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FOREST MUNICIPAL SCHOOL DISTRICT

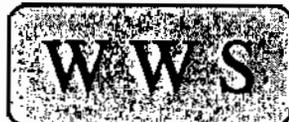
**Audited Financial Statements
For the Year Ended June 30, 2011**

FOREST MUNICIPAL SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT



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INDEPENDENT AUDITOR'S REPORT

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, 2011, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 previously 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, 2011, 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 January 30, 2012, on our consideration of the Forest Municipal School District's internal control over financial reporting and on 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 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.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Forest Municipal School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards and the Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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 other information section, which includes the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi

January 30, 2012

Watkins, Ward and Stafford, PLLC

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011. 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 \$667,474, including a prior period adjustment of \$161, which represents 10.76% increase from fiscal year 2010. Total net assets for 2010 decreased \$150,328, including a prior period adjustment of \$(48,115), which represents a 2.3% decrease from fiscal year 2009.

General revenues amounted to \$9,775,850 and \$10,358,198, or 70.6% and 79.9% of all revenues for fiscal years 2011 and 2010, respectively. Program specific revenues in the form of charges for services, grants and contributions accounted for \$4,073,183, or 29.4% of total revenues for 2011, and \$2,602,519, or 20.1% of total revenues for 2010.

The District had \$13,181,720 and \$13,062,930, in expenses for fiscal years 2011 and 2010; only \$4,073,183 for 2011 and \$2,602,519 for 2010 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$9,775,850 for 2011 were adequate to provide for these programs. In 2010, revenues of \$10,358,198 were not adequate to provide for these programs.

Among major funds, the General Fund had \$9,265,878 in revenues and \$9,366,780 in expenditures for 2011, and \$9,377,223 in revenues and \$9,991,051 in expenditures in 2010. The General Fund's fund balance increased by \$328,629 from 2010 to 2011, and increased by \$391,839 from 2009 to 2010.

Capital assets, net of accumulated depreciation, decreased by \$121,174 for 2011 and by \$171,455 for 2010. The decrease for 2011 was due to the disposal of mobile equipment and furniture and equipment as well as the increase in accumulated depreciation.

Long-term debt decreased by \$433,300, for 2011 and decreased by \$357,081 for 2010. This decrease was due to the district paying principal due on long term debt. In addition, the liability for compensated absences increased by \$3,451 in 2011 and increased by \$44,821 for 2010.

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, 2011

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the District's finances. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Net Assets presents information on all the District's non-fiduciary assets and liabilities, with the differences between the two reported as "net assets." Over time, increases or decreases in the District's net assets may serve as a useful indicator of whether its financial position 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 periods.

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

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 – Most of the District's general activities are reported in its governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, governmental funds are accounted for using the modified accrual basis of accounting and the flow of current financial resources measurement focus. The approach focuses on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at year end. The governmental fund statements provide a detailed view of the District's near-term financing requirements.

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, the reader may gain a better understanding of the long-term impact of the District's near-term financing decisions. The governmental funds Balance Sheet is reconciled to the Statement of Net Assets, and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances is reconciled to the Statement of Activities to facilitate this comparison between governmental funds and governmental activities.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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 funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All non-major funds are combined 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. These funds are reported using the accrual basis of accounting. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Reconciliation of Government-wide and Fund Financial Statements

The financial statements include two schedules that reconcile the amounts reported on the governmental funds financial statements (modified accrual basis of accounting) with government-wide financial statements (accrual basis of accounting). The following summarizes the major differences between the two statements:

Capital assets used in governmental activities are not reported on governmental funds financial statements.

Capital outlay spending results in capital assets on government-wide financial statements, but is reported as expenditures on the governmental funds financial statements.

Bond and note proceeds result in liabilities on government-wide financial statements, but are recorded as other financing sources on the governmental funds financial statements.

Certain other outflows represent either increases or decreases in liabilities on the government-wide financial statements, but are reported as expenditures on the governmental funds financial statements.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

Required Supplemental Information

In addition to the basic financial statements and accompanying notes, this report also presents budgetary comparison schedules as required supplemental information. The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund and each additional major special revenue fund as required by the Governmental Accounting Standards Board.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

Supplemental Information

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

Other Information

Although not a required part of the basic financial statements, the Statement of Revenues, Expenditures and Changes in Fund Balances—General Fund, Last Four Years and the Statement of Revenues, Expenditures and Changes in Fund Balances—All Governmental Funds, Last Four Years, is presented for purposes of additional analysis as required by the Mississippi Department of Education.

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 \$6,872,695 as of June 30, 2011.

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.

Table 1 presents a summary of the District's net assets at June 30, 2011 and June 30, 2010.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Current assets	\$ 4,261,670	\$ 3,550,096	20.04%
Restricted assets	260,563	578,826	(54.98%)
Capital assets, net	5,925,426	6,046,600	(2.00%)
Total assets	<u>10,447,659</u>	<u>10,175,522</u>	<u>2.67%</u>
Current liabilities	483,317	448,805	7.68%
Long-term debt outstanding	3,091,647	3,521,496	(12.21%)
Total liabilities	<u>3,574,964</u>	<u>3,970,301</u>	<u>(9.96%)</u>
Net assets:			
Invested in capital assets, net of related debt	2,952,599	2,640,473	11.82%
Restricted	1,623,108	1,676,134	(3.16%)
Unrestricted	2,296,988	1,888,614	21.62%
Total net assets	<u>\$ 6,872,695</u>	<u>\$ 6,205,221</u>	<u>10.76%</u>

**FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

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

Decrease in net capital assets in the amount of \$121,174.
Decrease in long-term debt of \$429,849.

Changes in net assets

The District's total revenues for the fiscal years ended June 30, 2011 and June 30, 2010 were \$13,849,033 and \$12,960,717, respectively. The total cost of all programs and services was \$13,181,720 for 2011 and \$13,062,930 for 2010.

Table 2 presents a summary of the changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

**Table 2
Changes in Net Assets**

	<u>Year Ended June 30, 2011</u>	<u>Year Ended June 30, 2010</u>	<u>Percentage Change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 522,798	\$ 297,155	75.93 %
Operating grants and contributions	3,466,639	2,305,364	50.37 %
Capital Grants and Contributions	83,746	-	N/A %
General revenues:			
Property taxes	3,781,338	3,684,096	2.64 %
Grants and contributions not restricted	5,784,459	6,364,659	(9.12) %
Investment earnings	61,781	83,921	(26.38) %
Sixteenth section sources	144,026	187,052	(23.00) %
Other	4,246	38,470	(88.96) %
Total revenues	<u>13,849,033</u>	<u>12,960,717</u>	6.85 %
Expenses:			
Instruction	6,886,197	7,057,074	(2.42) %
Support services	5,321,032	4,993,924	6.55 %
Non-instructional	834,165	848,087	(1.64) %
Sixteenth section	15,257	9,749	56.50 %
Interest and other expenses on long-term liabilities	125,069	154,096	(18.84) %
Total expenses	<u>13,181,720</u>	<u>13,062,930</u>	0.91 %
Increase (Decrease) in net assets	<u>667,313</u>	<u>(102,213)</u>	(752.87) %
Net Assets, July 1, as originally reported *	<u>6,205,221</u>	<u>6,355,549</u>	(2.37) %
Prior Period Adjustment	161	(48,115)	(100.33) %
Net Assets, July 1, as restated *	<u>6,205,382</u>	<u>6,307,434</u>	(1.62) %
Net Assets, June 30	<u>\$ 6,872,695</u>	<u>\$ 6,205,221</u>	10.76 %

