district system of financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decline twenty (20) 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. Telephone 601-469-3250.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**FINANCIAL STATEMENTS**

Forest Municipal School District  
Statement of Net Assets  
June 30, 2007

Exhibit A

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,615,604
Cash with fiscal agents	50
Investments	135,400
Due from other governments	415,475
Lease receivables, net	22,619
Other receivables, net	9,715
Inventories and prepaid items	7,586
Restricted assets	235,522
Capital assets, not being depreciated:	
Land	15,485
Capital assets, net of accumulated depreciation:	
Buildings	4,103,584
Building improvements	261,748
Improvements other than buildings	74,643
Mobile equipment	595,693
Furniture and equipment	9,611
<b>Total Assets</b>	<u>8,502,735</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	198,777
Unearned revenue	43,753
Interest payable on long-term liabilities	33,706
Long-term liabilities, due within one year	
Capital related liabilities	348,813
Long-term liabilities, due beyond one year	
Capital related liabilities	2,288,127
Non-capital related liabilities	134,643
<b>Total Liabilities</b>	<u>3,047,819</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	2,423,824
Restricted net assets:	
Expendable:	
School-based activities	302,243
Debt service	430,987
Capital improvements	2,587
Forestry improvements	32,718
Unemployment benefits	33,963
Non-expendable:	
Sixteenth section	235,522
Unrestricted	1,993,072
<b>Total Net Assets</b>	<u>\$ 5,454,916</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, 2007

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Governmental Activities:</b>					
Instruction	\$ 6,535,561	135,172	593,834		(5,806,555)
Support services	4,070,082		584,685		(3,485,397)
Non-instructional	855,710	157,333	697,527		(850)
Sixteenth section	16,009	2,026			(13,983)
Interest on long-term liabilities	119,457				(119,457)
<b>Total Governmental Activities</b>	<b>\$ 11,596,819</b>	<b>294,531</b>	<b>1,876,046</b>	<b>-</b>	<b>(9,426,242)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
					2,814,974
					101,643
<b>Unrestricted grants and contributions:</b>					
					6,558,839
					48,411
					151,019
					103,220
					44,158
					<u>9,822,264</u>
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					
					<u>9,822,264</u>
<b>Change in Net Assets</b>					
					<u>396,022</u>
<b>Net Assets - Beginning</b>					
					<u>5,058,894</u>
<b>Net Assets - Ending</b>					
					<u>\$ 5,454,916</u>

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

Forest Municipal School District  
 Balance Sheet - Governmental Funds  
 June 30, 2007

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Title 1 Fund	IDEA Part B Fund	VoTech Maintenance Fund	Other Governmental Funds	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 1,956,762	1,587	794	168,570	723,413	2,851,126
Cash with fiscal agents					50	50
Investments					135,400	135,400
Due from other governments	127,175	67,443	40,608	3,208	177,041	415,475
Lease receivables, net					22,619	22,619
Other receivables, net	314					314
Due from other funds	152,297				6,512	158,809
Inventories and prepaid items					7,586	7,586
<b>Total Assets</b>	<b>\$ 2,236,548</b>	<b>69,030</b>	<b>41,402</b>	<b>171,778</b>	<b>1,072,621</b>	<b>3,591,379</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable and accrued liabilities	\$ 91,547	1,587	794	97,804	7,045	198,777
Due to other funds	17,286	48,488	40,034		43,600	149,408
Deferred revenue		18,955	574		24,224	43,753
<b>Total Liabilities</b>	<b>108,833</b>	<b>69,030</b>	<b>41,402</b>	<b>97,804</b>	<b>74,869</b>	<b>391,938</b>
<b>Fund Balances:</b>						
<b>Reserved for:</b>						
Inventory					7,586	7,586
Capital projects					2,587	2,587
Debt service					464,693	464,693
Unemployment benefits					33,963	33,963
Forestry improvement purposes					32,718	32,718
Permanent fund purposes					235,522	235,522
<b>Undesignated, reported in:</b>						
General Fund	2,127,715					2,127,715
Special Revenue Funds				73,974	220,683	294,657
<b>Total Fund Balances</b>	<b>2,127,715</b>	<b>-</b>	<b>-</b>	<b>73,974</b>	<b>997,752</b>	<b>3,199,441</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,236,548</b>	<b>69,030</b>	<b>41,402</b>	<b>171,778</b>	<b>1,072,621</b>	<b>3,591,379</b>

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, 2007**

**Exhibit C-1**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,199,441
Amounts reported for governmental activities in the statement of net assets are different because:	
1. 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 \$4,226,711.	5,060,764
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,771,583)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(33,706)
Total Net Assets - Governmental Activities	<u>\$ 5,454,916</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, 2007

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Title 1' Fund	IDEA Part B Fund	VoTech Maintenance Fund		
<b>Revenues:</b>						
Local sources	\$ 2,988,759			127,459	278,390	3,394,608
State sources	6,280,194				371,971	6,652,165
Federal sources	48,411	462,789	326,135		989,031	1,826,366
Sixteenth section sources					119,702	119,702
<b>Total Revenues</b>	<b>9,317,364</b>	<b>462,789</b>	<b>326,135</b>	<b>127,459</b>	<b>1,759,094</b>	<b>11,992,841</b>
<b>Expenditures:</b>						
Instruction	5,644,090	233,500	106,951	165,545	218,358	6,368,444
Support services	3,555,206	215,735	212,617		137,070	4,120,628
Noninstructional services	18,443	4,091			815,111	837,645
Sixteenth section					16,009	16,009
Facilities acquisition and construction					30,106	30,106
<b>Debt service:</b>						
Principal	9,277				328,543	337,820
Interest					123,642	123,642
Other					550	550
<b>Total Expenditures</b>	<b>9,227,016</b>	<b>453,326</b>	<b>319,568</b>	<b>165,545</b>	<b>1,669,389</b>	<b>11,834,844</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>90,348</b>	<b>9,463</b>	<b>6,567</b>	<b>(38,086)</b>	<b>89,705</b>	<b>157,997</b>
<b>Other Financing Sources (Uses):</b>						
Operating transfers in	91,351				64,258	155,609
Operating transfers out	(64,258)	(9,463)	(6,567)		(75,321)	(155,609)
<b>Total Other Financing Sources (Uses)</b>	<b>27,093</b>	<b>(9,463)</b>	<b>(6,567)</b>	<b>-</b>	<b>(11,063)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>117,441</b>	<b>-</b>	<b>-</b>	<b>(38,086)</b>	<b>78,642</b>	<b>157,997</b>
<b>Fund Balances:</b>						
July 1, 2006	2,010,274	-	-	112,060	924,831	3,047,165
Increase (Decrease) in reserve for inventory					(5,721)	(5,721)
<b>June 30, 2007</b>	<b>\$ 2,127,715</b>	<b>-</b>	<b>-</b>	<b>73,974</b>	<b>997,752</b>	<b>3,199,441</b>

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, 2007**

**Exhibit D-1**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 157,997
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 \$172,606 and the depreciation expense expense amounted to \$219,949.	(47,343)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	337,820
3. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	4,735
4. Increase (decrease) in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are (decreased) increased in the Statement of Activities.	(5,721)
5. Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental governmental funds:	
Compensated absences	(51,466)
Change in Net Assets of Governmental Activities	\$ <u><u>396,022</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, 2007**

**Exhibit E**

		<u>Agency Funds</u>
<b>Assets</b>		
Cash and cash equivalents	\$	522,123
Due from other funds		25
Due from other governments		<u>479</u>
<b>Total Assets</b>	<b>\$</b>	<b><u><u>522,627</u></u></b>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$	475,286
Due to other funds		9,426
Due to student clubs		<u>37,915</u>
<b>Total Liabilities</b>	<b>\$</b>	<b><u><u>522,627</u></u></b>

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, 2007

### 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.

Two board members were elected by citizens of each defined county district and three were selected by the City of Forest's Board of Alderman. 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 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 consists 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 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.

##### *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. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

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 accrual basis of accounting as are the Fiduciary Fund financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. 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 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 I Fund – This is the school district's fund that operates the Title I grants to local education 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.

Vo Tech Maintenance Fund – This is the school district's fund that accounts for the vocational education of students of the school district who attend the county school district.

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:

**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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

C. Measurement Focus and Basis of Accounting (Continued).

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 broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* as issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 2003* issued by the U.S. Department of Education.

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

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 three months when acquired.

Investments are reported at fair value.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2007

#### H. Inventories.

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

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.

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.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

I. Capital Assets (Continued).

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

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

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

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

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 other borrowing that are attributable to the acquisition, construction 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.

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.

Reserved for capital projects – An account that represents that portion of fund balance in the Capital Projects Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for debt service – An account that represents that portion of fund balance in the Debt Service Fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for unemployment benefits – An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for forestry improvement purposes – An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes – An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Unreserved – designated for, reported in Special Revenue Funds – An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future uses.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

Unreserved, undesignated – An account that represents the portion of fund balance that is expendable available financial resources.

**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 the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2007

#### 2. Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

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

**Deposits.** The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school district's 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.

**Investments.** Section 2-3-113 and 37-59-73, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33 (d) and (3), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects Funds), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

#### Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$2,851,126 and \$522,123, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$2,615,604 and restricted assets - \$235,522. The restricted assets of \$235,522 represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund), which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$3,738,336.

**Custodial Credit Risk – Deposits.** Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk. However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FCIC 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, 2007, none of the district's bank balance of \$3,738,336 exposed to custodial credit risk.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

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

Cash with Fiscal Agents.

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$50.

Investments.

As of June 30, 2007, the district had the following investment.

Investment Type	Maturities (in years)	Fair Value
Hancock Horizon Treasury Securities		
Money Market Mutual Fund		\$ <u>135,400</u>
Total Investment		\$ <u>135,400</u>

*Interest Rate Risk.* The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

*Custodial Credit Risk – Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

3. Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	Due From	Due To
Governmental Funds:		
General Fund	\$ 152,297	17,286
Title I Fund	-	48,488
IDEA Part B Fund	-	40,034
Other Governmental Fund(s)	6,512	43,600
Total	158,809	149,408
Fiduciary Funds	25	9,426
Total	\$ 158,834	158,834

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. Transfers In/Out.

	Transfer In	Transfer Out
Governmental Funds:		
General Fund	\$ 91,351	64,258
Title I Fund	-	9,463
IDEA Part B Fund	-	6,567
Other Governmental Fund(s)	64,258	75,321
Total	\$ 155,609	155,609

Transfers in and out were for year-end closing entries, indirect costs and construction activities.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