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

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

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ 6,886,197	\$ 7,057,074	(2.42) %
Support services	5,321,032	4,993,924	6.55 %
Non-instructional	834,165	848,087	(1.64) %
Sixteenth section	15,257	9,749	56.50 %
Interest on long-term liabilities	125,069	154,096	(18.84) %
Total expenses	\$ 13,181,720	\$ 13,062,930	0.91 %

	<u>Net (Expense) Revenue</u>		<u>Percentage Change</u>
	<u>2011</u>	<u>2010</u>	
Instruction	\$ (4,840,474)	\$ (6,062,464)	(20.16) %
Support services	(4,233,096)	(4,324,442)	(2.11) %
Non-instructional	95,188	15,409	517.74 %
Sixteenth section	(5,086)	7,729	(165.80) %
Interest on long-term liabilities	(125,069)	(96,643)	29.41 %
Total net (expense) revenue	\$ (9,108,537)	\$ (10,460,411)	(12.92) %

Net cost of governmental activities (\$9,108,537 for 2011 and \$10,460,411 for 2010) was financed by general revenue, which is primarily made up of property taxes (\$3,781,338 for 2011 and \$3,684,096 for 2010) and state and federal revenues (\$5,784,459 for 2011 and \$6,364,659 for 2010). In addition, there was \$144,026 and \$187,052 in Sixteenth Section sources for 2011 and 2010, respectively.

Investment earnings amounted to \$61,781 for 2011 and \$83,921 for 2010.

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.

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30,,2011

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$4,052,543, an increase of \$274,422, which includes an increase in inventory of \$1,153. \$2,233,614 or 55.12% of the fund balance is unassigned, which represents the residual classification for the general fund's fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The remaining fund balance of \$1,818,929 or 44.88% is either nonspendable, restricted, committed or assigned to indicate that it is not available for spending except only for the purposes to which it is restricted, committed or assigned.

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 \$328,629. The fund balance of Other Governmental Funds showed a decrease in the amount of \$50,066, which includes an increase in reserve for inventory of \$1,153. The increase (decrease) in the fund balances for the other major funds were as follows:

<u>Major Fund</u>	<u>Increase (Decrease)</u>
Title I Fund	no increase or decrease
Vo-Tech Maintenance Fund	(4,141)

BUDGETARY HIGHLIGHTS

During the course of the year, the District revised the annual operating budget. Budget revisions were made to address and correct the original budgets to reflect more accurately the sources and uses of funding for the School District.

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

FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2011, the District's total capital assets were \$10,862,338, including land, school buildings, building improvements, buses, other school vehicles and furniture and equipment. This amount represents an decrease of \$40,834 from 2010. Total accumulated depreciation as of June 30, 2011, was \$4,936,912, and total depreciation expense for the year was \$270,239, resulting in total net capital assets of \$5,925,426.

**Table 4
Capital Assets, Net of Accumulated Depreciation**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
Land	\$ 15,485	\$ 15,485	0.00 %
Buildings	3,754,190	3,841,539	(2.27) %
Building improvements	1,325,354	1,388,985	(4.58) %
Improvements other than buildings	118,905	91,586	29.83 %
Mobile equipment	626,182	653,028	(4.11) %
Furniture and equipment	85,310	55,977	52.40 %
Total	<u>\$ 5,925,426</u>	<u>\$ 6,046,600</u>	(2.00) %

Additional information on the District's capital assets can be found in Note 5 included in this report.

Debt Administration. At June 30, 2011, the District had \$3,091,647 in outstanding long-term debt, of which \$444,787 is due within one year. The liability for compensated absences increased \$3,451 from the prior year.

The District maintains an A bond rating.

**Table 5
Outstanding Long-Term Debt**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Percentage Change</u>
General obligation bonds payable	\$ 63,613	\$ 124,250	(48.80) %
Limited obligation bonds payable	755,000	980,000	(22.96) %
Three mill notes payable	1,580,000	1,650,000	(4.24) %
Obligations under energy efficiency leases	574,214	647,238	(11.28) %
Other loans payable		4,639	(100.00) %
Compensated absences payable	118,820	115,369	2.99 %
Total	<u>\$ 3,091,647</u>	<u>\$ 3,521,496</u>	(12.21) %

**FOREST MUNICIPAL SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

Additional information on the District's long-term debt can be found in Note 6 included in this report.

CURRENT ISSUES

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

The District has committed itself to financial excellence for many years. The millage has not increased in five (5) years. In addition, the District's 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 ten (10) 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.

FINANCIAL STATEMENTS

Forest Municipal School District
Statement of Net Assets
June 30, 2011

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,586,482
Cash with fiscal agents	162,579
Due from other governments	477,440
Lease receivables	10,850
Other receivables, net	11,471
Inventories	12,848
Restricted assets	260,563
Capital assets, non-depreciable:	
Land	15,485
Capital assets, net of accumulated depreciation:	
Buildings	3,754,190
Building improvements	1,325,354
Improvements other than buildings	118,905
Mobile equipment	626,182
Furniture and equipment	85,310
Total Assets	10,447,659
Liabilities	
Accounts payable and accrued liabilities	421,475
Unearned revenue	48,215
Interest payable on long-term liabilities	13,627
Long-term liabilities, due within one year:	
Capital related liabilities	444,787
Long-term liabilities, due beyond one year:	
Capital related liabilities	2,526,040
Non-capital related liabilities	118,820
Total Liabilities	3,574,964
Net Assets	
Invested in capital assets, net of related debt	2,952,599
Restricted for:	
Expendable:	
School-based activities	527,178
Debt service	381,632
Capital improvements	371,155
Forestry improvements	47,165
Unemployment benefits	35,415
Non-expendable:	
Sixteenth section	260,563
Unrestricted	2,296,988
Total Net Assets	\$ 6,872,695

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, 2011

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					Governmental Activities
Instruction	\$ 6,886,197	\$ 342,724	\$ 1,619,253	\$ 83,746	\$ (4,840,474)
Support services	5,321,032	17,052	1,070,884		(4,233,096)
Non-instructional	834,165	152,851	778,502		95,188
Sixteenth section	15,257	10,171			(5,086)
Interest on long-term liabilities	125,069				(125,069)
Total Governmental Activities	\$ 13,181,720	\$ 522,798	\$ 3,468,639	\$ 83,746	\$ (9,108,537)

General Revenues:

Taxes:

General purpose levies 3,651,884

Debt purpose levies 129,454

Unrestricted grants and contributions:

State 5,713,497

Federal 70,962

Unrestricted investment earnings 61,781

Sixteenth section sources 144,028

Other 4,248

Total General Revenues 9,775,850

Change in Net Assets 667,313

Net Assets - Beginning, as originally reported 8,205,221

Prior Period Adjustments 161

Net Assets - Beginning, as restated 8,205,382

Net Assets - Ending \$ 8,872,695

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

Forest Municipal School District
 Governmental Funds
 Balance Sheet
 June 30, 2011