4. Capital Assets.

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

	Balance 7-1-2006	Additions	Retirements	Completed Construction	Balance 6-30-2007
<b>Non-depreciable capital assets:</b>					
Land	\$ 15,485				15,485
Construction in progress	949,150	30,106		( 979,256 )	0
Total non-depreciable capital assets	<u>964,635</u>	<u>30,106</u>		<u>( 979,256 )</u>	<u>15,485</u>
<b>Depreciable capital assets:</b>					
Buildings	6,569,729			706,602	7,276,331
Building improvements	-			272,654	272,654
Improvements other than buildings	93,304				93,304
Mobile equipment	1,254,124	142,500			1,396,624
Furniture and equipment	233,077				233,077
Total depreciable capital assets	<u>8,150,234</u>	<u>142,500</u>	<u>0</u>	<u>979,256</u>	<u>9,271,990</u>
<b>Less accumulated depreciation for:</b>					
Buildings	3,027,221	145,526			3,172,747
Building improvements	-	10,906			10,906
Improvements other than buildings	14,929	3,732			18,661
Mobile equipment	746,025	54,906			800,931
Furniture and equipment	218,587	4,879			223,466
Total accumulated depreciation	<u>4,006,762</u>	<u>219,949</u>	<u>0</u>	<u>0</u>	<u>4,226,711</u>
Total depreciable capital assets, net	<u>4,143,472</u>	<u>( 77,449 )</u>	<u>0</u>	<u>979,256</u>	<u>5,045,279</u>
Governmental activities capital assets net	<u>\$ 5,108,107</u>	<u>( 47,343 )</u>	<u>0</u>	<u>0</u>	<u>5,060,764</u>

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 135,709
Support services	73,383
Non-instructional	10,857
Total Depreciation Expense	<u>\$ 219,949</u>

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

5. Long-term Liabilities.

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

	Balance 7-1-2006	Additions	Reductions	Adjustments	Balance 6-30-2007	Amounts within one year
A. General obligation bonds payable	\$ 339,721		50,060		289,661	52,517
B. Limited obligation bonds payable	1,810,000		195,000		1,615,000	200,000
C. Three mill notes payable	783,291		83,483		699,808	87,019
D. Other loans payable	41,748		9,277		32,471	9,277
E. Compensation absences payable	83,177	51,466	-	-	134,643	-
<b>Total</b>	<b>\$ 3,057,937</b>	<b>51,466</b>	<b>337,820</b>	<b>0</b>	<b>2,771,583</b>	<b>348,813</b>

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:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation refunding					
<b>Total</b>				<b><u>\$557,000</u></b>	<b><u>\$289,661</u></b>

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 52,517	13,419	65,936
2009	55,095	10,841	65,936
2010	57,799	8,137	65,936
2011	60,637	5,299	65,936
2012	63,613	2,323	65,936
<b>Total</b>	<b>\$ 289,661</b>	<b>40,019</b>	<b>329,680</b>

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, 2007, the amount of outstanding bonded indebtedness was equal to .45% of property assessments as of October 1, 2006. This debt will be retired from Debt Service School Improvement Bonds fund and the EEF Buildings and Buses Fund.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	4.25-5.25%	03-01-1998	08-01-2013	\$ 2,715,000	1,615,000
<b>Total</b>				<b>\$ 2,715,000</b>	<b>1,615,000</b>

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 200,000	64,388	264,388
2009	215,000	55,569	270,569
2010	220,000	46,325	266,325
2011	225,000	36,869	261,869
2012	240,000	26,987	266,987
2013-2017	515,000	22,206	537,206
<b>Total</b>	<b>\$ 1,615,000</b>	<b>252,344</b>	<b>1,867,344</b>

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.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Bank of Forest - 2001 Note	4.5%	05-15-2001	05-15-2014	\$ 1,149,000	699,808
<b>Total</b>				<b>\$ 1,149,000</b>	<b>699,808</b>

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

C. Three mill notes payable (Continued).

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 87,019	30,717	117,736
2009	91,154	26,582	117,736
2010	95,302	22,434	117,736
2011	99,639	18,097	117,736
2012	104,139	13,597	117,736
2013-2017	222,555	12,918	235,473
<b>Total</b>	<b>\$ 699,808</b>	<b>124,345</b>	<b>824,153</b>

This debt will be retired from the 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:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
EPA Asbestos Loan	N/A	04-17-1992	11-30-2011	\$ 166,994	32,471
<b>Total</b>				<b>\$ 166,994</b>	<b>32,471</b>

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 9,277	-	9,277
2009	9,277	-	9,277
2010	9,278	-	9,278
2011	4,639	-	4,639
<b>Total</b>	<b>\$ 32,471</b>	<b>0</b>	<b>32,471</b>

This debt will be retired from the District Maintenance Fund.

E. Compensated absences payable.

As more fully explained in Note 1 (O), 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.

FOREST MUNICIPAL SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2007

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 rate for fiscal year June 30, 2007, was 11.30% 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, 2007, 2006 and 2005 were \$729,101, \$718,670, and \$608,178, respectively, which equaled the required contributions for each year.

7. Other Commitments.

Operating leases:

The school district has operating leases for 12 copiers and 1 postage machine

Lease expenditures for the year ended June 30, 2007, amounted to \$18,149. Future lease payments for this lease are as follows:

Year Ending June 30	Amount
2008	\$ 10,779
2009	4,861
2010	3,620
2011	1,099
2012	-
Total	\$ 20,359

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Notes to Financial Statements  
For the Year Ended June 30, 2007**

8. Sixteenth Section Lands.

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

Year Ending June 30	Amount
2008	\$ 90,473
2009	88,922
2010	85,596
2011	85,271
2012	83,355
2013-2017	416,775
2018-2022	416,775
2023-0227	416,775
2028-2032	416,775
Thereafter	542,955
Total	<u>\$ 2,643,672</u>

9. Subsequent Events

The board approved in the July 9, 2007, minutes of the board meeting the purchase of two school buses. One of the buses cost was \$71,600 with the other bus costing \$74,198.

The board received and accepted bids in the September 10, 2007, minutes of the board meeting for the Auditorium project. The total cost of this project is anticipated to be \$489,300.

On April 16, 2007, the board received and accepted bids on an Energy Conservation project at the Elementary School. This project is being administered by the Mississippi Power Company. The project had not started at the end of the fiscal year. It is anticipated that the project will cost \$806,101. The school district has financed this project with a 10 year lease through Hancock Bank to be repaid in monthly installments of \$8,249.79 at an 4.23% annual rate of interest.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2007

#### 10. Risk Management

The school district is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded 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 121 school districts and one community college and covers risks of loss arising from injuries to the member's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$700,000. For a claim exceeding \$700,000, MSBAWCT has insurance which will pay the excess to the statutory amount required by the Mississippi Workers' Compensation Commission Act. 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.

#### 11. 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 the school district which shares townships with Forest Municipal School District did not complete and file 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 the other school district, 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 the 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 the other school district did not compile and file lists of children as state law requires in either the current year or in preceding years, neither the amounts of any liabilities owed to the other school district nor the amounts of any receivables from the other school district can be determined.

## FOREST MUNICIPAL SCHOOL DISTRICT

### Notes to Financial Statements For the Year Ended June 30, 2007

12. Prior Year Defeasance of Debt.

In prior years, the Forest Municipal School District defeased certain general obligation and other 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 liability for the defeased bonds are not included in the district's financial statements. On June 30, 2007, \$289,661 of outstanding bonds (including prior years' refunding) is considered defeased.

13. Vocational School Consortium.

The school district entered into a Vocational Educational Agreement dated August 3, 1971, creating the Forest Scott County Career and Technology Center. This center was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The center includes the Forest Municipal School District and Scott County School District.

Sections 37-31-73, Miss. Code Ann. (1972), authorizes the above noted entities to enter into an agreement that would provide for the construction or operation of a regional vocational education center. Any such agreement should provide for a designated fiscal agent, providing the method of financing the construction and operation of such facilities, the manner in which such facilities are to be controlled and staffed and detail procedures for student admission and transportation services for those students.

The Scott County School District has been designated as the fiscal agent for the Forest Scott County Career and Technology Center, and the operations of the consortium are included in its financial statements.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**REQUIRED SUPPLEMENTARY INFORMATION**

Forest Municipal School District  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 2,928,283	2,991,351	2,988,759	63,068	(2,592)
State sources	6,384,727	6,280,194	6,280,194	(104,533)	0
Federal sources	42,000	48,411	48,411	6,411	0
Total Revenues	<u>9,355,010</u>	<u>9,319,956</u>	<u>9,317,364</u>	<u>(35,054)</u>	<u>(2,592)</u>
<b>Expenditures:</b>					
Instruction	5,894,100	5,644,368	5,644,090	249,732	278
Support services	3,461,006	3,553,470	3,555,206	(92,464)	(1,736)
Noninstructional services	18,800	18,443	18,443	357	0
Debt service:					
Principal	<u>9,277</u>	<u>9,277</u>	<u>9,277</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>9,383,183</u>	<u>9,225,558</u>	<u>9,227,016</u>	<u>157,625</u>	<u>(1,458)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(28,173)</u>	<u>94,398</u>	<u>90,348</u>	<u>122,571</u>	<u>(4,050)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers in	207,737	203,125	91,351	(4,612)	(111,774)
Operating transfers out	<u>(133,772)</u>	<u>(176,032)</u>	<u>(64,258)</u>	<u>(42,260)</u>	<u>111,774</u>
Total Other Financing Sources (Uses)	<u>73,965</u>	<u>27,093</u>	<u>27,093</u>	<u>(46,872)</u>	<u>0</u>
Net Change in Fund Balances	<u>45,792</u>	<u>121,491</u>	<u>117,441</u>	<u>75,699</u>	<u>(4,050)</u>
<b>Fund Balances:</b>					
July 1, 2006	2,013,444	2,013,444	2,010,274	0	(3,170)
Prior period adjustments	<u>12,976</u>	<u>12,976</u>	<u>12,976</u>	<u>0</u>	<u>(12,976)</u>
July 1, 2006, as restated	<u>2,026,420</u>	<u>2,026,420</u>	<u>2,010,274</u>	<u>0</u>	<u>(16,146)</u>
June 30, 2007	<u>\$ 2,072,212</u>	<u>2,147,911</u>	<u>2,127,715</u>	<u>75,699</u>	<u>(20,196)</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, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 535,000	481,744	462,789	(53,256)	(18,955)
Total Revenues	<u>535,000</u>	<u>481,744</u>	<u>462,789</u>	<u>(53,256)</u>	<u>(18,955)</u>
<b>Expenditures:</b>					
Instruction	222,198	233,500	233,500	(11,302)	0
Support services	294,931	215,735	215,735	79,196	0
Noninstructional services	5,000	4,092	4,091	908	1
Total Expenditures	<u>522,129</u>	<u>453,327</u>	<u>453,326</u>	<u>68,802</u>	<u>1</u>
Excess (Deficiency) of Revenues over Expenditures	<u>12,871</u>	<u>28,417</u>	<u>9,463</u>	<u>15,546</u>	<u>(18,954)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(12,871)	(9,463)	(9,463)	3,408	0
Total Other Financing Sources (Uses)	<u>(12,871)</u>	<u>(9,463)</u>	<u>(9,463)</u>	<u>3,408</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>18,954</u>	<u>0</u>	<u>18,954</u>	<u>(18,954)</u>
<b>Fund Balances:</b>					
July 1, 2006	8,755	8,755	0	0	(8,755)
Prior period adjustments	(8,755)	(8,755)		0	8,755
July 1, 2006, as restated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2007	<u>\$ 0</u>	<u>18,954</u>	<u>0</u>	<u>18,954</u>	<u>(18,954)</u>