Exhibit C

	Major Funds				
	General Fund	Title 1 Fund	Vo Tech Maintenance Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 2,321,193	\$ 8,205	\$ 189,320	1,348,327	\$ 3,847,045
Cash with fiscal agents				162,579	162,579
Due from other governments	120,007	90,806	2,822	263,805	477,440
Lease receivables				10,850	10,850
Due from other funds	180,239				180,239
Advance to other funds	5,000				5,000
Inventories				12,848	12,848
Total assets	\$ 2,628,439	\$ 99,011	\$ 172,142	1,798,409	\$ 4,698,001
Liabilities and Fund Balances					
Liabilities:					
Accounts payable and accrued liabilities	\$ 210,589	\$ 8,205	\$ 152,039	50,842	\$ 421,475
Due to other funds	42	90,806		82,920	173,768
Unearned revenue				48,215	48,215
Total Liabilities	210,631	99,011	152,039	181,777	643,458
Fund Balances:					
Nonspendable:					
Inventory				12,848	12,848
Permanent fund principal				260,563	260,563
Advances	5,000				5,000
Restricted:					
Debt service				395,259	395,259
Capital projects				371,155	371,155
Forestry improvement purposes				47,185	47,185
Unemployment benefits				35,415	35,415
Other purposes			20,103	139,784	159,687
Committed:					
Other purposes				125,000	125,000
Assigned:					
Capital improvements	95,445				95,445
Other purposes	61,749			229,443	311,192
Unassigned	2,233,814				2,233,814
Total Fund Balances	2,415,808	0	20,103	1,616,632	4,052,543
Total Liabilities and Fund Balances	\$ 2,628,439	\$ 99,011	\$ 172,142	1,798,409	\$ 4,698,001

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

**Forest Municipal School District
 Governmental Funds
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2011**

Exhibit C-1

Total fund balances for governmental funds **\$ 4,052,543**

Amounts reported for governmental activities in the statement of net assets are different because:

1. Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Land	\$	15,485	
Buildings		7,276,331	
Building improvements		1,590,785	
Improvements other than buildings		156,182	
Mobile equipment		1,520,648	
Furniture and equipment		302,907	
Accumulated depreciation		<u>(4,936,912)</u>	5,925,426

2. Long-term liabilities and related accrued interest are not due and payable in the current period and therefore are not reported in the funds:

General obligation bonds		(63,613)	
Limited obligation bonds		(755,000)	
Notes payable		(1,580,000)	
Obligations under Energy Efficiency Lease		(574,214)	
Compensated Absences		(116,820)	
Accrued interest payable		<u>(13,627)</u>	(3,105,274)

Net assets of governmental activities **\$ 6,872,695**

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

Forest Municipal School District
 Governmental Funds
 Statement of Revenues, Expenditures and Changes in Fund Balances
 For the Year Ended June 30, 2011

Exhibit D

	Major Funds				Total Governmental Funds
	General Fund	Title 1 Fund	Vo Tech Maintenance Fund	Other Governmental Funds	
Revenues:					
Local sources	\$ 3,685,589		147,899	\$ 276,623	\$ 4,110,111
State sources	5,509,327			360,970	5,890,297
Federal sources	70,962	422,671		2,950,914	3,444,547
Sixteenth section sources				158,552	158,552
Total Revenues	9,265,878	422,671	147,899	3,767,059	13,603,507
Expenditures:					
Instruction	5,088,783	315,719	152,040	1,273,607	6,830,329
Support services	4,187,534	87,634		954,838	5,240,006
Noninstructional services	6,547	4,597		839,282	850,726
Sixteenth section				15,257	15,257
Debt service:					
Principal	77,663			355,637	433,300
Interest	25,973			183,473	209,446
Total Expenditures	9,366,780	407,950	152,040	3,652,294	13,579,064
Excess (Deficiency) of Revenues over (under) Expenditures	(100,902)	14,721	(4,141)	114,765	24,443
Other Financing Sources (Uses):					
Insurance recovery	221,663			23,663	245,326
Sale of transportation equipment	3,300				3,300
Operating transfers in	233,052			26,484	261,536
Operating transfers out	(28,484)	(14,721)		(218,331)	(261,536)
Total Other Financing Sources (Uses)	429,531	(14,721)	0	(165,964)	248,828
Net Change in Fund Balances	328,629	0	(4,141)	(51,219)	273,269
Fund Balances:					
July 1, 2010	2,087,179		24,244	1,666,698	3,778,121
Increase (Decrease) in reserve for inventory				1,153	1,153
June 30, 2011	\$ 2,415,808	\$ 0	20,103	\$ 1,818,632	\$ 4,052,543

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

**Forest Municipal School District
 Governmental Funds
 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, 2011**

Exhibit D-1

Net change in fund balances - total governmental funds **\$ 273,269**

Amounts reported for governmental activities in the statement of activities are different because:

1. Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 164,882	
Depreciation expense	<u>(270,239)</u>	(105,357)

2. In the statement of activities, only the gain/loss on the sale of assets is reported, while in the governmental funds, the proceeds from the sale increases financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the assets sold.

(15,978)

3. The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and the difference between the carrying value of refunded debt and the acquisition cost of refunded debt when debt is first issued. These amounts are deferred and amortized in the statement of activities:

Payments of debt principal	433,300	
Accrued interest payable	84,377	
	<u>517,677</u>	517,677

4. Some items reported in the statement of activities do not provide or require the use of current financial resources and therefore are not reported as revenues/expenditures in governmental funds. These activities include:

Change in compensated absences	(3,451)	
Change in inventory reserve	1,153	
	<u>(2,298)</u>	(2,298)

Change in net assets of governmental activities **\$ 667,313**

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

**Forest Municipal School District
Statement of Fiduciary Assets and Liabilities
June 30, 2011**

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 412,979
Due from other funds	42
Total Assets	<u>\$ 413,021</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 385,504
Advances from other funds	5,000
Due to other funds	6,513
Due to student clubs	16,004
Total Liabilities	<u>\$ 413,021</u>

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

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended Juns 30, 2011

Note 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. Basis of Presentation

In February 2009, the GASB issued GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned, or unassigned.

B. Financial Reporting Entity

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.

For financial reporting purposes, Forest Municipal School District has included all funds and organizations. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District.

C. Government-wide and Fund Financial Statements

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

1. Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding balances of bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

3. Unrestricted net assets consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property taxes and other items not included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported in separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other governmental funds.

The school district reports the following major governmental funds:

General Fund - This is the school district's primary operating fund. The general fund is used to account for and report all financial resources not accounted for and reported in another fund.

Title 1 Fund- This is a special revenue fund that accounts for federal revenue received through the Title 1 grants to local educational agencies and related expenditures incurred for Title 1 grants.

Vo-Tech Maintenance Fund- This is a special revenue fund that accounts for expenditures and related revenues supporting the vocational education of students of the District who attended a joint vocational complex.

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

The school district also reports fiduciary funds which focus on net assets and changes in net assets.

The District's fiduciary funds include the following:

Payroll Clearing Fund- This fund is used as a clearing fund for the payroll function.

Accounts Payable Clearing Fund- This fund is used as a clearing fund for the non-payroll expenditure function and clearing of district claims.

Student Club Accounts- These funds are used to account for the assets held for the benefit of student clubs.

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

FOREST MUNICIPAL SCHOOL DISTRICT
Note to the Financial Statements
For Year Ended June 30, 2011

Capital Projects Funds - Capital Projects Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Debt Service Funds - Debt Service Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest.

Permanent Funds - Permanent Funds are used to account for and report resources that are 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. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Fund financial statements. Revenues are recorded when earned, and expenses are recorded when a liability is incurred or economic asset used, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and judgments, are recorded only when payment is due.

Federal grants and assistance awards made on the basis of entitlement periods are recorded as receivables and revenues when entitlement occurs. Federal reimbursement type grants are recorded as revenues when the related expenditures are recognized. Use of grant resources is conditioned upon compliance with terms of the grant agreements and applicable federal regulations, which include subjecting grants to financial and compliance audits.