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, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Federal sources	\$ 396,174	326,709	326,135	(69,465)	(574)
Total Revenues	<u>396,174</u>	<u>326,709</u>	<u>326,135</u>	<u>(69,465)</u>	<u>(574)</u>
<b>Expenditures:</b>					
Instruction	126,510	106,951	106,951	19,559	0
Support services	262,281	212,617	212,617	49,664	0
Total Expenditures	<u>388,791</u>	<u>319,568</u>	<u>319,568</u>	<u>69,223</u>	<u>0</u>
Excess (Deficiency) of Revenues over Expenditures	<u>7,383</u>	<u>7,141</u>	<u>6,567</u>	<u>(242)</u>	<u>(574)</u>
<b>Other Financing Sources (Uses):</b>					
Operating transfers out	(6,896)	(6,567)	(6,567)	329	0
Total Other Financing Sources (Uses)	<u>(6,896)</u>	<u>(6,567)</u>	<u>(6,567)</u>	<u>329</u>	<u>0</u>
Net Change in Fund Balances	<u>487</u>	<u>574</u>	<u>0</u>	<u>87</u>	<u>(574)</u>
<b>Fund Balances:</b>					
July 1, 2006	12,509	12,509	0	0	(12,509)
Prior period adjustments	(12,509)	(12,509)		0	12,509
July 1, 2006, as restated	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
June 30, 2007	<u>\$ 487</u>	<u>574</u>	<u>0</u>	<u>87</u>	<u>(574)</u>

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

Forest Municipal School District  
 Budgetary Comparison Schedule  
 Vo Tech Maintenance Fund  
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 128,250	127,649	127,459	(601)	(190)
Total Revenues	<u>128,250</u>	<u>127,649</u>	<u>127,459</u>	<u>(601)</u>	<u>(190)</u>
Expenditures:					
Instruction	128,250	67,741	165,545	60,509	(97,804)
Total Expenditures	<u>128,250</u>	<u>67,741</u>	<u>165,545</u>	<u>60,509</u>	<u>(97,804)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>0</u>	<u>59,908</u>	<u>(38,086)</u>	<u>59,908</u>	<u>(97,994)</u>
Other Financing Sources (Uses):					
Operating transfers out	0	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	<u>0</u>	<u>59,908</u>	<u>(38,086)</u>	<u>59,908</u>	<u>(97,994)</u>
Fund Balances:					
July 1, 2006	112,191	112,191	112,060	0	(131)
Prior period adjustments	(131)	(131)		0	131
July 1, 2006, as restated	<u>112,060</u>	<u>112,060</u>	<u>112,060</u>	<u>0</u>	<u>0</u>
June 30, 2007	<u>\$ 112,060</u>	<u>171,968</u>	<u>73,974</u>	<u>59,908</u>	<u>(97,994)</u>

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, 2007

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 October 15. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

3. Individual Fund Disclosures.

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

Individual Fund	Amount
General Fund	\$ 1,458
Child Nutrition Fund	1,302
Vo-Tech Maintenance Fund	97,804

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, 2007

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education		
Non-cash assistance:		
Food donation	10.550	\$ 50,198
Child nutrition cluster:		
School breakfast program	10.553	181,247
National school lunch program	10.555	480,103
Total child nutrition cluster		<u>661,350</u>
Passed-through the Scott County Board of Supervisors:		
Schools and roads - grants to states	10.665	<u>3,128</u>
Total U.S. Department of Agriculture		<u>714,676</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.xxx	<u>35,434</u>
Total Federal Communications Commission		<u>35,434</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	462,789
Safe and drug-free schools and communities - state grants	84.186	9296
State grants for innovative programs	84.298	2,375
Education technology state grants	84.318	13,403
Reading first state grants	84.357	4,041
Rural education	84.358	41,996
English language acquisition grants	84.365	27,373
Improving teacher quality - state grants	84.367	145,186
Total		<u>706,459</u>
Special education cluster:		
Special education - grants to states	84.027	326,135
Special education - preschool grants	84.173	15,706
Total special education cluster		<u>341,841</u>
Total passed-through Mississippi Department of Education		<u>1,048,300</u>
Total U.S. Department of Education		<u>1,048,300</u>
Total for All federal Awards		<u>\$ 1,798,410</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 30,2007**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other student Instructional Expenditures</u>	<u>General Administrative</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 8,841,670	6,584,541	448,240	695,868	1,113,021
Other	2,993,174	906,890	91,719	21,278	1,973,287
Total	\$ 11,834,844	7,491,431	539,959	717,146	3,086,308
Total number of students *	1,453				
Cost per student	\$ 8146	5158	372	494	2124

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

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

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

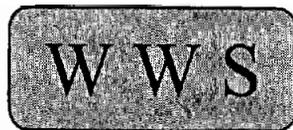
School Administration - includes expenditures for the following function: Support Services - School Administration (2400s).

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

\* 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 INTERNAL CONTROLS AND COMPLIANCE**



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

James L. Stafford, CPA  
Harry W. Stevens, CPA  
Paul A. Ray, CPA  
S. Keith Winfield, CPA  
William B. Stagers, 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 Scribner, CPA  
Kimberly S. Caskey, CPA  
Susan M. Lummus, CPA  
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Kenny R. Dickerson, CPA  
Thomas A. Davis, CPA  
Anita L. Goodnum, 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**

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 Forest Municipal School District as of and for the year ended June 30, 2007, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated June 17, 2008. 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 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 school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-1, 2007-2, 2007-3, 2007-4, 2007-5, and 2007-6 to be significant deficiencies in internal control over financial reporting

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the school district's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 2007-1, 2007-2 and 2007-3 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the Schedule of Findings and Questioned Costs as Finding 2007-1. We also noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated June 17, 2008, which is included in this report.

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  
June 17, 2008

*Watkins, Ward and Stafford, PLLC*



**Watkins, Ward and Stafford**  
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Certified Public Accountants

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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**

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, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of 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, 2007.