Property taxes, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual.

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.

Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs and then general revenues.

The effect of inter-fund activity has been eliminated from the government-wide statements.

Revenues from the Mississippi 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.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting*, 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. Assets, liabilities, and net assets/fund balances

1. Cash, Cash equivalents and Investments

Cash and cash equivalents

The district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. 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.

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 an original maturity greater than three months when acquired.

Investments for the district are reported at fair market value.

2. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e. the non-current portion of inter-fund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

3. Due from Other Governments

Due from other governments represents amounts due from the State of Mississippi and various grants and reimbursements from other governments.

4. Inventories and Prepaid Items

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis). The costs of governmental fund type inventories are reported as expenditures when purchased.

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

5. Restricted Assets

Certain resources set aside for repayment of debt are classified as restricted assets on the Statement of Net Assets because their use is limited by applicable debt statutes, e.g. Qualified Zone Academy Bond sinking funds. Also, the nonexpendable portion of the Permanent Fund, if applicable, is classified as restricted assets because the 16th Section Principal fund is not available for use by the district except as provided for under state statute for loans from this fund.

6. Capital Assets

Capital assets include land, improvements to land, easements, water rights, timber rights, buildings, building improvements, vehicles, machinery, equipment, works of art and historical treasures, infrastructure, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Capital assets are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost or estimated historical cost based on appraisals or deflated current replacement cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the thresholds in the table below.

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.

Depreciation is calculated on the straight-line basis for all assets, except land.

The following schedule details the capitalization thresholds:

	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	*	*

FOREST MUNICIPAL SCHOOL DISTRICT
Note to the Financial Statements
For Year Ended June 30, 2011

(*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

7. **Compensated Absences**

Employees of the school district accumulate sick leave at a minimum amount as required by state law. A greater amount may be provided by school district policy provided that it does not exceed the provisions for leave as provided in Sections 25-3-93 and 25-3-95. 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 a long-term liability 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 liability for compensated absences from expendable available financial resources only if the payable has matured, for example, an employee retires.

8. **Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums**

In the government-wide financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

9. **Fund Balances**

Fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

Governmental fund balance is classified as nonspendable, restricted, committed, assigned or unassigned. Following are descriptions of fund classifications used by the district:

Nonspendable fund balance includes items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts, long-term portion of loans/notes receivable, or property held for resale unless the proceeds are restricted, committed, or assigned) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.

Restricted fund balance includes amounts that have constraints placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

Committed fund balance includes amounts that can be used only for the specific purposes pursuant to constraints imposed by a formal action of the School Board, the District's highest level of decision-making authority. This formal action is the resolution approved by the school board. The school board has committed \$125,000 of the fund balance in the Child Nutrition Fund for future equipment purchases.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Assigned fund balance includes amounts that are constrained by the District's intent to be used for a specific purpose, but are neither restricted nor committed. For governmental funds, other than the general fund, this is the residual amount within the fund that is not restricted or committed. Assignments of fund balance are created by the Superintendent and Business Manager pursuant to authorization established by the District's approved fund balance policy.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it may be necessary to report a negative unassigned fund balance.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) resources are available, it is the District's general policy to use restricted resources first. When expenditures are incurred for purposes for which unrestricted (committed, assigned, and unassigned) resources are available, and amounts in any of these unrestricted classifications could be used, it is the District's general policy to spend committed resources first, followed by assigned amounts, and then unassigned amounts.

Note 2 – Cash and Cash Equivalents, Cash with Fiscal Agents

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 Deposit Insurance Corporation.

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 \$ 3,847,045 and \$ 412,979, respectively.

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 FDIC coverage are collateralized by the pledging financial institution's trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2011, none of the district's bank balance of \$ 4,490,703 was exposed to custodial credit risk.

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$162,579.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Note 3 – Inter-fund Receivables, Payables and Transfers

The following is a summary of inter-fund transactions and balances:

A. Due From/To Other Funds

Receivable Fund	Payable Fund	Amount
General Fund	Title 1 fund	\$ 90,806
	Other governmental funds	82,920
	Fiduciary funds	6,513
Fiduciary funds	General fund	42
Total		<u>\$ 180,281</u>

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. Advances To/From Other Funds

Receivable Fund	Payable Fund	Amount
General fund	Fiduciary funds	5,000
Total		<u>\$ 5,000</u>

Advance to fiduciary fund was to fund payroll cafeteria flexible spending plan.

C. Inter-fund Transfers

Transfers Out	Transfers In	Amount
General Fund	Other governmental funds	\$ 28,484
Title 1 Fund	General Fund	14,721
Other governmental funds	General Fund	218,331
Total		<u>\$ 261,536</u>

Transfers in and out were for indirect costs and construction activities.

Notes 4 – Restricted Assets

The restricted assets represent the cash balance totaling \$260,563 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.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Note 5 – Capital Assets

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

	Balance 7/1/2010	Increases	Decreases	Prior Period Adjustment	Balance 6/30/2011
Governmental Activities:					
Non-depreciable capital assets:					
Land	\$ 15,485				\$ 15,485
Total non-depreciable capital assets	15,485	-	-		15,485
Depreciable capital assets:					
Buildings	7,276,331				7,276,331
Building improvements	1,590,785				1,590,785
Improvements other than buildings	122,616	33,566			156,182
Mobile equipment	1,569,795	83,746	(152,693)		1,520,848
Furniture and equipment	308,160	47,570	(68,892)	16,069	302,907
Total depreciable capital assets	10,667,667	164,882	(221,785)	16,069	10,846,853
Less accumulated depreciation for:					
Buildings	3,434,792	67,349			3,522,141
Building improvements	201,800	63,831			265,631
Improvements other than buildings	31,030	6,247			37,277
Mobile equipment	936,787	95,303	(137,604)		694,486
Furniture and equipment	252,163	17,709	(66,203)	15,908	217,597
Total accumulated depreciation	4,856,572	270,239	(205,807)	15,908	4,936,912
Total depreciable capital assets, net	6,031,115	(105,357)	(15,978)	161	5,909,941
Governmental activities capital assets, net	\$ 6,046,800	\$ (105,357)	\$ (15,978)	161	5,925,426

Depreciation expense was charged to the following governmental functions:

	Amount
Governmental activities:	
Instruction	\$ 131,599
Support services	118,243
Non-instructional	20,397
Total depreciation expense - Governmental activities	\$ 270,239

FOREST MUNICIPAL SCHOOL DISTRICT
Note to the Financial Statements
For Year Ended June 30, 2011

Note 6 – Long-term Liabilities

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

	Balance 7/1/2010	Additions	Reductions	Balance 6/30/2011	Amounts due within one year
A. General obligation refunding bonds payable	124,250 \$		\$ 60,637	\$ 63,613	\$ 63,613
B. Limited obligation bonds payable	980,000		225,000	755,000	240,000
C. Three mill notes payable	1,650,000		70,000	1,580,000	65,000
D. Obligations under energy efficiency leases	647,238		73,024	574,214	76,174
E. Other loans payable	4,639		4,639	-	
F. Compensated absences payable	115,369	5,343	1,892	118,820	
Total	\$ 3,521,496	\$ 5,343	\$ 435,192	\$ 3,091,647	\$ 444,787

A. General obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
G.O. Refunding					
1. Bond, Series 2001	4.85%	6/1/2001	6/1/2012	\$ 557,000	\$ 63,613
Total				\$ 557,000	\$ 63,613

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

1. General obligation bond issue of 6/1/2001:

Year Ending June 30	Principal	Interest	Total
2012	\$ 63,613	\$ 2,323	\$ 65,936
Total	\$ 63,613	\$ 2,323	\$ 65,936

This debt will be retired from the EEF Building and Buses Fund.