### 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 the 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, 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 school district's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in the internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as Findings 2007-7 and 2007-8 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Forest Municipal School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Forest Municipal School District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the school board and management, others within the entity, 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  
June 17, 2008

*Watkins, Ward and Stafford, PLLC*

**FOREST MUNICIPAL SCHOOL DISTRICT**

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



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

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, 2007, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated June 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed the following instance of noncompliance. The noncompliance is reported in finding number 1 below. The district reported \$9,835 of classroom supply funds carried over from previous years.

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

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

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

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 are as follows:

**Education Enhancement Funds Should Be Allocated Equally Among Teachers and Exclude Federally Funded Teachers**

1. Finding

Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), requires that Mississippi Public School districts allocate Education Enhancement Funds (EEF) for classroom supplies equally among all classroom teachers in the school district. Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), further defines "teacher" for this statute and specifically excluded all federally funded teachers from being included in the allocation process. The State Board Policy also states that "At a minimum, each school principal shall 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"

During our test work on Education Enhancement Funds, we noted that the district allocated part of the EEF classroom supplies allocation to 12 federally funded teachers. We also noted that at one of the individual schools adequate documentation, such as a copy of the purchase order/requisition was not maintained on file and there was no documentation of teacher signatures for authorization of pooled funds.

This noncompliance occurred because the district did not exclude federally funded teachers in the allocation of EEF classroom supply funds as required by state law.

Noncompliance with Section 37-61-33(a)(iii), Miss. Code Ann. (1972), could result in the district allowing some teachers to spend other teachers allocations.

Recommendation

We recommend that the district comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972) which requires the district to allocate EEF classroom supply fund equally among all classroom teachers but to excluded allocation to federally funded teachers.

School District Response

We will comply with Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972) which requires the district to allocate EEF classroom supply fund equally among all classroom teachers but to excluded allocation to federally funded teachers.

**Rents Due on Sixteenth Section Leases Should be Collected Promptly**

2. Finding

Section 29-3-57, Miss. Code Ann. (1972), requires the superintendent of education to collect promptly all rentals due on sixteenth section leases. This section further stipulates that upon a 60 day default in payment of any rentals according to the terms of the lease, the lease shall be terminated unless the board finds extenuating circumstances were present.

Recommendation

Per examination of annual lease schedule and review of selected leases, we noted that no board action was taken as required by Section 29-3-57, Miss Code Ann. (1972) on those leases that were 60 days past due on a consistent basis.

Inadequate understanding of the laws concerning sixteenth section leases resulted in the noncompliance.

Noncompliance with Section 29-3-57, Miss Code Ann. (1972) could result in the district not receiving rental income for the use of the sixteenth section lands and forfeiture of any interest that the district could have earned on this income.

#### School District's Response

We will comply with Section 29-3-57, Miss. Code Ann. (1972), and collect rents promptly on sixteenth section leases or nullify those leases that are over 60 days in default unless there are sufficient extenuating circumstances to warrant additional time for payment.

### **Principals Acting as Purchasing Agents Should Be Bonded As Purchasing Agents**

#### 3. Finding

Section 37-39-21, Miss. Code Ann. (1972), states, "the purchasing agent of any school board, before entering upon his official duties in such capacity, shall furnish a good and sufficient surety bond in the penal sum of Fifty Thousand Dollars (\$50,000), with sufficient surety." In addition Section 25-1-19, Miss. Code Ann. (1972), requires all surety bonds to be recorded and on file in the chancery clerk's office.

During our test work of surety bonds, we noted that principals were functioning as purchasing agents throughout the fiscal year and were not covered by a surety bond.

This noncompliance occurred because the district did not maintain and file surety bonds in accordance with state laws.

Insufficient surety bond coverage could limit the amount available for recovery if a loss occurred in the district.

#### Recommendation

We recommend the district comply with Section 37-39-21, Miss. Code Ann. (1972), which requires purchasing agents be bonded in the amount of \$50,000. We also recommend that the district comply with Section 25-1-19, Miss. Code Ann. (1972), requiring all surety bonds to be on file in the chancery clerk's office.

#### School District Response

We will comply with Section 37-39-21, Miss. Code Ann. (1972), which requires purchasing agents be bonded in the amount of \$50,000. We also recommend that the district comply with Section 25-1-19, Miss. Code Ann. (1972), requiring all surety bonds to be on file in the chancery clerk's office.

## District Should Share Sixteenth Section Revenue

### 4. Finding

Section 29-3-119, Miss. Code Ann. (1972), requires the district to use the proper amount of revenue in determining the amount of sixteenth section revenue to allocate to other school districts and divide the shared revenues according to applicable percentages based upon a list of educable children.

During test work performed on sixteenth section revenues, we noted that the district was not sharing revenues with the Scott County School District, and the Scott County School District was not sharing revenues with the Forest Municipal School District. The Forest Municipal School District did file a list of educable children including township and range information with the Scott County School District by December 31, 2006; however, the Scott County School District did not submit a list of educable children to the Forest Municipal School District.

This noncompliance resulted from a lack of training concerning state laws associated with sixteenth section revenues.

Not sharing sixteenth section revenue with Scott County School District resulted in noncompliance with Section 29-3-119, Miss. Code Ann. (1972).

### Recommendation

We recommend that the district comply with Section 29-3-119, Miss. Code Ann. (1972) and share sixteenth section revenue with school districts that share townships.

### School District's Response

We will comply with Section 29-3-119, Miss. Code Ann. (1972) and share sixteenth section revenue with school districts that share townships.

## Proper PERS Forms Should Be Filed For All Retirees

### 5. Finding

The Mississippi Public Employees' Retirement System (PEERS) requires, under the re-employment provisions of Section 25-11-127, Miss. Code Ann. (1972), school districts hiring PERS service retirees to file PERS Form 4B "Certification/Acknowledgment of Re-employment of Retiree" with the PERS office within five days from the date of employment of the retiree.