The amount of bonded indebtedness that can be incurred by the school district is limited by Sections 37-59-5 and 37-59-7, Miss. Code Ann. (1972). 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 Section 37-59-7, Miss. Code Ann. (1972) have been met. As of June 30, 2011, the amount of outstanding bonded indebtedness was equal to 0.05% of property assessments as of October 1, 2010.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

B. Limited obligation bonds payable

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. MAEP Bond Funds, Series 1998	various	8/1/1998	8/1/2013	\$ 2,715,503	\$ 755,000
Total				<u>\$ 2,715,503</u>	<u>\$ 755,000</u>

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

Limited obligation bond issue of 8/1/1998:

Year Ending June 30	Principal	Interest	Total
2012	\$ 240,000	\$ 26,988	\$ 266,988
2013	250,000	16,575	266,575
2014	265,000	5,631	270,631
Total	<u>\$ 755,000</u>	<u>\$ 49,194</u>	<u>\$ 804,194</u>

This debt will be retired from the MAEP Debt Service Fund.

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.

C. Three mill notes payable

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. Trustmark National Bank- 3 mill np	4.31%	6/1/2009	6/1/2024	\$ 1,650,000	\$ 1,580,000
Total				<u>\$ 1,650,000</u>	<u>\$ 1,580,000</u>

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

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

1. Three mill notes payable issue of 6/1/2009:

Year Ending June 30	Principal	Interest	Total
2012	\$ 65,000	\$ 68,098	\$ 133,098
2013	100,000	65,296	165,296
2014	105,000	60,987	165,987
2015	105,000	56,461	161,461
2016	110,000	49,565	159,565
2017 – 2021	645,000	169,060	814,060
2022 – 2026	450,000	29,523	479,523
			-
Total	\$ 1,580,000	\$ 498,990	\$ 2,078,990

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

D. Obligations under energy efficiency leases

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1. MS Power Lease, Series 2007	4.23%	12/15/2007	12/15/2017	\$ 806,101	\$ 574,214
Total				<u>\$ 806,101</u>	<u>\$ 574,214</u>

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

1. Obligations under energy efficiency leases issue of 12/15/2007:

Year Ending June 30	Principal	Interest	Total
2012	\$ 76,174	\$ 22,824	\$ 98,998
2013	79,459	19,538	98,997
2014	82,887	16,111	98,998
2015	86,461	12,536	98,997
2016	90,190	8,807	98,997
2017 – 2021	159,043	5,953	164,996
			-
Total	\$ 574,214	\$ 85,769	\$ 659,983

This debt will be retired from the District Maintenance Fund.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

An energy efficiency lease agreement dated December 15, 2007, was executed by and between the district, the lessee, and Mississippi Power Company, the lessor.

The agreement authorized the borrowing of \$806,101 for the purchase of energy efficiency equipment, machinery, supplies, building modifications and other energy saving items. Payments of the lease shall be made from the district maintenance fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

F. Compensated absences payable

As more fully explained in Note 1(F)(7), 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.

Note 7 – 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 liabilities for the defeased bonds are not included in the district's financial statements. On June 30, 2011, \$65,739 of bonds outstanding are defeased.

Note 8 – Other Commitments

Commitments under re-roofing and renovation contracts amount to \$ 82,618.

Note 9 – 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 9.00% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The employer's rate for fiscal year ended June 30, 2011 was 12.00% 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, 2011, 2010 and 2009 were \$774,536, \$812,681 and \$811,990, respectively, which equaled the required contributions for each year.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Note 10 – 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
2012	\$ 94,023
2013	94,023
2014	89,971
2015	89,971
2016	89,971
2017 – 2021	449,857
2022 – 2026	449,857
2027 – 2031	442,013
2032 – 2036	337,020
2037 – 2041	214,705
2042 – 2046	123,509
2047 – 2050	8,508
Total	<u>\$ 2,483,428</u>

Note 11 – Prior Period Adjustments

A summary of significant fund balance adjustments is as follows:

Exhibit B - Statement of Activities

Explanation	Amount
1. To record net capital assets purchased in previous years	\$ 161
Total	<u>\$ 161</u>

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Note 12 – Contingencies

Federal Grants – The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

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

Note 13 – 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 72 school districts and covers risks of loss arising from injuries to the members' 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 Wells Fargo in Portland, Oregon. The funds in the trust account are used to pay any claim up to \$750,000. For a claim exceeding \$750,000, 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. The district has not had an additional assessment for excess losses incurred by the pool.

Note 14 – 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 Scott County School District which shares townships with Forest Municipal School District did not 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. Forest Municipal School District did file the list of children with the Superintendent of Education of the Scott County School District.

FOREST MUNICIPAL SCHOOL DISTRICT
Notes to the Financial Statements
For Year Ended June 30, 2011

Of the townships with which Forest Municipal School District is shared by Scott County 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.) to which Forest Municipal School District received on these sections may be due to Scott County School District. In addition, for 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 that the other school district received. Because Scott County School District did not compile and file a list of educable children as state law requires in either the current year or in several preceding years, neither the amounts of any liabilities owed to the other school district nor the amounts of any receivables due from the other school district can be determined.

Note 15 – Alternative School Consortium

The school district entered into an Alternative School Agreement dated August 19, 1994 creating the East Central Alternative School Consortium. This consortium was created pursuant to the provisions of Section 37-13-92 (6), Miss. Code Ann. (1972), and approved by the Mississippi Department of Education and includes the Newton County School District, Forest Municipal School District, Newton Municipal School District, Philadelphia Public School District, Scott County School District, Neshoba County School District, Union Public School District, and Enterprise Public School District.

Section 37-13-92 (6), Miss. Code Ann. (1972), allows two or more adjacent school districts to enter into a contract to operate an alternative school program. The school board of the school district designated by the agreement as the lead district will serve as the governing board of the alternative school program. Transportation for students attending the alternative school program will be the responsibility of the individual school district sending the students.

The Newton County School District has been designated as the lead school district for the East Central Alternative School Consortium, and the operations of the consortium are included in its financial statements.

Note 16 – 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 consortium was created pursuant to the provisions of Section 37-31-73, Miss. Code Ann. (1972), and approved by the Mississippi Department of Education. The consortium includes the Forest Municipal School District and the Scott County School District.

Section 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
Notes to the Financial Statements
For Year Ended June 30, 2011

Note 17 - Insurance loss recoveries

The Forest Municipal School District received \$245,526 in insurance loss recoveries related to fire damage during the 2010-2011 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as charges for services and allocated among the expense functions based on the following percentages:

Insurance Loss			
Recoveries	Percentage	Expense Function	
\$ 204,611	83%	Instruction	
17,052	7%	Support services	
23,863	10%	Non-instructional	
<u>\$ 245,526</u>	<u>100%</u>		

Note 18 - Subsequent Events

Events that occur after the Statement of Net Assets date but before the financial statements are available to be issued must be evaluated for recognition or disclosure. The effects of subsequent events that provide evidence about conditions that existed at the Statement of Net Assets date are recognized in the accompanying financial statements. Subsequent events which provide evidence about conditions that existed after the Statement of Net Assets date require disclosure in the accompanying notes. Management of the Forest Municipal School District evaluated the activity of the district through January 30, 2012, (the date the financial statements were available to be issued), and determined that the following subsequent events have occurred requiring disclosure in the notes to the financial statements:

On August 8, 2011 the board of education approved the low bid from Norman Enterprises in the amount of \$30,800 for roofing Forest Elementary School.