During our testing of retirees working for the school district we noted that PERS Form 4B was not filed for two retirees.

As a result of improper internal controls, the district did not follow regulations issued by the Mississippi Public Employees' Retirement System related to re-employment of retirees.

The retirees' retirement income could be affected by the district not filing PERS Form 4B with PERS upon re-employment of PERS service retirees each year. In addition, Mississippi Public Employees' Retirement System may assess a penalty per occurrence payable by the district for not filing PERS Form 4B within five days of re-employment of the service retiree.

Recommendation

We recommend the district implement procedures to ensure that the district files Form 4B, "Certification/Acknowledgment of Re-employment of Retiree" for all retirees rehired by the school district within five days of the employment.

School District's Response

We will implement procedures to ensure that the district files Form 4B, "Certification/Acknowledgment of Re-employment of Retiree" for all retirees rehired by the school district within five days of the employment.

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 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  
June 17, 2008

*Watkins, Ward and Stafford, PLLC*

FOREST MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year ended June 30, 2007

Section 1: Summary of Auditor's Results

Financial Statements:

- |   |             |
|---|-------------|
| 1. Type of auditor's report issued on the financial statements:   | Unqualified |
| 2. Material noncompliance relating to the financial statements?   | Yes         |
| 3. Internal control over financial reporting:   |             |
| a. Material weakness(es) identified? (Yes or No)  | Yes         |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? (Yes or None Reported) | Yes         |

Federal Awards:

- |  |             |
|--|-------------|
| 4. Type of auditor's report issued on compliance for major federal programs:   | Unqualified |
| 5. Internal control over major programs:   |             |
| a. Material weakness(es) identified? (Yes or No)   | No          |
| b. Significant deficiency(ies) identified that are not considered to be material weaknesses? (Yes or None Reported)  | Yes         |
| 6. Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? (Yes or No)   | Yes         |
| 7. Federal programs identified as major programs:  |             |
| a. Child nutrition cluster<br>CFDA #10.553<br>CFDA #10.555   |             |
| b. Title I grants to local educational agencies<br>CFDA #84.010  |             |
| 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 or No)  | No          |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? (Yes or No) | Yes         |

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

**Section 2: Financial Statement Findings**

**Material non-compliance/material weaknesses**

**All Payment Warrants for Expenditures Should be Approved by the School Board**

**2007-1 Finding**

Section 37-9-14(3), Miss. Code Ann. (1972), requires an order of the school board approving payment of all pay certificates for expenditures of each school district. Ensuring that approval is obtained for all payment warrants is important in establishing a strong internal control system.

We found that controls were not in place to ensure that all pay certificates were being included in the claims docket as there were significant manual checks being prepared that never appeared in the claims docket for board approval. However, no improper payments came to the auditor's attention.

Inadequate controls over manual check procedures resulted in a material amount of expenditures not being approved by the school board.

**Recommendation**

We recommend that the district comply with Section 37-9-14(3), Miss. Code Ann. (1972), thereby ensuring all disbursements are included in the claims docket and approved by the school board.

**Material Weaknesses**

**Internal Controls Should Be Strengthened Over Year End Financial Reporting**

**2007-2 Finding**

Management is responsible for the preparation of financial statements prepared in accordance with generally accepted accounting principles. This would include the preparation of financial statements after conversion entries to convert the financial statements to the accrual basis of accounting (GASB 34 Conversion)

These financial statements were not prepared as of the beginning of audit field work. We assisted the client with conversion entries and prepared financial statements from the converted information.

**Recommendation**

We recommend that the district prepare year-end financial statements in accordance with generally accepted accounting principles and have them available prior to the commencement of audit field work.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

Internal Controls Should Be Strengthened Over Reporting Year End Liabilities

2007-3 Finding

Management is responsible for the preparation of financial statements prepared in accordance with generally accepted accounting principles. This would include fund financial statements that include all amounts that should be reported as liabilities at fiscal year end. On the modified accrual basis this would include any payments made within 60 days after fiscal year that is an expenditure that was incurred during the fiscal year. Also generally accepted accounting principles require that unexpected federal grant revenue be deferred until these funds are expended.

Per our testing of liabilities we noted the following deficiencies:

- A. The client did not record \$115,408 in accounts payable that should have been recorded at fiscal year end.
- B. The client did not defer unearned revenue from unexpended federal grants totaling \$36,245 at fiscal year end.

The cause of this condition appears to be a simple oversight.

The effect of this condition is improper revenue recognition along with an understatement of district expenditures.

Recommendation

We recommend the client review payments made within 60 days after fiscal year end to determine if they should be recorded as claims payable. Also, the client needs to review the fund financial statements and determine if there are any unexpected federal grants that would require revenue deferral.

FOREST MUNICIPAL SCHOOL DISTRICT

Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007

Significant deficiency not considered to be material weaknesses.

Internal Controls Surrounding Activity and Club Fund Expenditures Should Be Strengthened

2007-4 Finding

Management is responsible for establishing a proper internal control system to ensure financial accountability and accurate reporting of expenditures.

During our testing of activity and club fund disbursements we noted the following deficiencies:

- A. All purchase orders contained a handwritten number instead of being computer generated or pre-printed on the form.
- B. We noted that purchase orders/requisitions were not dated at all or dated after the date the goods or services were purchased in 45 instances.
- C. We noted 10 instances where there was no indication of receipt of goods/services prior to payment.
- D. We noted 2 instances where a transaction was paid with a copy of an invoice and not an original invoice.
- E. We noted two instances where a transaction was not supported by an invoice or other form of supporting documentation.
- F. We noted three instances where a payment was made with club funds. These caused the applicable club to incur late fees for payment.

The above deficiencies resulted from improper internal controls related to the expenditures of activity and club funds.