On December 12, 2011 the board of education approved the best bid from Norman Enterprises in the amount of \$42,500 for roofing Hawkins Middle School.

On December 12, 2011 the board of education approved the lowest quote from Hollingsworth Enterprises in the amount of \$32,300 for repairs of track and field, the curve of the baseball field at Forest High School and paving at the circle driveway at Hawkins Middle School.

REQUIRED SUPPLEMENTAL INFORMATION

Forest Municipal School District
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 3,500,552	\$ 3,685,589	\$ 3,685,589	\$ 185,037	\$ 0
State sources	5,429,384	5,509,328	5,509,327	79,944	(1)
Federal sources	60,000	70,962	70,962	10,962	0
Total Revenues	8,989,936	9,265,879	9,265,878	275,943	(1)
Expenditures:					
Instruction	5,400,531	5,088,763	5,088,763	311,768	0
Support services	4,062,531	4,167,534	4,167,534	(105,003)	0
Noninstructional services	15,250	6,847	6,847	8,403	0
Debt service:					
Principal	77,664	77,663	77,663	1	0
Interest	25,975	25,973	25,973	2	0
Total Expenditures	9,581,951	9,368,780	9,368,780	215,171	0
Excess (Deficiency) of Revenues over (under) Expenditures	(592,015)	(100,901)	(100,902)	491,114	(1)
Other Financing Sources (Uses):					
Insurance recovery		221,663	221,663	221,663	0
Sale of transportation equipment		3,300	3,300	3,300	0
Operating transfers in	314,834	420,654	233,052	105,820	(187,602)
Operating transfers out	(197,618)	(216,087)	(28,484)	(18,289)	187,603
Total Other Financing Sources (Uses)	117,016	429,530	429,531	312,514	1
Net Change in Fund Balances	(474,999)	328,629	328,629	803,628	0
Fund Balances:					
July 1, 2010	1,736,000	2,087,179	2,087,179	351,179	0
June 30, 2011	\$ 1,281,001	\$ 2,415,808	\$ 2,415,808	\$ 1,154,807	\$ 0

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

Forest Municipal School District
Required Supplemental Information
Budgetary Comparison Schedule
Title 1 Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	551,618	422,671	422,671	(128,947)	0
Total Revenues	551,618	422,671	422,671	(128,947)	0
Expenditures:					
Instruction	354,445	315,719	315,719	38,726	0
Support services	179,773	87,634	87,634	92,139	0
Noninstructional services	1,500	4,597	4,597	(3,097)	0
Total Expenditures	535,718	407,950	407,950	127,768	0
Excess (Deficiency) of Revenues over (under) Expenditures	15,900	14,721	14,721	(1,179)	0
Other Financing Sources (Uses):					
Operating transfers out	(15,900)	(14,721)	(14,721)	1,179	0
Other financing uses				0	0
Total Other Financing Sources (Uses)	(15,900)	(14,721)	(14,721)	1,179	0
Net Change In Fund Balances	0	0	0	0	0
Fund Balances:					
July 1, 2010				0	0
June 30, 2011	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

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

Forest Municipal School District
Required Supplemental Information
Budgetary Comparison Schedule
Vo Tech Maintenance Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 148,218	147,899	147,899	\$ 1,681	\$ 0
Total Revenues	148,218	147,899	147,899	1,681	0
Expenditures:					
Instruction	148,218	152,039	152,040	(5,821)	(1)
Total Expenditures	148,218	152,039	152,040	(5,821)	(1)
Excess (Deficiency) of Revenues over (under) Expenditures	0	(4,140)	(4,141)	(4,140)	(1)
Other Financing Sources (Uses):					
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	0	(4,140)	(4,141)	(4,140)	(1)
Fund Balances:					
July 1, 2010		24,244	24,244	24,244	0
June 30, 2011	\$ 0	\$ 20,104	\$ 20,103	\$ 20,104	\$ (1)

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

Forest Municipal School District

**Notes to the Required Supplemental Information
For the Year June 30, 2011**

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.

SUPPLEMENTAL INFORMATION

**Forest Municipal School District
Supplemental Information
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2011**

Federal Grantor/ Pass-through Grantor/ Program Title	Federal Domestic Assistance No.	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-through Mississippi Department of Education:		
Child nutrition cluster:		
School breakfast program	10.553	\$ 185,545
National school lunch program	10.555	574,879
Total child nutrition cluster		<u>760,424</u>
Total passed-through Mississippi Department of Education		<u>760,424</u>
Passed-through Scott County Board of Supervisors:		
School and roads - grants to states:	10.665	1,089
Total passed-through Scott County Board of Supervisors		<u>1,089</u>
Total U.S. Department of Agriculture		<u>761,513</u>
<u>U.S. Department of Interior</u>		
Direct Program:		
Payments in Lieu of Taxes	15.226	14,781
Total U.S. Department of Interior		<u>14,781</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	55,093
Total Federal Communications Commission		<u>55,093</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Safe and drug-free schools and communities- state grants		
Rural education	84.186	5,267
English language acquisition grants	84.358	44,630
Improving Teacher Quality- State Grants	84.365	37,731
School Improvements Grant	84.367	131,900
Office of Elementary and Secondary Education	84.377	30,005
Subtotal	84.410	<u>287,726</u>
Title I cluster:		
Title I grants to local educational agencies	84.010	808,176
ARRA - Title I grants to local educational agencies, Recovery Act	84.389	281,358
Total Title I cluster		<u>1,089,534</u>
Special education cluster:		
Special education - grants to states	84.027	251,744
Special education - preschool grants	84.173	25,918
ARRA - Special education grants to states, Recovery Act	84.391	208,603
ARRA - Special education - preschool grants, Recovery Act	84.392	5,209
Total special education cluster		<u>491,472</u>
Education technology state grants cluster		
Education technology state grants	84.318	4,895
ARRA - Education technology state grants, Recovery Act	84.386	10,596
Total education technology state grants cluster		<u>15,291</u>
State Fiscal Stabilization Fund cluster:		
ARRA-State Fiscal Stabilization Fund-Education state grants, Recovery Act	84.394	385,310
Total State Fiscal Stabilization Fund cluster		<u>385,310</u>
Total passed-through Mississippi Department of Education		<u>2,518,866</u>
Total U.S. Department of Education		<u>2,518,866</u>
Total for All Federal Awards		<u>\$ 3,350,253</u>

FOREST MUNICIPAL SCHOOL DISTRICT
Supplemental Information
Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
For the Year Ended June 30, 2011

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 8,971,301	6,481,738	682,508	700,403	1,106,652
Other	4,607,763	1,768,240	104,740	23,827	2,712,956
Total	\$ 13,579,064	6,247,978	787,248	724,230	3,819,608
Total number of students *	1,511				
Cost per student	\$ 8,987	5,459	521	479	2,528

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.

General Administration - Includes expenditures for the following functions: Support Services - General Administration and Support Services - Business.

School Administration - Includes expenditures for the following function: Support Services - School Administration.