Improper internal controls concerning activity and club fund expenditures could result in unallowable expenditures.

Recommendation

We recommend that the district implement stronger internal controls to ensure that all expenditures are paid from a pre-numbered purchase order, that all payments are supported by invoices and that all invoices are signed to denote receipt of goods purchased or services rendered.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

Controls Over Depositing Activity Fund Receipts Should Be Strengthened

2007-5 Finding

Management is responsible for ensuring that all revenue earned is correctly recorded and deposited in order to safeguard the assets of the district.

Per our testing of activity fund receipts we noted that at one of the schools personnel are not depositing funds received in a timely manner. We noted that there is a 3 to 5 business day delay between the time funds are received and the day they are deposited into the bank. The longer the time delay between the date funds are received and then deposited increases the likelihood there could be some manipulation of supporting documents that could result in the misappropriation of related cash.

This weakness occurred due to inadequate internal controls surrounding the collection and deposit of receipts.

Inadequate internal controls surrounding revenue collection could result in the loss of assets and improper revenue recognition.

Recommendation

We recommend that the district implement policies and procedures to ensure that assets are adequately safeguarded and revenue is properly receipted, recognized, and recorded.

Internal Controls Over Expenditures Should Be Strengthened

2007-6 Finding

Management is responsible for establishing a proper internal control system to ensure financial accountability and accurate reporting of expenditures.

During our testing of general disbursements we noted the following deficiencies:

- A. All purchase orders contained a handwritten number instead of being computer generated or pre-printed on the form.
- B. We noted that purchase orders/requisitions were not dated at all or dated after the date the goods or services were purchased in 23 instances. Also there was one instance where a purchase order/requisition was prepared with no description of the goods or services ordered.
- C. We noted 4 instances where there was no indication of receipt of goods/services prior to payment.
- D. We noted 2 instances where no invoice or other supporting documentation could not be located to support a transaction. We also noted one instance where a transaction was paid with a copy of an invoice.
- E. We noted 1 instance where a purchase order/requisition was signed by the Business Office Manager instead of the Superintendent of Education. The Business Office Manager is not bonded as a purchasing agent.
- F. We noted one instance where a travel voucher was required to be prepared but was not and also noted one instance where a travel voucher was prepared but not completely filled out.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

The above deficiencies resulted from improper controls related to general expenditures of the school district.

Improper internal controls over general expenditures could result in unallowable expenditures.

Recommendation

We recommend that the district implement stronger internal controls to ensure that all expenditures are paid from pre-numbered purchase order, that all payments are supported by invoices and that all invoices are signed to denote receipt of goods purchased or services rendered.

**Section 3: Federal Award Findings and Questioned Costs**

Significant deficiency not considered to be material weaknesses

Internal Controls Surrounding Child Nutrition Expenditures Should Be Strengthened

2007-7 Finding

Program: Child Nutrition Cluster: Passed-through the Mississippi Department of Education – CFDA #'s 10.553 and 10.555

Compliance requirement: Allowable costs/cost principles

During our testing of payroll expenditures we noted 5 instances where time-keeping records for Child Nutrition personnel were not signed by the applicable employee of the Child Nutrition supervisor or both. Proper signatures of approval need to be obtained to ensure that the applicable costs are reviewed by someone in authority who is knowledgeable in what costs are necessary, supported by adequate documentation, and allowable for the applicable federal program.

Recommendation

We recommend that all time-keeping records be reviewed and signed by the Child Nutrition Supervisor to ensure that the expenditure is necessary, supported by adequate documentation, and allowable for the federal program.

**FOREST MUNICIPAL SCHOOL DISTRICT**

**Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2007**

Internal Controls Surrounding Child Nutrition Expenditures Should Be Strengthened

2007-8 Finding

Program: Child Nutrition Cluster: Passed-through the Mississippi Department of Education – CFDA #/s 10.553 and 10.555

Compliance requirement: Program income

Management is responsible for complying with the requirements of the Mississippi Department of Education Child Nutrition Programs Policy and Procedures Manual, which recommends that two separate individuals be involved in cashing, cash collection, and daily reconciliations.

During our tests of daily breakfast and lunch sales we noted that at one of the schools the signatures of the cashier and the cafeteria manager were not documented on the cash collection sheets on three of the five days we tested.

These weaknesses occurred due to inadequate internal controls over the documentation, reporting and recording of revenue.

Requiring more than one staff member to be responsible for reporting reduces the risk of fraud and errors occurring and not being detected within a timely period. Improper internal controls concerning the recording of child nutrition revenues could result in errors in reporting the child nutrition funds.

Recommendation

We recommend the district implement stronger internal controls to ensure that all revenues are recorded accurately in each area of income source.

**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

*Raymond C. Clark*  
*Superintendent*

## FINANCIAL COMPLIANCE AND AUDIT DIVISION

As required by OMB Circular A-133 the Forest Municipal School District has prepared and hereby submits the following corrective action plan for the findings included in the schedule of findings and questioned costs for the year ended June 30, 2007.

### CORRECTIVE ACTION PLAN DETAILS

Finding  
07-9

- A. Superintendent – Raymond Clark  
Business Adm. – David Wilson  
Phone 601 469-3250
- B. We will ensure that all time-keeping records for Child Nutrition personnel are reviewed and signed by the Child Nutrition Supervisor.

### CORRECTIVE ACTION PLAN DETAILS

Finding  
07-10

- A. Superintendent – Raymond Clark  
Business Adm. – David Wilson  
Phone 601 469-3250
- B. We will implement stronger internal controls over Child Nutrition to ensure that all revenues are recorded accurately in each area of income source.

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, 2007.

Finding	Status
06-6	Corrected
06-7	Not corrected

Sincerely,

Mr. Raymond Clark  
Superintendent