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

OTHER INFORMATION

FOREST MUNICIPAL SCHOOL DISTRICT
Other Information
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Last Four Years
UNAUDITED

	2011	2010*	2009*	2008*
Revenues:				
Local sources	\$ 3,685,589	\$ 3,638,489	\$ 3,497,141	\$ 3,314,375
State sources	5,508,327	5,672,548	8,242,938	6,484,437
Federal sources	70,962	66,208	57,457	85,391
Total Revenue	9,265,878	9,377,223	9,797,536	9,884,203
Expenditures:				
Instruction	5,088,763	5,558,526	6,072,499	5,890,658
Support services	4,187,534	4,302,375	3,860,963	3,647,772
Noninstructional services	6,647	21,875	22,229	35,253
Debt service:				
Principal	77,663	79,282	76,388	31,025
Interest	25,973	28,992	31,887	19,185
Total Expenditure	9,366,780	9,991,050	10,063,968	9,623,893
Excess (Deficiency) of Revenues over (under) Expenditures	(100,902)	(813,827)	(266,430)	260,310
Other Financing Sources (Uses):				
Insurance recovery	221,863			
Sale of transportation equipment	3,300			3,851
Sale of other property		1,700	1,250	401
Operating transfers in	233,052	1,373,647	81,737	110,113
Operating transfers out	(28,484)	(369,681)	(11,706)	(811,901)
Total Other Financing Sources (Uses)	429,531	1,005,666	71,281	(497,536)
Net Change in Fund Balances	328,629	391,839	(195,149)	(237,226)
Fund Balances:				
Beginning of period	2,087,179	1,695,340	1,890,489	2,127,715
End of Period	\$ 2,415,808	\$ 2,087,179	\$ 1,695,340	\$ 1,890,489

*SOURCE - PRIOR YEAR AUDIT REPORTS

FOREST MUNICIPAL SCHOOL DISTRICT
Other Information
Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
Last Four Years
UNAUDITED

	2011	2010*	2009*	2008*
Revenue:				
Local sources	\$ 4,110,111	\$ 4,070,329	\$ 3,914,600	\$ 3,730,638
State sources	5,890,297	6,049,396	6,615,072	6,855,840
Federal sources	3,444,547	2,626,489	2,087,356	1,948,416
Sixteenth section sources	158,552	214,503	96,735	96,307
Total Revenues	13,603,507	12,960,717	12,713,763	12,631,201
Expenditures:				
Instruction	6,830,329	6,899,342	6,784,082	6,606,258
Support services	5,240,006	4,969,288	4,607,731	3,995,924
Noninstructional services	850,726	864,694	919,491	1,170,172
Sixteenth section	15,257	9,749	8,407	12,558
Facilities acquisition and construction				1,318,132
Debt service:				
Principal	433,300	357,081	959,144	370,689
Interest	209,446	84,004	127,153	130,516
Total Expenditures	13,579,064	13,184,156	13,406,008	13,604,249
Excess (Deficiency) of Revenues over (under) Expenditures	24,443	(223,439)	(692,245)	(973,048)
Other Financing Sources (Uses):				
Bonds and notes issued			1,650,000	806,101
Insurance recovery	245,526			3,851
Sale of transportation equipment	3,300			401
Sale of other property		1,700	1,250	
Operating transfers in	261,536	1,743,328	478,443	722,014
Operating transfers out	(261,536)	(1,743,328)	(478,443)	(722,014)
Total Other Financing Sources (Uses)	248,826	1,700	1,651,250	810,353
Net Change in Fund Balances	273,269	(221,739)	959,005	(162,695)
Fund Balances:				
Beginning of period	3,778,121	3,999,162	3,041,503	3,199,441
Increase (Decrease) in reserve for inventory	1,153	698	(1,346)	4,757
End of Period	\$ 4,052,543	\$ 3,778,121	\$ 3,999,162	\$ 3,041,503

*SOURCE - PRIOR YEAR AUDIT REPORTS

REPORTS ON INTERNAL CONTROL AND COMPLIANCE



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**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance with *Government Auditing
Standards***

Superintendent and School Board
Forest Municipal School District

We have audited the financial statements of Forest Municipal School District as of and for the year ended June 30, 2011, and have issued our report thereon dated January 30, 2012. 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

Management of Forest Municipal School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Forest Municipal School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Forest Municipal School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Forest Municipal 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2011-01 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Findings 2011-02 and 2011-03 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Forest Municipal 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We did note a certain matter that we reported to management of Forest Municipal School District in the Independent Auditor's Report on Compliance with State Laws and Regulations dated January 30, 2012.

Forest Municipal School District's response to the findings identified in our audit are 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 them.

This report is intended solely for the information and use of management, the school's board, 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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi

January 30, 2012

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 That Could Have a Direct
And Material Effect on Each Major Program and on Internal Control
Over Compliance In Accordance with OMB Circular A-133**

Independent Auditor's Report

Superintendent and School Board
Forest Municipal School District

Compliance

We have audited Forest Municipal School District's compliance with the types of compliance requirements described in the OMB Circular A-133, Compliance Supplement, that could have a direct and material effect on each of Forest Municipal School District's major federal programs for the year ended June 30, 2011. Forest Municipal 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 Forest Municipal School District's management. Our responsibility is to express an opinion on Forest Municipal 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 Forest Municipal 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 of Forest Municipal School District's compliance with those requirements.

In our opinion, Forest Municipal School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

Management of Forest Municipal School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Forest Municipal School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Forest Municipal School District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 2011-04. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Forest Municipal School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Forest Municipal School District's response and, accordingly, we express no opinion on the response.

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

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi

January 30, 2012

Watkins, Ward and Stafford, PLLC

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, 2011, which collectively comprise Forest Municipal School District's basic financial statements and have issued our report thereon dated January 30, 2012. 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 \$19,665 of classroom supply funds carried over from previous years.

Education Enhancement Funds Should Exclude Federally Funded Teachers

Finding 1

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 1 federally funded teacher.

This noncompliance occurred because the district moved one teacher that was paid from district maintenance to a federal fund during the year after the EEF allocation had been calculated and did not reclassify this teacher's supplies purchase from the EEF classroom supply fund back to district maintenance.

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 exclude federally funded teachers from the allocation.

School District's 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 will exclude federally funded teachers from the allocation.

Section 37-9-16(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 37-9-16(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 did not disclose any instances of noncompliance with other state laws and regulations.

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.

The Forest Municipal School District's responses to the findings included in this report were not audited and, accordingly, we express no opinion on them.

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.

Watkins, Ward and Stafford, PLLC
Louisville, Mississippi

January 30, 2012

Watkins, Ward and Stafford, PLLC

FOREST MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOREST MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2011

Section I: Summary of Auditor's Results

Financial Statements:

- | | |
|---|-------------|
| 1. Type of auditor's report issued: | Unqualified |
| 2. Internal control over financial reporting: | |
| a. Material weakness(es) identified? (Yes/No) | Yes |
| b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 3. Noncompliance material to financial statements noted? (Yes/No) | No |

Federal Awards:

- | | |
|--|-------------|
| 4. Internal control over major programs: | |
| a. Material weakness(es) identified? (Yes/No) | No |
| b. Significant deficiency(ies) identified? (Yes/None reported) | Yes |
| 5. Type of auditor's report issued on compliance for major programs: | Unqualified |
| 6. Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? (Yes/No) | Yes |

7. Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010/84.389	Title 1 Cluster
84.027/84.173/84.391/84.392	Special Education Cluster
84.394	ARRA-State Fiscal Stabilization Fund-Education State Grants, Recovery Act

- | | |
|---|-----------|
| 8. Dollar threshold used to distinguish between type A and type B programs: | \$300,000 |
| 9. Auditee qualified as low-risk auditee? (yes/no) | No |

FOREST MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2011

Section II: Financial Statement Findings

Material Weakness

Internal Controls Over Reporting Capital Assets Should Be Strengthened

2011-1 Finding

Management is responsible for reporting additions to other furniture and equipment over \$5,000 as an addition to capital assets for financial reporting and to calculate related depreciation on these capital assets. During our audit testing of capital assets we noted that four additions totaling \$47,570 were not added to the capital asset depreciation schedule. We proposed an audit adjustment that was recorded by the district and the related assets were added to the depreciation schedule. It was also noted that fixed asset inventory items were not reconciled from the district's financial records for the fiscal year ended June 30, 2011.

The primary reason the additions were not added to the clients depreciation schedule and the reconciliation of fixed asset inventory to the district's financial records not being completed is due to their being new employee hired during the year who was responsible to complete these tasks. The new employee was unaware of the total scope of their responsibilities.

Improper internal controls over capital asset reporting could result in a material misstatement on the school district's capital asset schedule.

Recommendation

We recommend that the district implement stronger controls over monitoring over capital asset purchases. Any new asset purchases should be tagged and approved by the board of education on a monthly basis with the subsidiary fixed asset inventory records being reconciled on at least an annual basis. An annual inventory of all capital assets should be conducted at the end of each school year. Any assets over the threshold for financial reporting should be added to the district capital asset depreciation schedule and depreciated.

Significant Deficiencies Not Considered To Be Material Weaknesses

Controls Over Depositing Activity Fund Receipts Should Be Strengthened

2011-2 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 from athletic events we noted the following deficiencies:

- We noted five instances where the gate-workers did not place the ending ticket number on the game tally sheet. In one instance the game tally sheet was left almost entirely blank. The cash on these game tally sheets could not be properly verified because of the missing information
- We noted one instance where the principal signed the game tally sheet as a gate worker. There were no other cashier signatures on the form.
- Several instances (7) were noted where there was a significant delay between the date of the receipt and the deposit into the bank. None of these involved athletic events however.

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

FOREST MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2011

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. All athletic events should be supported by a game tally sheet that contains beginning and ending ticket numbers. Gate workers should reconcile the cash to the tickets received and should sign the form once this is done. The principal should review the form and sign the form after the gate workers perform their responsibilities and before the amount is submitted to the central office. Any funds receipted by the individual schools should be turned into the central office by the next business day for deposit.

Controls surrounding the payroll expenditure cycle should be strengthened

2011-3 Finding

Time sheets/cards for non-exempt personnel are not maintained on file for these employees, except for cafeteria personnel. Federal Labor Standards Act requirements dictate that the district maintain records to show the hours worked each day and total hours worked each week for all non-exempt employees. The time sheets were available for food service employees, the records were not available for other non-exempt workers.

Recommendation

We recommend the district maintain any and all records necessary to show compliance with Fair Labor Standards, including time sheets/reports outlining hours worked each day and each weekly total for all non-exempt employees. This may be facilitated by requiring that the actual records be attached to the recap of hours reported for non-exempt workers by supervisory personnel.

Section III: Federal Award Findings and Questioned Costs

Significant Deficiency Not Considered to be a Material Weakness

Verification That Vendors Are Not Suspended or Debarred From Participating In Federal Grants or Contracts Should Be Checked Through the Excluded Parties List System (EPLS)

2011-4 Finding

Program: Title 1 Cluster of Awards (84.010 and 84.389) and Special Education Cluster of Awards (84.027, 84.173, 84.391 and 84.392)

Non-federal entities are prohibited from contracting with parties that are suspended or debarred from participating in federal contracts. Covered transactions included those procurement contracts for goods and services that are expected to equal or exceed \$25,000. The non-federal entity must verify that the entity the contract is awarded to is not suspended or debarred from participating in federal contracts. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration.

During our testing of expenditures in the Title 1 and Special Education Clusters it was noted that this verification that applicable vendors were not suspended or debarred from participating in federal contracts was not being completed. Per our testing we did not note a payment to any applicable vendor that was suspended or debarred from participating in a federal contract, however this test was completed after the purchase had already occurred.

**FOREST MUNICIPAL SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
June 30, 2011**

Recommendation

We recommend the district verify that the vendors that enter into contracts equaling or exceeding \$25,000 are not suspended or debarred from participating in federal contracts. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration.

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

Forest Municipal School District

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

SUMMARY OF PRIOR AUDIT FINDINGS

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, 2011:

Finding	Status
2010-1	Not Corrected
2010-2	Corrected

Sincerely,

Fletcher Harges
Superintendent

Forest Municipal School District

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

AS REQUIRED BY OMD CIRCULAR A-133 THE FOREST MUNICIPAL SCHOOL DISTRICT HAS PREPARED AND SUBMITS THE FOLLOWING CORRECTIVE ACTION PLAN FOR THE FINDINGS INCLUDED IN THE SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2011.

CORRECTIVE ACTION PLAN DETAILS

FINDING
2011-1

A. SUPERINTENDENT-FLETCHER HARGES
BUSINESS ADM.-DAVID WILSON

B. WE WILL IMPLEMENT STRONGER CONTROLS OVER CAPITAL ASSET PURCHASES. ANY NEW ASSET PURCHASES WILL BE TAGGED AND APPROVED BY THE BOARD OF EDUCATION ON A MONTHLY BASIS. THE SUBSIDIARY FIXED ASSET INVENTORY RECORDS WILL BE RECONCILED AT LEAST ON AN ANNUAL BASIS. AN ANNUAL INVENTORY WILL BE CONDUCTED AND ANY ASSETS OVER THE THRESHOLD WILL BE ADDED TO THE DISTRICT CAPITAL ASSET DEPRECIATION SCHEDULE.

FINDING
2011-2

A. SUPERINTENDENT-FLETCHER HARGES
BUSINESS ADM.-DAVID WILSON

B. WE WILL IMPLEMENT POLICIES AND PROCEDURES TO ENSURE THAT ASSETS ARE ADEQUATELY SAFEGUARDED AND REVENUE IS PROPERLY RECEIPTED AND RECORDED. ALL ATHLETIC EVENTS WILL BE SUPPORTED BY GAME TALLY SHEETS THAT CONTAIN BEGINNING AND ENDING TICKET NUMBERS. ALL OATE WORKERS WILL RECONCILE THE CASH TO THE TICKETS AND SIGN THE RECONCILIATION FORMS. THE PRINCIPALS WILL REVIEW AND SIGN THE RECONCILIATION FORMS AND SUBMIT THEM TO THE CENTRAL OFFICE. ALL FUNDS RECEIPTED BY THE SCHOOLS WILL BE TURNED INTO THE CENTRAL OFFICE BY THE NEXT BUSINESS DAY FOR DEPOSIT.

FINDING
2011-3

A. SUPERINTENDENT-FLETCHER HARGES
BUSINESS ADM.-DAVID WILSON

B. WILL HAVE CORRECTED THIS FINDING. WE ARE MAINTAINING ALL NECESSARY RECORDS IN COMPLIANCE WITH FAIR LABOR STANDARDS, INCLUDING TIME SHEETS AND REPORTS OUTLINING HOURS WORKED EACH DAY.

FINDING
2011-4

A. SUPERINTENDENT-FLETCHER HARGES
BUSINESS ADM.-DAVID WILSON

B. WE WILL ENSURE THAT THE DISTRICT VERIFY THE VENDORS ENTERING INTO AND CONTRACTS EQUALING OR EXCEEDING \$25,000 ARE NOT SUSPENDED OR DEBARRED FROM PARTICIPATING IN FEDERAL CONTRACTS.